



**ACADEMIC SUPERVISOR'S REVIEW  
OF MASTER THESIS**

by the Student at the Faculty of International Economics and Management

MBA program "Global Business"

Khrystyna Barsuchenko

*Consulting activities in the system of international business in Europe*

1. Evidence of learning in accordance with the objectives of the assignments (0-5 points) - 5
2. Depth of critical analysis - 9
3. Effectiveness of argumentation/analysis - 8
4. Accurate and coherent use of quantitative tools and language - 19
5. Compliance with master thesis written requirements - 5
6. Compliance with writing master thesis's schedule - 5
7. Attendance - 5
8. Published research work/Thesis - 9
9. Positive aspects of the thesis: The author skillfully coped with the topic, demonstrated the ability to think critically, showed the whole range of problems in the development of the consulting business in Germany and offered optimal solutions to its current problems
10. Negative aspects of the paper :  
There are some common places in the analysis in chapter three, and in some places there is a weak argumentation of the conclusions reached
11. Total Supervisor's Grade of Master Thesis – 65

Academic Supervisor doctor of economic sciences, professor of the International Management Department

Timur Kalchenko

\_\_\_\_\_  
(Signature)

2021, November 24.

## метадані

Заголовок

Consulting Activity in the System of International Business in Europe.docx

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Науковий керівник






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6	<a href="http://www.business-navigator.ks.ua/journals/2019/56_2_2019/56_2_2019.pdf">http://www.business-navigator.ks.ua/journals/2019/56_2_2019/56_2_2019.pdf</a>	11	0.09 %
7	<a href="http://www.market-infr.od.ua/journals/2018/26_2018_ukr/26_2018.pdf">http://www.market-infr.od.ua/journals/2018/26_2018_ukr/26_2018.pdf</a>	10	0.08 %

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10	<a href="http://www.business-navigator.ks.ua/journals/2019/56_2_2019/56_2_2019.pdf">http://www.business-navigator.ks.ua/journals/2019/56_2_2019/56_2_2019.pdf</a>	7	0.06 %

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1	<a href="https://testmyprep.com/subject/economy/main-macro-sectors-of-the-world-services-market">https://testmyprep.com/subject/economy/main-macro-sectors-of-the-world-services-market</a>	52 (3)	0.42 %
2	<a href="http://www.business-navigator.ks.ua/journals/2019/56_2_2019/56_2_2019.pdf">http://www.business-navigator.ks.ua/journals/2019/56_2_2019/56_2_2019.pdf</a>	34 (4)	0.28 %
3	<a href="https://wikimili.com/en/EN_16114">https://wikimili.com/en/EN_16114</a>	16 (1)	0.13 %
4	<a href="https://economic-bulletin.com/index.php/journal/issue/download/9/evu.36.1">https://economic-bulletin.com/index.php/journal/issue/download/9/evu.36.1</a>	16 (3)	0.13 %
5	<a href="https://www.slideshare.net/ffis/south-europe-midcap-event">https://www.slideshare.net/ffis/south-europe-midcap-event</a>	15 (2)	0.12 %
6	<a href="https://en.wikipedia.org/wiki/EN_16114">https://en.wikipedia.org/wiki/EN_16114</a>	13 (1)	0.11 %
7	<a href="http://www.market-infr.od.ua/journals/2018/26_2018_ukr/26_2018.pdf">http://www.market-infr.od.ua/journals/2018/26_2018_ukr/26_2018.pdf</a>	10 (1)	0.08 %
8	<a href="http://economice.ulbsibiu.ro/revista.economica/archive/RE%203-56-2011.pdf">http://economice.ulbsibiu.ro/revista.economica/archive/RE%203-56-2011.pdf</a>	10 (2)	0.08 %

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## External Review of Master Thesis

Khrystyna Barsuchenko

*Consulting activities in the system of international business in Europe*

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The topic of master's thesis 'Consulting activities in the system of international business in Europe' is relevant in today's global economic system. The service sector dynamically developing, occupying an increasingly significant position in the structure of the economies of developed and developing countries and consulting is one of the most significant areas in the service sector. In the process of making operational, tactical, or strategic decisions in business development, companies are increasingly turning to qualified consultants, counting on an objective assessment of the company's activities and to offer effective options in solving a management problem.

The practical significance of the thesis lies in the development and justification of several measures aimed at improving the indicators of current state of consulting market in Germany and increasing its competitiveness.

