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A Proposal to advance the Management Consulting Industry of Korea

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Management Consulting

	Primary Domains	Primary Corporations
Strategy	Growth Strategy, Marketing strategy Market Strategy and etc.	Mckinsey, BCG, Bain & Company, Monitor etc.
H R/Org.	Work force & Organizational Management Performance Management and etc.	Mercer , Hewitt, Towers Watson, etc.
Innovation	Innovating business process, cost-saving and etc.	KPMG, DT, A.T. Kearney, etc
I T	Plans & Application (ERP, SCM etc) of IT infra	Accenture, IBM, etc

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Importance and characteristics of Mgmt Consulting industry

- Mgmt. Consulting Industry is a knowledge-based industry, creating additional values to the corporation and other industry through professional consultants

- Symbolic industry showing LEVELS of a Country

  ✓ Competency level of consulting service reflects nation's level.

  * Examples : U.S.A (Business, Finance), U.K. (Finance, Infra), German (Engineering), etc

- Key source and training ground for Excellent Human Resources

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Global market

- Global Consulting markets shows continuing high growth with an annual average of 7.1% for last 10 years. (Kennedy information, year '06)

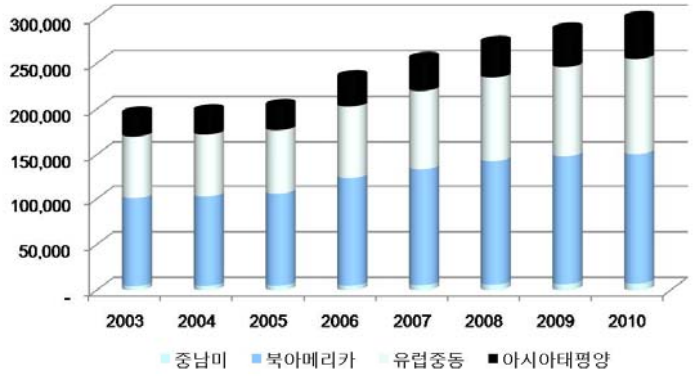
* Global Top 10 corporations such as IBM(13 B$), Accenture(9.9 B$) takes 25% of global market

<Estimated market size >

Section		Year 2006	Year 2007	Year 2008	Year 2009 e	Year 2010 e	Remarks
Global Market	Amount (B $)	283	308	333	353	372	Annual average 7.1% (year '06-'10)

* Reference : Kennedy Information "Global Consulting Marketplace 2007-2010"

- Asia and the Pacific area will lead the growth.



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Domestic market

- Domestic consulting industry
  * Numbers of Consulting firms (numbers): 1,757(‘01) → 2,628(’05) annual average of 12.4% increase
  * Consulting work force (numbers) : 19,974(‘01) → 28,924(’05) annual average of 10.4% increase

- Sales per one person is 81 million won yearly.

- Domestic consulting Market is about 4 billion USD (estimated in year 2010)

< Estimation of domestic consulting market size >

Section	2004	2005	2006	2007	2008	2009 e	2010 e	Remarks
Sales(B $)	1.9	2.1	2.5	2.9	3.5	4.1	4.8	Annual average 17.4% (Won Base)

- The size of Korea consulting market is just 1-2% of global market.

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Domestic market

- 3 Distinct markets for consulting firms.

  ✓Chaebols : mostly by Global top tier companies
  ✓Medium sized market : Global 2nd tiers.
  ✓Small enterprises : local players.

- Global companies such as Mckinsey('91), Monitor('91) entered Korean market since early 1990 and have grown rapidly especially after 1997 IMF crisis. With roughly 50 global companies in Korea, they are estimated to have more than 30 % of total revenues

공급 / 수요	경영컨설팅				IT컨설팅	
	Global	Glocal	Local	회계법인 산하컨설팅	Global	Local
대(공)기업	맥킨지 베인&컴퍼니 모니터 BCG				액센추어 딜로이트 IBM BCS 베어링 포인트	Opentide Entrue컨설팅
중견기업		네모파트너즈 이언그룹 N-Platform		삼일 회계법인 하나 회계법인		
중소기업			KER컨설팅 생산성본부 능률협회 표준협회			

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Domestic and global IT consulting industry

