

Professional Services & Consulting

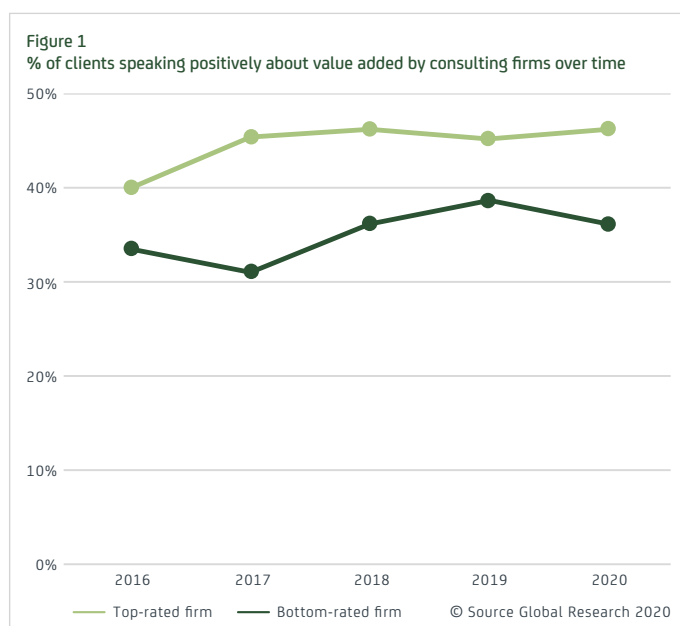
Specialisation: The heart of differentiation



DECEMBER 2020

As US entrepreneur Jim Keenan said, “*Without differentiation, you have nothing. You’re average and average ain’t gonna win the race.*” This in a nutshell is the self-evident but enduring challenge for all businesses: how to develop something different about a business that will resonate with their customers and which will prompt them to buy and buy more. When Pfizer’s stock price rose by 8% in a single day on the back of its COVID-19 vaccine announcement, it demonstrated the massive upside of being (for the moment) the only game in town.

No consulting firm can claim that. Research we’ve carried over the last five years shows that, even in a critical area such as the value that consulting firms deliver, the difference between the top and bottom-rated firms is just 11 percentage points and has, at least until this year, been narrowing. In addition, though perceptions of the value-add were improving, since 2017 even the top-rated firms appear to have hit a ceiling of about 45% client positivity (Figure 1). Best practice is becoming common practice, and, even for the best firms, fewer than half of their clients view them as adding more value than they charge in fees.



The most common question that investors ask us is ‘What do they do and why is that differentiated in the market?’

Richard Holden
Partner, Alantra

That doesn’t mean consulting firms can’t have their Pfizer moment – and the key is specialisation. For a consulting firm to succeed it needs to focus on a specific service or sector. Even the biggest and most successful firms are, in effect, the aggregation of multiple specialists.

We can illustrate this by looking at the US consulting market, which accounts for just over 45% of the global total and which is worth, we estimate, US\$75bn. On paper, it’s an obvious target for expansion. In practice, it’s an exceptionally tough market in which success depends on having a clear and distinctive proposition. In recent analysis we compared five mid-tier consulting firms (those with 1,000-2,000 consultants) which had European HQs and that had successfully entered the US market in the past 25 years. This analysis showed a strong link between a firm’s demonstrable capability (sector or service offer) and its ability to break into the US market. Success did not depend on how long a firm had been present in the US but, at the same time, it didn’t stem from specialisation alone.

It’s when we link a firm’s offering to its growth strategy that a clearer picture emerges. The most effective way for a European-based firm to enter the US market is by doing two things. First and foremost, they need a distinctive offering that gives clients a reason for choosing a firm they may never have heard of. But that offering needs to be backed up by an acquisition strategy that allows them to build critical mass in a relatively short time. That’s quite different to the approach many small and mid-sized consulting firms have adopted in the past which often involves using client projects in the US as an opportunity to open an office, without a clear idea of

why clients should engage with them, and usually without adequate investment to support growth aspirations.

PA Consulting – currently in the news as Carlyle Group has announced it is selling its stake in the firm to Jacobs, an engineering firm – is a good example of this dual strategy in action. By combining its specialist capability in innovation and product design with acquisitions that include San Francisco-based design studio Astro, and innovation specialists 4iNNO and Essential Design in the US, the firm has been able to accelerate its growth in this critical market.

Investors prefer firms that differentiate their proposition through specialisation, because they're more resilient in times of economic stress – as evidenced by the success of digital transformation specialists through 2020. Investors look for strong growth potential, and therefore assess scalability, addressable market size, and downside protection (i.e., revenue model resilience). A strategy to access the US market increases the addressable market but as organic growth strategies have historically failed, most investors now accept that acquiring a comparable US business is the better approach, as it enables them to get proof of concept and to gain an immediate foothold. This also answers the scalability question in mature economies with low underlying organic growth rates.



Source Global Research is the leading provider of data and analysis on the professional services market. They analyse the way in which economic, business, behavioural, and technology change drives how organisations use professional services, and the implications that has for professional services firms, and have been doing it for more than a decade. Source's information and insights have underpinned some of the most strategic investment decisions made by the biggest professional services firms around the world.

This piece has been produced in collaboration with [Source Global Research](#). If you'd like to learn more about Source's work and expertise in the consulting industry please contact:

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Alantra Professional Services & Consulting

Alantra's global Professional Services & Consulting sector team has significant experience in working with a broad range of consulting businesses to develop change in ownership, succession and growth strategies. The team's deep knowledge of the consulting landscape and strong relationships with mid-market private equity is combined with cross-border collaboration, to provide clients with access to a global buyer landscape. Focused on creating options and optimising outcomes for clients, Alantra has established a strong track record of executing transformative transactions having completed 17 deals in the last three years in this sector.



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