



Standing up to international competition

The challenges to the European consulting sector

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Economic background

- ❖ Appreciable drop in private investment in 2009, esp. building sector
- ❖ Public spending afloat, in some countries (e.g. Germany)
- ❖ Effects of boost in public spending beginning to fade, however
- ❖ Gradual recovery under way (GDP growing for most European countries, esp. Germany, France, UK and Poland)
- ❖ Uncertainties remain, regarding the short-term: *fragile recovery*
- ❖ Unemployment has increased, more or less; where less, rebound exp. weaker
- ❖ Deficits have tripled in recent years, due to increases in spending (public spending, support of banking, unemployment benefits) and drop of income
- ❖ As a result, debt is growing, reaching 84% of GDP in the E.U.
- ❖ Concerns over fiscal sustainability and bank strength affected the €
- ❖ Skepticism receded, w. strengthening of the € >> renewed fears now
- ❖ Large consulting firms have managed to maintain growth - if not profits
- ❖ Smaller firms have been more vulnerable to local conditions



The perception of Europe

- ❖ In Europe, engineers operated:
 - in the beginning of the 20th century mostly *as individuals*
 - after the war, *small firms* developed (and in the U.K. and U.S. through large consulting firms)
 - in the last decades *large firms* appeared in continental Europe
- ❖ In parallel, globalisation took hold, at an increasing rate ⇒ *excellent platform for large firms*
- ❖ now globalisation + crisis have shifted the center of economic strength to the BRICs: strong development for present and future in the east
- ❖ globalisation means more opportunities abroad, e.g. China – but also more risk at home, e.g. China buying worldwide
- ❖ Present CEO perception [Accenture & Insead, 2010]: *stable competitiveness within the E.U. - but decrease internationally*



The challenge of increasing competitiveness

- ❖ *Europe needs to expand its involvement internationally* ⇒ need to improve competitiveness, i.e. *higher value for money*
- ❖ *Challenge significant: Competition from East not only in efficiency - but also innovation & expertise*, e.g. *China's trains, automotive sector in 80's by Japanese (lean manufacturing); CEOs consensus that Asia would emerge strongest from the recession*
It takes all the running you can do, to keep in the same place [Lewis Carroll, "Through the looking glass"]
- ❖ *In sports competition: same conditions and measurable results -> in consulting same conditions possible - difficult to measure results in time (construction and operation) ⇒ France: maitre d' oeuvre*



Wondering whether it concerns you? Remember:

- SMEs (<50 employees) are 99% of all companies in the EU
- provide 2/3 of European jobs



Roadmap: larger & more competitive firms

- ❖ Size of firms (*German firms cannot undertake new UAE village!*) ⇒ Current trend to large, Europe-wide firms: market diversification, complementarity, economy of scale
- ❖ Consolidation of consulting firms in progress, at accelerating rate: need trust of locally-based firm & international network. However, most are still holding back: not easy to relinquish kingdom... *What is stopping firms from expanding scope is [European CEOs]:*
 - *lack of entrepreneurship (risk aversion)*
 - *complacency*
 - *lack of vision*



Considerations for consolidation

- ❖ *Disadvantages of merging:*
 - external control & high overhead costs
 - less home profit
 - risks from cultural differences
- ❖ *Advantages of merging:*
 - opportunities for larger projects
 - opportunities for international work (internally)
- ❖ *Basic question: will increased revenue from international work offset the loss of profit from work at home + freedom?*



Components of competitiveness

- ❖ strong home market:
 - continuous infrastructure development
 - successful procurement
 - apply new forms e.g. PPP projects
 - improve *European market* (obstacles: nationalism, mentality, language, liability & insurance....)