Comparison between domestic and global IT consulting Industry

Section	Employee (numbers)	Consulting: SI: outsourcing	Number of countries expanded as globally	Operating profit per person($)	Financial Achievement (100,000dollars)	
					Return on Sales	Operating profit ($)
Global companies average	91,400	3:4:3	109	28,509	24,257	2,959
Domestic Companies average	5,154	0.5:5:4.5	15	9,812	1,649	83

* Global primary corporation: IBM BCS, Accenture, EDS, Deloitte, Fujitsu, Capgemini, Bearing Point, etc 7 top companies
Domestic representative corporations: Samsung SDS, Opentide, LG Entru, SK C&C, 2e consulting, etc primary domestic top 5 big firms

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Clients' Little Confidence in Local Firms

- ✓ Clients prefer the qualifications of global consultants and companies.

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Why? : Because of Small Scales of Local Firms,

- Poor R&D

  - ✓ Global consulting companies have R&D center in their headquarters. There are no domestic consulting firms which have their own R&D center except some Chaebol IT companies.
  - ✓ In the case of consulting industry, it is difficult to have competency without R&D investment.

- Poor Knowledge Management System

  - ✓ Within or Between companies, Knowledge Management System is poor, DB is hard to accumulate. Knowledge is piling in each consultant and his laptop.

  - ✓ Lack of Expertise in Special Sector

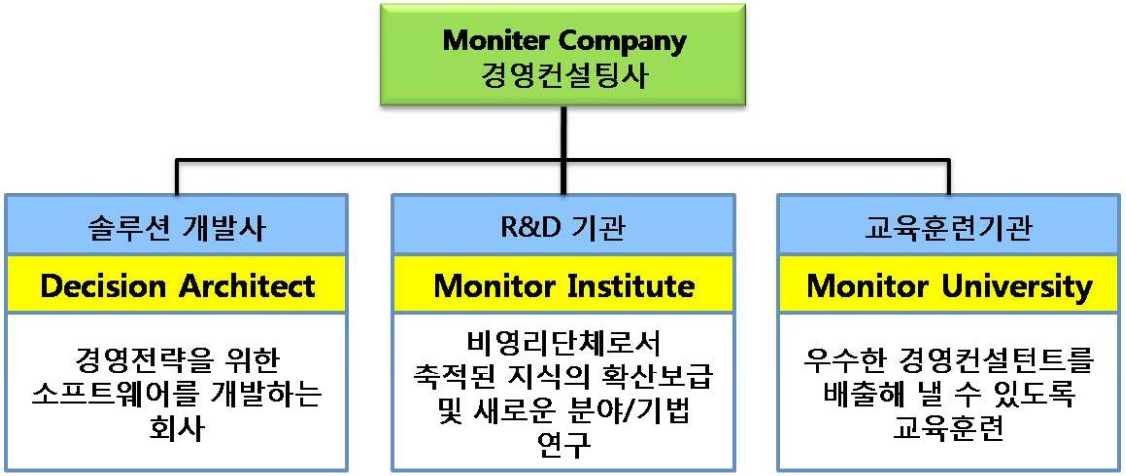
    - ➢Little participants for the consulting areas like environment, FTA, energy efficiency, agriculture, foreign exchange trade etc

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Monitor Company Case

- Monitor Company, a relatively new comer since 1985, have grown rapidly through its R&D during last 17 years. Now has more than 1000 professional workers globally, 25 global and domestic offices.



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Industry Environment is also Poor.