The structure of the work is logical. The material is presented correctly, consistently, and systematically. The chapters reveal the topic, in the course of the work, the objectives of the study were achieved, and the problems were solved. The work is reinforced with analytical tables and graphs. Practical recommendations are well founded.

The qualification work of the graduate demonstrates the excellent preparation of the author, reflects the ability to work with large data streams, analyze complex situations and propose ways to solve them. All this is a sufficient basis for a high score.

Reviewer

Project Manager

(Position)

\_\_\_\_\_  
(Signature)

Oleksandr Fedirko

(Name, Surname)

European Integration Promotion Foundation

(Place of Work)

“ 3 ” December 2021 p.

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## INTRODUCTION

**Relevance of the research.** Given Covid- 19, the global economy shrunk by 4.4% in 2020, which is the worst decline seen since the Great Depression. Almost all industries suffered and faced substantial losses. As the economic situation has become even more unpredicted, many companies try to find the solution in improving the quality of management. But the level of knowledge of managers is not always enough to solve difficult tasks and react quicker in crisis. At this point, it could be a reasonable solution to attract consultants from external structures with the required theoretical and practical experience in the field of expertise.

**The goal of the master thesis** is to study the development and current state of European, especially German consulting services market, determine its main prospects for development and to provide recommendations how to improve position of German consulting firms in the system of international business.

**The objectives of the research.** To achieve the goal, it is necessary to solve the following tasks:

- generalize and analyze the essential characteristics and state of global consulting market;
- consider the modern business models in consulting market in Europe;
- identify how the consulting market is regulated in Europe;
- analyze the state and tendencies of consulting market in Germany and corporatization of it;
- determine the main strength of German consulting industry;
- find out the existing problems in the market;
- provide recommendations how to eliminate problems and to strengthen the position of German consulting firms for internalization.

**The object of research** is international system of consulting services in modern conditions of the German economy and prospects for its development.

**The subject of the research** is a range of problems associated with the development of consulting services market in Germany.

**Methodological apparatus.** In the process of conducting research, a systematic approach was used. It consists of the next methods: the method of classification and systematization for analysis of the structure of the global and European consulting market and identifying regulatory environment in Europe; analysis and synthesis for grouping statistical indicators according to different sources such as BDU, Gartner, Source global research, FEACO, MAC, World Bank and other organizations; method of comparison to conduct an analytical assessment of consulting activity of different consulting firms in German consulting services market and compare it; method of scientific generalization, the main purpose of which is to make theoretical and practical conclusions, summarizing the work.

**The information** base was scientific works of foreign as well as German researchers on the essence of identifying peculiarities of consulting market, data from statistical annual reports and official websites of government agencies, international organization, materials of German journals and other periodicals on consulting services market.

**The theoretical and practical significance** of the masters' thesis lies in summarizing the main features of European and German consulting market as well as identifying the problems of German market of consulting services and providing recommendations for their elimination.

Regarding the structure of the master's thesis, after the introductory part, a theoretical review is made concerning the main aspects of consulting market in the world and Europe, its legitimization and institutionalization. Then, in the main part of the work, the state and main tendencies are identified as well as competition in German consulting market and key competitive advantage of domestic firms. Third part is dedicated to outlining main problems in the consulting market and providing

recommendation based on them. In conclusion part, the research result and proposals are formulated.

## **CHAPTER 1. EUROPEAN SYSTEM OF CONSULTING BUSINESS**

### **1.1. Global system of consulting activities**

The potential of national economies and companies is tightly dependent on the degree of their integration into global system, resources of countries and the quality of management, based on intensification of the acquisition, usage, and transfer of knowledge.

Taking into the consideration the practice of industrialized countries, it is worth stating that consulting services in the field of economics and enterprise management are an important factor in the effective functioning and development of business entities.

Due to the growing instability and uncertainty of the market environment, it has become difficult for founders and managers to take effective decisions. Economic processes have also become more complicated. All that led to involvement of consultants in the process of enterprise development. Hence, national and global markets of consulting services were formed that carry out the function of dissemination of advanced problem-solving methods and technologies.

For better understanding of how consulting activities formed a truly global system, it is worth defining the meaning of term ‘consulting’ and ‘global consulting activity’.