(exceptions do exist: Lahmeyer has 85% of its work outside Germany)
- ❖ develop scope & quality, i.e. fields of excellence: *like athletes, need to be world class to stand internationally*
 Historically, engineer responsible for *ethics & competence*; now need *responsibility for performance/results*, e.g. *fit-for-purpose projects* (*challenge to define performance clearly in advance*)
- ❖ develop efficient project delivery methods, e.g. Alliance contracting



Factors affecting scope and quality

- ❖ *innovation in new technologies*, for competitive edge (later slide). Race for innovation for climate change & energy restructuring
- ❖ *client-oriented* project management: content and behaviour: *wears suit, carries laptop, wants to make presentation at the drop of hat, speaks fast, is stylish and demonstrates mannerism, is snobbish and projects air of superiority when dealing with a client... [Abrol, 2010].*
- ❖ *appropriate fees* >> promote systems with emphasis on quality + business integrity
- ❖ *new business models*: variation quite broad e.g. from diversified private conglomerates (e.g. Tata) to state-owned enterprises (e.g. China) >> Most CEO's believe that partnering with emerging economies important
For consulting engineers: from "trusted advisor" to partner



From trusted advisor to partner

- ❖ partner in project planning: assessment of costs, returns and social/environmental implications (SEA) ⇒ rational prioritisation of projects ⇒ need to increase early consultant involvement
- ❖ partner in programme management
- ❖ partner in project management
- ❖ partner in PPP delivery (*reservations about being minor partners*)
- ❖ partner in alliance contracting with contractor and client (design with contractor contributing in final stages + consultant in construction)



The drive for innovation; components

- ❖ *company culture* (Google also hires non programming staff)
- ❖ good *human resources* (next slide)
- ❖ *innovation clusters* (e.g. Silicon valley); Europe still too geographically dispersed (networking will cover that)
- ❖ advanced *European projects*, e.g. *U.S. space programme + Chinese trains*
- ❖ more *entrepreneurs & venture capitalists*: need more acceptance of risk & failure, e.g. *difference in approach of US & European athletes*. Recently appearing in Europe too
- ❖ *insurable liability levels* otherwise *betting the firm*
- ❖ focused EU & national R&D funding + result dissemination



Development of human resources

- ❖ *quality of the individual*:
 - education incl. continuous education
 - commitment
 - teamwork (*not obvious, ref. lost project for French consortium of 4 nuclear plants in UAE*) >> recognition, promotion of YP
like sports, drive & enthusiasm of team determines outcome
- ❖ *knowledge management*:
 - matrix of international expertise/responsibilities (mostly for large firms); *expect that flexible networks will replace matrix structures*
 - standardization, ref. management consultants (*prerequisite for outsourcing*)
 - *knowledge management necessary even for small firms (what if...) >> need to balance experience with renewal (!)*



Controlling cost

- ❖ Components of cost:
 - ✓ prices
 - ✓ efficiency
- ❖ Prices can be controlled:
 - by discipline in home markets [*Germany & Netherlands reportedly most competitive, due to increases in efficiency & restraints in prices*]
 - by outsourcing to cheaper markets [*Airbus hired InfoSys to design part of the A380 wing & Boeing asked HCL Technologies to produce systems for avoidance of collisions and zero-visibility landing; Arcadis won a project with an excessively low tender priced at 44€/hr because of claimed outsourcing to India*]



- ❖ *New developments >> need to adapt!*
 - globalisation & crisis presents opportunities and threats
 - new fields developing, from climate change & need for energy restructuring
 - emergence of new business models, e.g. partners with contractors, outsourcing to developed countries
 - ethics & competence not enough: society demands engineer's responsibility for performance
- ❖ *Responsibilities:*
 - European/national: Need to create business conditions for strong & competitive European market (springboard), e.g. adapt public procurement framework for flexibility
 - firms: need to consolidate, strengthen and increase competitiveness



What we are doing in EFCA

- ❖ Concern over **international standing of European firms** ⇒ subject of 2011 and May 27th conference in Berlin: business models, business conditions, human resources, innovation etc.
- ❖ Support European firms to go international (e.g. European external aid)
- ❖ Develop vision of European consulting firm of future
- ❖ Develop awareness of the engineering challenge from climate change and energy restructuring: subject of 2010 conference in Rome
- ❖ Contribute to dialogue on European R&D financing focus
- ❖ Contribute to evolution of procurement framework in Europe

We gain value for Europe, the contemporary melting pot ⇒ capitalise by exchange of experience