

PRESS RELEASE

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Russian consulting market records a double digit contraction for the second year running

- ***Dire Russian economy causes consulting market to shrink 13.7 per cent in 2015***
- ***Low oil prices, collapsing currency, and a contraction in GDP contributed to the fall off***

Following a very poor 2014, the Russian consulting market once again recorded a double digit contraction - falling 13.7 per cent to €450m in 2015. Although it is hoped that the consulting market is approaching the bottom of this downward cycle, it has now shrunk by €146m in just two years.

These findings are published in a new report from leading global consulting market analysts, Source Global Research (Source). The report states that due to the dire economic situation, low oil prices, Western sanctions, and a collapse in the value of the rouble creating a contraction in GDP in 2015, the consulting market had another bad year.

The report also revealed that issues with the economy were the biggest areas of concern for consultants. The price of oil, in particular, is being tracked avidly, with the hope that a significant rise could provide a much-needed boost to the economy. However, this isn't the only issue, and even casting aside the additional impact of Western sanctions and the resulting fall in the rouble, there are deep-rooted structural problems with the economy stemming from a lack of competition and an overly dominant state.

Zoë Stumpf at Source Global Research, said:

“Russia’s currently troubled relationship with the West, particularly in relation to sanctions, has led to tensions in the consulting market with Western firms losing out on some particularly sensitive state-sponsored work. But Western firms are certainly not alone in their suffering, as all firms are finding it hard going in this generally cautious climate.

One bright spot, however, can be found in growing work around import substitution - a necessary government initiative thanks to the difficulty of importing many formerly much-relied upon Western goods. The hope is that the bottom of the downward cycle for the Russian consulting market was reached during 2015 and that 2016 might start to look a bit better.”

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Sanctions hit consulting in financial services...

While all industries contracted in 2015, financial services and energy & resources consulting fared the worse. Given that financial services makes up almost 40 per cent of the market, its 13 per cent drop to €173m was particularly hard felt. Financial services suffered not just because of the recession but also because financial services were, and still are, one of the main targets of sanctions. This restricted the ability of Russian banks to borrow abroad with an inevitable impact on discretionary spend in 2015. The report said that beleaguered banks held onto any remaining funds and showed little appetite for spending on consulting. The consulting work that did take place focused on regulation, cost cutting and risk management.

Igor Boldyrev, Partner of Advisory Russia at EY added:

“The six biggest banks in the country are all state-owned, and they really struggled with their business model. Investments have fallen sharply, and banks are looking at different operational excellence measures to help the cost of delivery and the cost of sales.”

Low oil price hits Russia's energy consulting market...

As Source predicted last year, consulting to the energy and resources sector had the worst year of all services, contracting by just under a quarter (24.7 per cent) to €55m. The low price of oil was a major problem, but this wasn't the only issue. Energy companies felt the strain as sanctions prohibiting the supply of certain equipment and services, as well as restricted access to EU sources of capital, really took hold in 2015. The report found that while there was some demand for cost cutting and operational improvement work, this was hardly significant.

Regulations give small boost to risk & regulatory consulting...

When it came to consulting services, operational improvement and risk work accounted for over a third of the market. Even so, these two service lines still contracted - operational improvement shrank by 6.4 per cent to €89m and risk & regulatory by 9.3 per cent to €81m. The report says that the perennial issue with cost cutting is that spend on consulting is always one of the key costs to be cut.

Mikhail Grigoryev, Partner at Strategy Partners Group agrees:

“We do quite a lot of operational efficiency and waste reduction work, but I wouldn't say those projects have dramatically increased over the last few years.”

The Source report also revealed that Strategy consulting, the largest service line in Russia had a particularly dreadful year, shrinking by 16.2 per cent to €130m in 2015 as clients focused much more on the here and now.

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About Source Global Research

Source Global Research (Source) is a leading provider of information about the market for management consulting. Set up in 2007 and with offices in London and Dubai, Source serves both consulting firms and their clients with expert analysis, research and reporting. Source draw not only on our extensive in-house experience, but also on the breadth of our relationships with both suppliers and buyers. All of our work is underpinned by our core values of intelligence, integrity, efficiency and transparency.

Source was founded by Fiona Czerniawska and Joy Burnford. Fiona is one of the world's leading experts on the consulting industry. She has written [numerous books](#) on the industry including: [The Intelligent Client](#) and *The Economist* books, [Business Consulting: A Guide to How it Works and How to Make it Work](#) and [Buying Professional Services](#). Joy Burnford was Marketing and Operations Director at the UK Management Consultancies Association between 2003 and 2010, and prior to that worked for PA Consulting Group and has extensive experience of marketing consulting services. For further information, please visit: www.sourceglobalresearch.com

Sources

This report is based on quantitative and qualitative research of consulting firms in Russia.

The quantitative data contained in this report focuses on consulting done by mid- and large-sized consulting firms (those with more than 50 consultants) and typically includes work they have carried out for mid- and large-sized clients - what Source call "big consulting". It therefore reflects the "addressable" market for the majority of mid- and large-sized consulting firms. Source doesn't try to track the long, thin tail of work done by very small firms for very small clients, nor the contractor market, as most readers of this report would not seek or be able to compete with this part of the market. Source analysts work out the addressable size of the market through desk research, identifying the number of firms that meet its criteria and extrapolating from that to reach a figure for the market as a whole.

Using this definition, Source has built a bottom-up model of the global consulting market from the information it gets from consulting firms and its own research, and Source uses it to size the industry and its growth rates. This is based on the Source global model which contains detailed data about almost 1,600 firms, plus higher level estimates about a further 400,000 firms, all with more than 50 consultants apiece, in addition to primary research carried out by Source analysts.

Please note that the Source 2014 baseline figures have changed a little since last year, as Source has refined and implemented improvements to its research methods. Specifically, Source slightly understated the size of the public sector industry due to these changes in its research methodology.

Source should emphasise that there are no standard sources of definitions of data within geographies let alone between them. However, Source is confident that the richness of its qualitative data, combined with its unparalleled industry expertise, means that this analysis fairly and accurately reflects the state of the market.

In addition to quantitative research, Source interviewed 9 very senior consultants (typically the most senior person in their country) from most of the leading consulting firms in the country and many smaller local specialists to understand more about how the consulting market is performing, and what the major trends, changes, and challenges are. Throughout the year Source analysts remain plugged into the global consulting market through its bespoke research and consulting projects, adding further depth to its understanding of the consulting industry.