The definition of consulting in its broadest sense is a type of intellectual activity, the main task of which is to analyze, justify a customer’s problem and find prospects for development and use of innovations to solve it. The main goal of consulting activity is to advise managers and company’s employees on a wide variety of issues in different fields: financial, legal, technological and other activities [6].

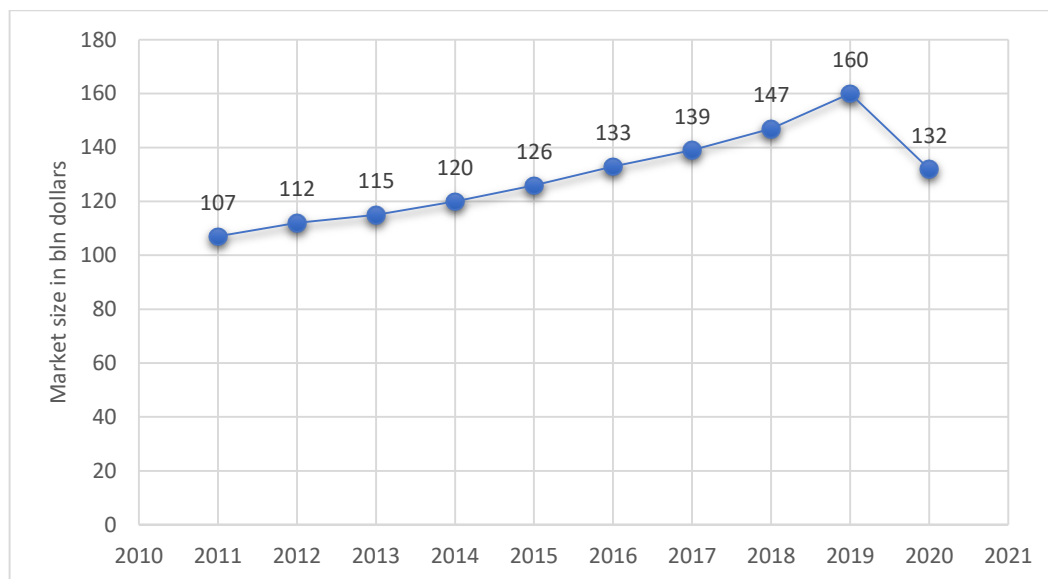
Looking at the meaning of consulting from the global perspective, it is a type of international activity carried out by specialized companies of some countries in the form of advice to countries, producers, sellers of other countries on a wide range of economic activities. It can be consulting of state and regional structures, managers of industrial, financial, investment, trade, and other types of companies [11].

Among main causes of the formation of consulting on the global level are the following:

1. Globalization that blurs the boundaries within the countries.
2. High potential and increased competition in the market of consulting led to the need to search for new directions and sources of obtaining competitive advantages.
3. The growing need to attract external experts (consultants) due to the inability to quickly react to market situations or internal difficulties of the company.

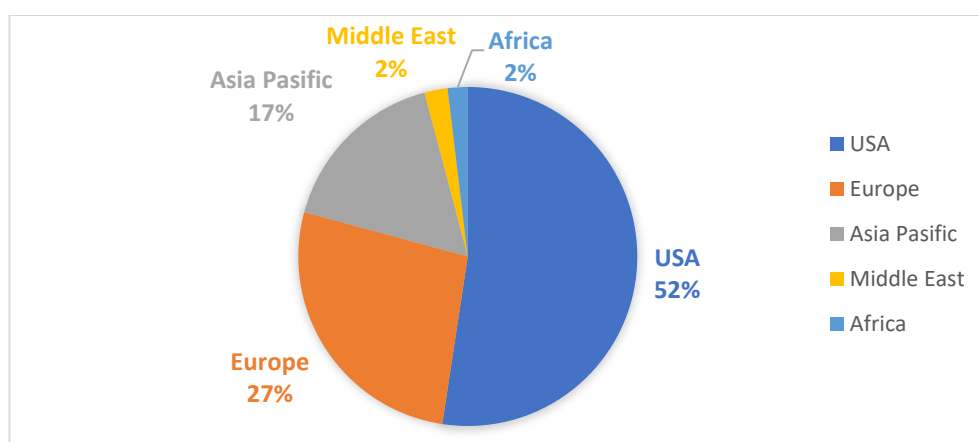
Analyst companies (Gartner, Source global research) and representative bodies (FEACO, MCA) use different definitions of the market and the estimates for the consulting market can differ substantially, ranging from 100 to 890 billion dollars. According to official consulting report prepared by Source global research, the market size of global consulting market has been growing gradually for the last nine years. 53-billion-dollar increase was noticed between the years 2011 and 2019. The peak of prosperity of the global market was seen in 2019 with 160 billion dollars in revenues. Now global consulting market values 132 billion dollars as of 2020 which is 18 percent less than in the previous year [51]. This decline was due to coronavirus outbreak that has disrupted the performance of every sector of global economy. Covid – 19 made corporations, government and other firms dampen budgets and their spending's that is why some consulting projects were postponed or even cancelled [7]. (Figure 1.1.)

