

Building Expertise to Serve FS Clients

Hitachi Consulting acquired JMN Associates in March 2008. The deal was hailed as furthering Hitachi Consulting's penetration into the financial services consulting market. One might wonder why a consultancy would pursue financial services clients in this fragile economy, but a strategically oriented firm tends to invest in growth and in diversifying its capabilities at all times.

When Hitachi began its migration to a client industry go-to-market approach, financial services was one of the verticals on its list of target markets. Initially, however, the business consisted of only a few incidental engagements. The firm had neither the team, nor the expertise, nor the industry knowledge needed to launch a strong pursuit of those clients.

Getting Into Financial Services

The first step in correcting that situation was the acquisition of Dove Consulting. Dove had a strong beachhead in the payments area, and there were some cross-over financial services clients as well as other services companies and retailers. Although the Dove acquisition has led to steady business for Hitachi, it did not enable a broader attack on the financial services opportunity in the US. Nor has work with financial services clients in the business intelligence space evolved into industry expertise.

Meanwhile, the firm began to do business in Europe and realised success with financial services clients in

the region. Its Iberia practice has enjoyed some encouraging wins and is building relationships with leading financial services providers in Spain and Portugal. Success was even more pronounced in the UK, bolstered by the acquisition of Impact Plus.

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cate those successes in the US. The firm had held occasional discussions with JMN Associates, and recognised that JMN could contribute strategy and business consulting offerings that were needed in order for Hitachi to launch a legitimate financial services practice.

“JMN Associates brought broader financial services capability than the firm had from the prior acquisitions”, says James Neckopulos, the acquired firm's CEO. “We offered a scope of services from strategy to technology integration. It also fit nicely with business integration and business intelligence.” Hitachi's BI capabilities were attractive to JMN because access to

information and greater insights into customers, markets, and competitors are critical in the financial services industry.

JMN's location was also a good fit. “Our geographic focus had been primarily Western US”, says Neckopulos. “So by combining forces – Dove Consulting was primarily East Coast – that did nice things for us from a geographic coverage standpoint.”

Global Markets

Hitachi entered the European financial services market via a greenfield startup. “We did the research to see what the big consulting markets were in Europe, and financial services is typically 25% to 30% of the European consulting market”, recalls Alan Walker, Vice President in Hitachi Consulting's UK Financial Services practice. “It

was pretty clear to those looking for a launch in Europe that financial services had to be a part of the European practice.” Walker was recruited to lead the UK, and others were brought in to pursue the markets in Spain and Portugal.

“It was key when looking for our first UK acquisition that the target have a strong financial services practice”, says Walker. “That is what Impact Plus brought us. We have also launched in Germany and have payment expertise there as well.”

The new US practice will provide opportunities to work internationally, exchanging thought leadership, best

practices, and resources across national boundaries. "There are a number of areas that have similar challenges, issues, and opportunities that make it an obvious opportunity for us to share thoughts and ideas and knowledge capital across the different geographies", says Neckopulos. "We have been talking with our counterparts in Germany, sharing things we have done in the US in the payments area. And some of the Japanese banks that have interests in the US are clients. We also have clients with parents based in Europe."

Walker also advocates the benefits of collaboration. "We met two or three weeks ago and started the process of sharing what we are doing and working together. It was actually quite fascinating. We found that wealth management is hot in the UK and US markets."

Optimism in the Face of Economic Challenges

Financial services has always been a cyclical industry. That is driven in part by interest rates and economic conditions. When conditions change, they are accompanied by changes in the kinds of issues and challenges institutions have.

Hitachi Consulting is not concerned about the timing of its entry into the US financial services consulting market. "In my view, all markets are good markets for consulting if you are relevant", opines Neckopulos. There are a lot of headlines concerning the financial services industry, particularly on the credit side. A lot of organisations are using this as an opportunity to move forward, such as JP Morgan Chase with its acquisition of Bear Sterns. "Those folks that are well prepared as the environment changes and have strong bal-

ance sheets and have anticipated the things that will be important as you move through different cycles are well positioned to take advantage of that", Neckopulos says.

"We have swung from a focus on top line to more of a focus on the bottom line – operating efficiencies, and cost reduction", he reports. "Even when companies are looking to reduce costs, they often times need the help of folks like ourselves to identify where best to focus on those cost-reduction activities, build in efficien-

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Walker characterises the UK players as being similar to those in the US. "I define our clients into two camps. There are some standing there, looking around, and not really knowing where to go. Others are wondering whether this is an excellent buying opportunity to acquire a competitor or whether it is too early to do that because it is going to get worse." The preferred consulting clients are those wanting to take advantage of the situation.