- relatively lack of intangible asset recognition : Plagiarism prevalent

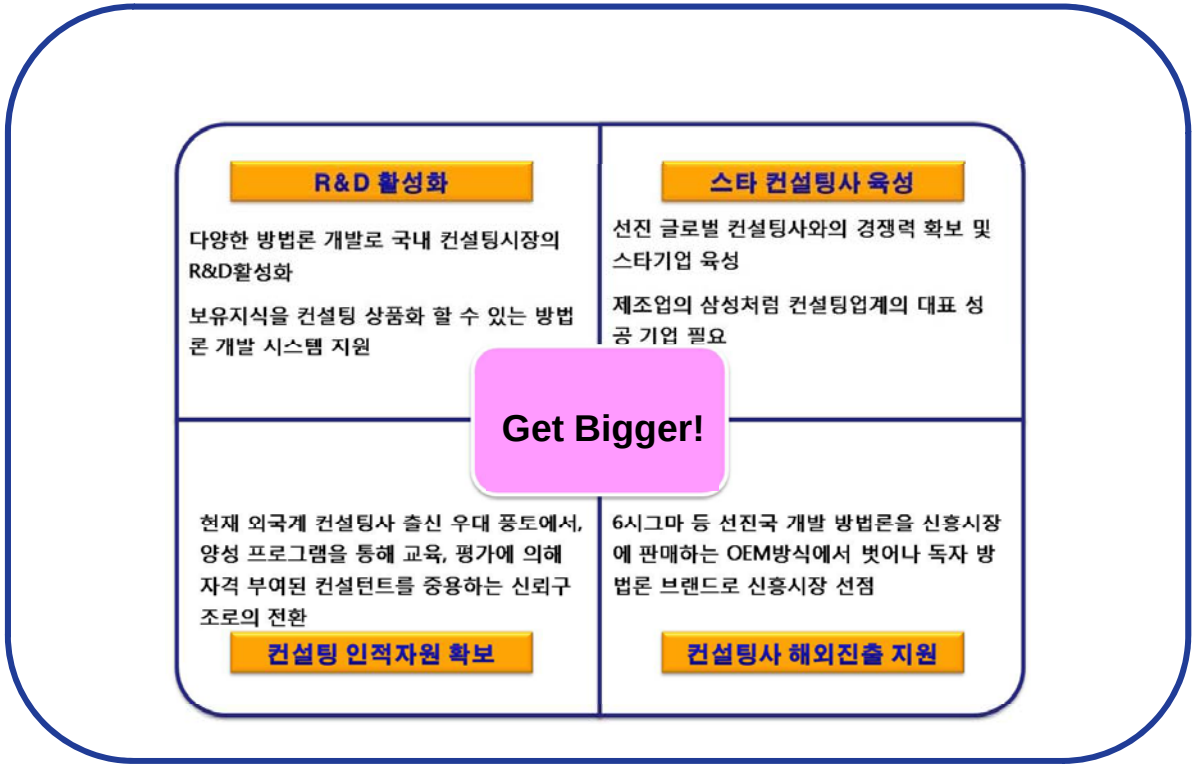
  - ✓ Consulting Intangible assets hardly have collateral value. Not possible to get banking finance.
  - ✓ In case of governmental financial support such as technology certification, credit certification, etc, Consulting intangible asset is not counted as valid.

- Manufacturing oriented governmental support, in various ways.

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How to Change for a success?



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Why 'To be Big' is so Slow?

- **Mind**

  ✓ Difficulty of cooperation: "Earning alone is better than working with others, No headache is better"
  ✓ Early entry barrier is low: "Why don't I start in my officetel?"

- **System**

  ✓ Internal→ absence of performance evaluation system: Pie Allocation
  ✓ External → absence of firm value evaluation system

  ✓ Difficulty in raising capital and/or debt
  ✓ Difficulty of estimating firms value because of poor recognition of intellectual property

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Possible Solution

- **M & A**

  ✓ One firm
  ✓ Holding company

  ✓ Needs Large scale of capital
  ✓ Needs relevant value evaluation for a company

- **Brand share: No financial bondage**

  ✓ Aggregation of firms
  - Co R&D
  - Co Marketing
  - Co Recruiting
  - Co Location

  ✓ Needs Performance evaluation system
  ✓ Needs proper project allocation process

- **Investment by Chaebols : there are models such as ADL, Valtech, etc**

  ✓ Belong to conglomerate group

  ✓ Doubt about independency

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Government policy for M&A among small firms

- Government fund and policy for local consulting firm's M&A like '90's venture policy
- Tax benefits

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Various Systems

- Firm and Consultant Registration System
  - ▪Registration of consultant's educational background, work experience, project record, etc for transparency

- Better recognition of Consulting intangible Assets (methodology, educational program etc)

- Consultant School.

▪Consulting specialty area designation system based on project performance record and Intellectual Property.

* A consulting firm : HR consulting specialty, B consulting firm : energy, environment, etc

Etc.

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