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Trends In Big Six Consulting: Split Personality

The giants redefine themselves to compete for the high-profit margins in technology consulting

By [Bruce Caldwell](#)

Issue date: April 22, 1996

Technology consulting, once a mere appendage to the tax and audit practices at the Big Six firms, is now the tail that wags the dog. "Nobody wants to be known as a tax and audit firm," says Ken Daubenspeck, a Chicago recruiter of IT consultants. "Everybody wants to do enterprisewide transformation. It's a secure way to lock a client up and keep them billable."

To do that, the Big Six firms-Arthur Andersen, Coopers & Lybrand, Deloitte & Touche, Ernst & Young, KPMG Peat Marwick, and Price Waterhouse-are redefining and restructuring themselves. They're unifying their practices on a worldwide basis, focusing tax, audit, and consulting practices on vertical industries, beefing up technology capabilities through acquisitions and alliances, and changing traditional "up-or-out" career paths to attract and retain people with high-demand skills.

The Big Six are changing in part because they're being challenged by computer equipment and services vendors. In early April, for example, mainframe maker Amdahl Corp. acquired Trecom Business Systems, an Edison, N.J., computer services company. In 1995, Amdahl acquired DMR, a consultancy and systems integrator.

Amdahl is hardly alone. Last year, AT&T launched AT&T Solutions, a consulting, systems integration, and outsourcing unit; MCI acquired SHL Systemhouse, a client-server integrator and outsourcer; and EDS acquired A.T. Kearney, a major management consultancy. At the same time, Hewlett-Packard, IBM, Microsoft, Oracle, Sun, Sybase, Unisys, and other IT vendors continued expanding their services into consulting realms previously dominated by the Big Six.

Another reason for the heightened pace of change among the Big Six: Consulting is fast becoming the biggest piece of the revenue pie. In fact, the Big Six's collective revenue from consulting is growing at about 20% a year, dwarfing their 3% growth rates for tax and audit practices. Most of the firms expect consulting to represent half their business in the next few years, roughly double the 20% to 30% it represents today.

IT consulting kicked in 40% of Coopers & Lybrand's U.S. consulting revenue last year, says Michael Blum, national

business leader for technology advisory services at the firm. He expects that to only go up. Blum says he's warning "companies that their major cost in the next five years will not be labor, but IT."

The Big Six are expanding to take on globe-spanning, technology-driven projects as well. KPMG's Jon C. Madonna has decided not to seek a second term as chairman of the firm's U.S. operations when his current term expires this October. Instead, Madonna will devote his efforts full time to his other role as the firm's international chairman and CEO to focus, he says, on "building a global delivery system."

KPMG already has taken on hefty global responsibilities, including the construction of national banks for emerging nations. Ramiro Valderrama-Aramayo, a manager of the international computer practice for KPMG's Barents Group in Washington, is helping create central banks for many of the emerging nations of the former Soviet Union. At one, the National Bank of Kyrgyzstan, Valderrama-Aramayo oversees the development of IS to support accounting practices and processes also developed by KPMG. The completed project is expected to serve as a model for the development of central banks in other emerging nations.

Restructurings has dramatically transformed the traditional relationships among the Big Six practices. Deloitte & Touche, for example, established a consulting division last October and gave the unit its own global pool of investment capital. Before, investment priorities were determined country-by-country.

Still, none of the Big Six has gone as far as Arthur Andersen. In 1989, the firm, in a move to separate consulting from tax and audit practices, did a "virtual" spin-off of Andersen Consulting. It was virtual rather than actual because the two are still linked through a governing body, Arthur Andersen S.C.

Though the split continues to be controversial, no one can argue that it failed. Andersen Consulting is the world's largest professional-services firm. Revenue last year hit \$4.2 billion-\$100 million more than former parent Arthur Andersen took in. It was the first time the consulting company's revenue outstripped that of the tax and accounting company. "The baby has outgrown the parent," says Thomas Rodenhauer, editor of Consultants News, a newsletter in Fitzwilliam, N.H.

The Andersen split was an attempt to answer a question that continues to perplex the Big Six: What's the best way to justly recognize and compensate the smaller, but faster-growing, consulting practices? "Growth is explosive on the consulting side, while tax and audit are down," says Rodenhauer.

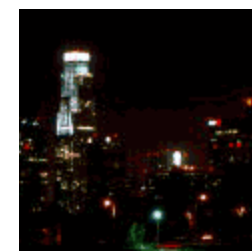
Yet the tax and audit practices have a built-in synergy Rodenhauer explains. The corporate relationships that are formed by the tax and audit partners generate business for the consulting partners. Yet only KPMG Peat Marwick has integrated the two sides. The other firms are taking a "wait-and-see" approach, Rodenhauer says.

Curiously, while Andersen Consulting and Arthur Andersen appear to have adopted a strategy exactly opposite to that of KPMG-and while some industry observers believe Andersen Consulting may go for complete independence from Arthur Andersen-the two Andersens are looking more alike.