Other UK and European companies are looking at their Q1 results and preparing to take action on two fronts. "Some want to reduce costs and do that quickly, and we are also seeing some interest on the revenue

enhancement side", says Walker. "Some are not making the top-line revenue they were expecting in certain areas. What do they do to plug the gap?" Neckopulos agrees. "There is no question that folks are taking a harder look at things they are doing."

One area of investigation involves credit scoring models. Although they have been around for a number of years, this is the first real test that some of the models have gone through. "Many of those models are business rules driven", explains Neckopulos. "They are set up to react to and decide certain factors based on what the lender, bank, or insurance companies have established. In many cases these were put in place years ago, and no one has gone back and done a diligent review of those business rules to determine if they are still relevant."

The UK and Europe are not insulated from financial events in North America, but Walker has not seen the same up-tick in credit scoring interest that has occurred in the US. "Here people are more in the fire fighting stage. I think it is going to be a little down the line for us, once we are through this, that people here will be asking what went wrong and what can be changed in terms of processes, scoring, and systems to prevent it happening again. But at the moment it is battenning down the hatches."

In the UK consultancies have already seen the economic impact on banking clients that are changing the ways they are spending their transformation budgets. A number of significant programmes have been put on hold in banks, and they are pointing their limited investment dollars

towards other projects.

Importance of Being Relevant

If a consulting engagement is able to provide the client with a benefit that substantially exceeds the cost of services, it will be attractive to clients. This is particularly true in an economic downturn, when companies are looking at discretionary spending and questioning whether dollars that would go to consultants could be better spent elsewhere. "I believe it is a question of whether you can bring value", says Neckopulos, "whether you are relevant."

In the areas of efficiency or cost reduction, if a consultancy can say that with its assistance the client can either accelerate the process or achieve an expense reduction equal to three or four times the consulting fee, the proposal is generally well received. "Particularly public companies are under enormous quarterly pressure to meet their earnings numbers", says Neckopulos. "It is often in their best interest to accelerate these efficiency and cost-reduction projects. If you can come to the table with good solutions, proven methodologies, and people and resources who have been there and done that, there is still much willingness for companies who are in that type of situation to pay for consultants."

Walker agrees, emphasising that value is important. "I think there is actually an opportunity for some consultants as a result of this market. In the UK, although consulting budgets are being cut, there are still things that need to be done. We are gaining

something of a reputation as being better value for money than the Big Four." That enables Hitachi Consulting to offer clients that are tightening their belts more bang for their consulting buck. If successful, such an approach should increase the firm's share of clients' wallets.

Mixed Outlooks

No one may be optimistic about the US economy and its impact on other markets, but consulting may fare well in tough times.

Despite what is happening in the real estate and credit markets, the generation now entering retirement is expected to provide new opportunities for financial institutions. "There will be a continued greater focus on wealth management and asset growth, just because of the demographics", says Neckopulos. "The financial landscape over the next several years is going to be very much influenced by the needs of the baby boomers in terms of investment management, the return on those investments, taking some of those dollars and doing things from a retirement standpoint, and using some of those dollars to invest in long-term healthcare. That starts to blur some of the distinctions between the financial services industry, the insurance industry, and the healthcare industry. I see convergence among those three."

"In terms of what is going on at the moment in the markets, we are currently at a very critical time. I can see the possibility of a domino effect that would lead us to a recession the like of which none of us have seen in our lifetimes", says Walker, express-

ing a somewhat darker forecast. "I do not think that is inevitable. I think it is possible for us to pull back from the brink."

"But in order for us to pull back from the brink, we are going to have to have more decisive, concerted action of the type the Fed has been taking in the last few days along with their counterparts at the European Central Bank, the Bank of England, and their fellows around the world", asserts Walker. "There must continue to be a concerted, coordinated effort, or confidence-leaking will lead to more confidence-leaking that will lead to a domino effect."

Turning the conversation in a more positive direction, Neckopulos believes the financial services practice can grow revenues at a multiple of what firm revenues are. "I believe it will be a combination of organic growth and we will continue to look for acquisitions in areas that make sense. I think wealth management and demographics are going to be a growth area. I believe there will be acquisitions and mergers that will both present opportunities and change the landscape in terms of who the players are."

Despite the industry's challenges, Walker expects growth as well. "In terms of financial services around the world, we are targeting our practices to grow significantly over the next two or three years – multiples of two or three times. We are still relatively small in financial services, so there is a great deal of headroom for us." ♦