The consulting service market is expected to grow with a forecasted GAGR of 4.30% during the period between 2021-2026.



*Figure 1.1.- Market size of global consulting market between 2011-2020, in bln dollars  
Created by the author on the basis of source [51]*

The highest share is observed in the United States as it is a home to top global consultancy firms. The share of USA is 52% and amounts 64.8 billion dollars. The next region is Europe, the share of which is 27%. Asia has introduced itself as an accelerated market of consulting services but share of it is still 17%. The share of consulting markets in Middle East and Africa equals almost 3 and 2 percent respectively [51]. (Figure 1.2.)



*Figure 1.2. – Market size of consulting market in different regions in 2020, %  
Created by the author on the basis of source [51]*

Considering the contribution of the volume of consulting services in the world, we can observe the next situation that with almost equal level of economic potential of the region, the size of consulting market is higher in that region where the economy is less centralized by the government. This is due to the fact that consulting activity is an alternative to the centralized form of economic regulation.

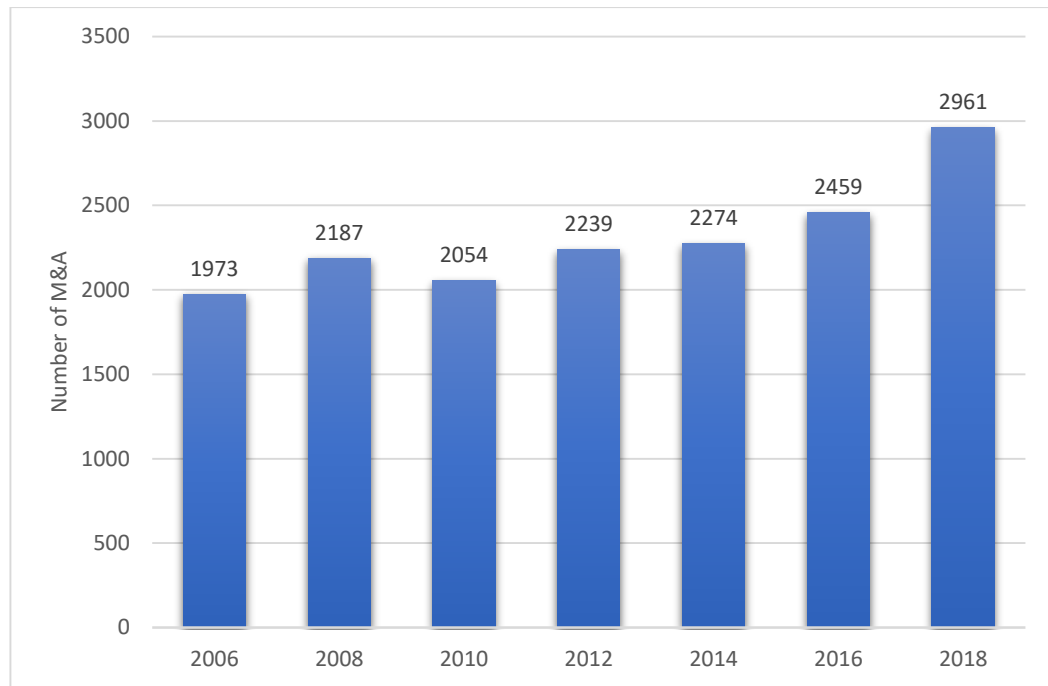
Today, there are over 700 000 consulting companies that provide services globally and form the structure of global consulting market [15].

These firms can be divided into the following main categories:

- transnational organizations that have subsidiaries in different countries all over the world and consult on many issues beginning from advice on taxation ending with marketing recommendations;
- highly specialized firms that offer their services in a limited sector of consulting market:
- universities, training centers that train experts and give advice on how to stay competitive;
- independent consultants that can be considered to be highly qualified specialists with experience and they can be employed on a permanent basis for small business;
- associations that consist of many certified consulting firms.