Andersen Consulting, for example, runs an outsourcing practice that seems to compete with Arthur Andersen. Andersen Consulting's outsourcing practice, called Business Process Management, took in about 15% of its \$400 million in revenue last year from clients that outsource business processes, including logistics, human resources, customer care, and financial administration, according to Douglas Sewell, a managing partner in the Business Process Management unit. That would appear to put Andersen Consulting in the same market space as Arthur Andersen, which focuses its consulting and technology practices on financial processes and performance measurements. The tax and audit firm has 7,000 consultants, including 700 technologists, says Charles Kettman, managing director of business consulting at Arthur Andersen.

So is there a conflict? Kettman insists the division is clear: His firm focuses on the broad middle market of companies with revenue of \$100 million to \$2 billion, while Andersen Consulting works with only the biggest companies. "We're very happy with the partnership," he says. "My view is, it's entirely about marketplace."

Still, to many in the industry, Andersen Consulting's split from Arthur Andersen was a strategic mistake. "Audit is a cornerstone of the consulting practice," says Charles Moberaten, a regional senior manager for Ernst & Young's



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entrepreneurial consulting group, "and consulting can be a differentiator for audit."

On one point, however, there is absolutely no disagreement. The Big Six and Andersen Consulting all approve of alliances and partnerships with software vendors-even those that have major consulting practices of their own. The reason: More than 65% of all consulting customers also want their consultants to implement IT solutions, according to a survey released in January by Dataquest Inc., a research firm in San Jose, Calif.

As a result, IT companies are heading into management consulting as management consultants are heading into IT consulting. Yet as much as the two industries appear to be heading for common ground, differences will remain, if only because of a talent shortage. The Big Six firms and their sometime partners, sometime competitors in the IT industry cannot offer expertise in every industry and technology. Nor can they provide unlimited staff to every corner of the globe.

The seemingly endless need for bodies is driving alliances such as that of Ernst & Young with Tata Consultancy Services, known in the industry as "the Andersen Consulting of India." Tata has 5,000 systems engineers and applications developers, 4,000 of whom are based in India. Tata also has staff and offices outside India, including 700 people in 14 U.S. cities.

By increasing the number of consultants available to Ernst & Young's clients to 15,000 from 10,000, Tata will help push Ernst & Young from fourth place in worldwide resources to No. 2. In Asia, the partnership vaults Ernst & Young from 10th place to No. 1. The firm projects that its Asian business will post revenue of \$500 million by the year 2000. "This will be a tremendous boost to our ability to service global accounts," says David Shpilburg, director of global IT consulting at Ernst & Young in New York.

The amount of business available for everyone, whether IT vendor with consulting capabilities or Big Six firm with IT consulting and integration practices, is so great that competing one day and partnering the next is commonplace. For example, Oracle Services with 5,000 consultants in 45 countries, has partnerships with Coopers & Lybrand, Deloitte & Touche, Ernst & Young, KPMG Peat Marwick, and Price Waterhouse, as well as with SHL and Unisys. "We proactively identify opportunities where we might cooperate," explains Edward J. Sanderson, a regional senior VP at Oracle Services.

The marketplace is such that some software vendors refer to the Big Six as their value-added resellers. That makes some ask, just what is a Big Six firm today? "We're not resellers, but I'm not sure you can define what a Big Six firm is today," says Ted Fernandez, national managing partner for strategic services consulting at KPMG. "Applications packages have been one of the Trojan horses, driving a lot of our services."

Whether the Trojan horse is a software vendor bearing consultants or a consulting firm bearing software appears to matter little to customers. They simply want one organization to handle business reengineering and technology implementation. What matters is whether that company has the right mix of global resources to do the job. Prior relationships, including audit relationships, also help. When Richard Dunning set out to build a global joint venture of Merck and DuPont for marketing an anticoagulant and other pharmaceuticals products, he selected Price Waterhouse-DuPont's accounting firm to implement the information systems.

Dunning, former chief financial officer of DuPont-Merck, a \$1.3 billion joint venture, worked to build an IBM midrange computing system for SSA's package of financial and commercial applications. It was a three-year task completed in time for Dunning's retirement last year. Five of the Big Six bid on the job, as did Digital Equipment, IBM, and some smaller boutique firms. "One of the criteria was overseas capability," Dunning notes. "Price Waterhouse and one other came out very high, while a couple, including Digital, were almost ruled out entirely on that basis."

As companies rely increasingly on Big Six firms to manage their audits, build and run their IT operations, reengineer and even staff their business processes, serious conflicts of interest have arisen. In one noteworthy case, an accounting-consulting firm carried out both the internal and external audits for a client.

Yet there are encouraging signs. As the Big Six reengineer and strive to infuse new growth and profits into their tax and audit practices, they make their knowledge available to clients over the Internet. Accessing this knowledge should help everyone understand the rules of engagement more clearly-even if no one knows the difference between a Big

Six firm and a software vendor anymore.

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