

Consulting Recovery: On the Horizon?

Survey shows hiring & morale on the rise, a positive sign for recovery.

After months of stagnant growth, the consulting industry is showing signs of life based on a survey of approximately 8,000 consulting professionals by *Consulting* magazine. Though utilization rates remain sluggish, other signs such as hiring and morale point to firms seeing a pickup in demand on the horizon.

Utilization rates ease, providing breathing room

Consultants across all staff levels are working and billing fewer hours in 2010, but this new breathing room could set the stage for growth, according to industry experts.



“When utilization rates are too high, firms burn people out, so somewhere in the 70-75 percent utilization rate seems to be standard,” says Tom Rodenhauser, vice president at Kennedy Consulting Research & Advisory, the leading source of market analysis on the Management and IT consulting industries.

Entry-level analysts, for instance, saw their working hours slip from 55.5 hours per week in 2009 to 53 hours per week this year, while senior consultants’ and managing directors’ workloads decreased by about a half hour per week compared to last year, according to the survey.

“Firms were trying to do as much as they could with fewer people. Now they’re coming back to more normal and sustainable rates,” Rodenhauser says.

Total utilization rates, based on the number of hours worked that can be billed to clients, fell to 48 percent for partners from 58 percent in 2009, according to the survey. That’s not uncommon, Rodenhauser says, because partners usually spend their time generating business. “Last year, partners’ utilization rates were higher because they were doing more client work, but those are coming down.” What’s more, “recovery is modest at best, so the utilization rate for partner levels should stay higher” as a result, much to the delight of clients, he adds.

Directors and managers saw their utilization rates drop from 77 percent last year to 73 percent today. Recent MBAs and senior consultants went from 85 percent utilization in 2009 to 82 percent this year, according to the survey.

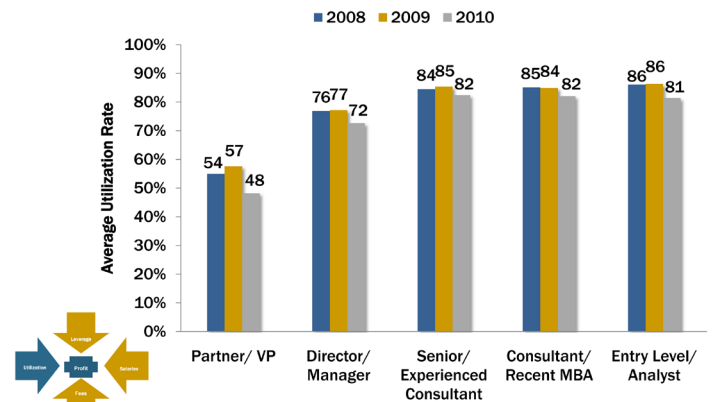
Morale is up

Morale among consultants has rebounded to near 2007 levels, according to the survey. When consultants were asked to rate their perception of morale at their firm on a scale from one to five, respondents ranked morale an average of 4.09, compared to 3.92 in 2009. In 2007, morale reached 4.10 out of 5. “Morale had slipped so much last year, but it’s back to where it was pre-downturn,” says Jess Scheer, senior editor at *Consulting* magazine.

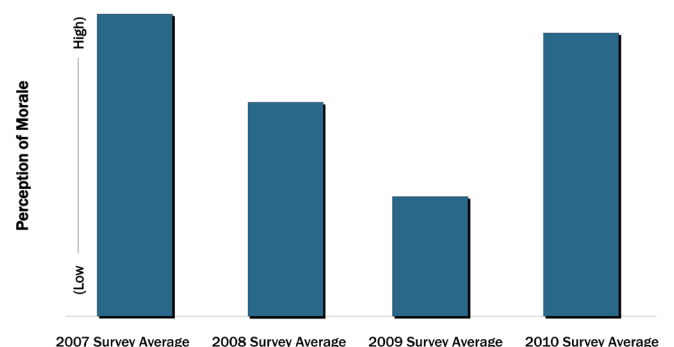
Morale combines many different factors. First, consultants are working a little bit less, which gives them a chance to step back and have some breathing room, Scheer says. Second, “aside from the human resources consulting space, most of the consulting sectors are starting to see some growth.” HR consulting tends to enter a downturn later than other sectors because of its annuity model and traditionally exits about six months after other consulting areas.

Folks aren’t celebrating yet, he adds, but there is some renewed confidence.

Firms Can't Rely on Utilization Rate Improvements



Morale Rebounds to 2007 Levels



Hiring will increase; demand will follow

New client projects aren't likely to pick up much for the remainder of this year since most clients' 2010 budgets are already in place, according to Scheer, but hiring will increase in anticipation of future growth.

"A lot of firms, particularly the big strategy firms, are talking to us about picking up their biggest campus classes ever in the history of their firms this year and certainly for next year... based on the size of their first-year MBA internship class," which wrapped up in August, Scheer says. Deloitte Consulting, for instance, got a head start earlier this year by hiring 700 experienced consultants in the first half of 2010. On top of that, the firm brought on board nearly 800 MBAs and undergrads between August 2009 and February 2010. What's more, Deloitte's HR staff planned to make another 1,000 offers to the class of 2010.

Hiring at these firms can fill vacant positions caused by earlier layoffs, Scheer says, but also, "those associates hired a couple of years ago have been forced to do grunt work longer because there was no one to replace them."

More high-level consultants plan to shop for a new firm

Some 30 percent of consultants below partner level plan to leave their firm in the next 12 to 18 months, and 50 percent are looking to leave in the next four years, according to the survey.

"There's significant backlog of senior consultants and directors at levels just below partner who will have to wait two to four years longer" to be promoted, Scheer says. "By the end of the year, when fears of a double-dip recession fade, people will begin thinking about leaving" for high-level corporate positions, Scheer says.

Summary

The consulting industry is poised for recovery based on the amount of hiring underway and small gains in vertical markets. "A lot of survivors realize that the worst is behind them," Scheer says, "and there is only greater opportunity from here."

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