The large companies serve 66% of the world market of consulting, while medium- size and small-sized firms obtain 25% and 9% of the market respectively.

Nowadays market faces a trend of transnationalization. Some small and medium-sized consulting firms are leaving the global consulting market due to increased competition. On the one hand, they merge with large companies, increasing the concentration of business. Only in 2018 year there were almost 3 000 M&A deals between consulting companies [19]. The highest number of deals were observed in IT segment.



*Figure 1.3. – Quantity of mergers and acquisition between 2006-2018*

*Created by the author on the basis of source [19]*

On the other, leaders of small companies are inclined to individual practice in order to minimize the overall costs. Among the consequence of globalization processes in the market of consulting can be seen the dominance of large multinational consulting companies. An excellent example of such active expansion are the representatives of “Big Four”. “Big Four” consists of such companies as “KPMG”, “Deloitte”, “Ernst& Young” and “PricewaterhouseCoopers”. These big firms have a focus on expanding the range of services, achieving a status of multifunctional consultants. They usually take the leading positions and have a significant influence on determining pricing policies in the global market of consulting activity.

It is stated that more than 75% of total revenue of global market of consulting activities is accounted for multinational companies. However, the role of small consulting firms remains significant at regional consulting area.

The problems solved by consulting vary due to the peculiarities of international relations and differences in legal regulation. Hence, international consulting faces the need to address a number of issues:

- Registration of enterprises with foreign investment;
- Support of doing business in other countries;
- Registration of legal entities in offshore zones and abroad;
- Legal support and investment preparation;
- Assistance in opening account in banking institutions;
- Accounting and audit of companies in accordance with international standards;
- Assistance in drafting documentation;
- Help in international tax relations in order to minimize tax payment;
- Assistance in creating marketing campaign;
- Help in organization and motivation of human capital in a company for better productivity;
- Etc.

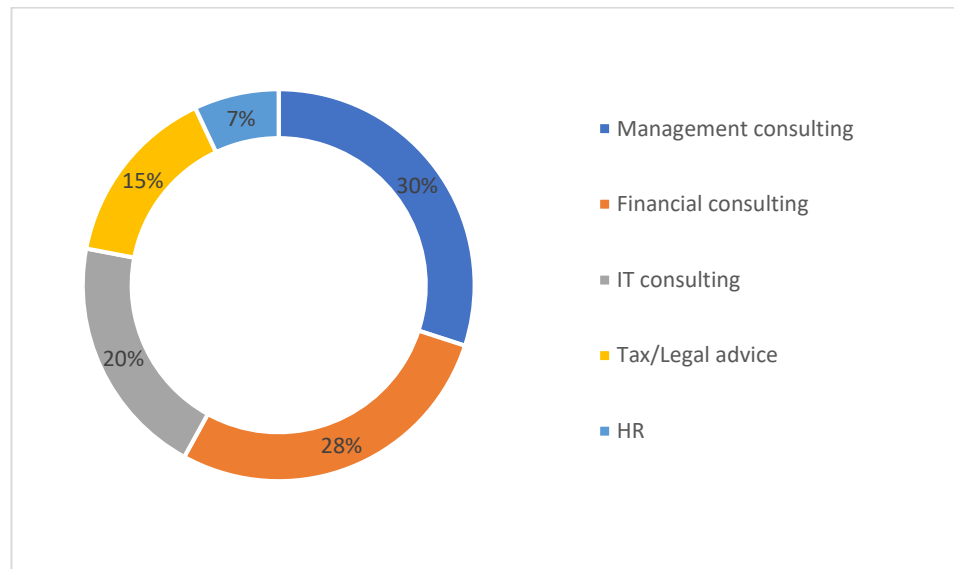
Since the range of services offered is extremely wide, we should look into the segmentation of consulting industry. The classification of main areas of consulting activities that companies carry out are represented in Figure 1.3.



*Figure 1.4. – Segmentation of consulting industry*

*Created by the author*

The largest segment is management consulting, which accounts for 30% of the consulting market. This segment is followed closely by Financial Advisory (28%). The next segment by size goes IT consulting which equals 20% the market. Tax/Legal advice represents 15% of the consulting industry. While the smallest share holds HR category [25].



*Figure 1.5.- The segmentation by share, %*

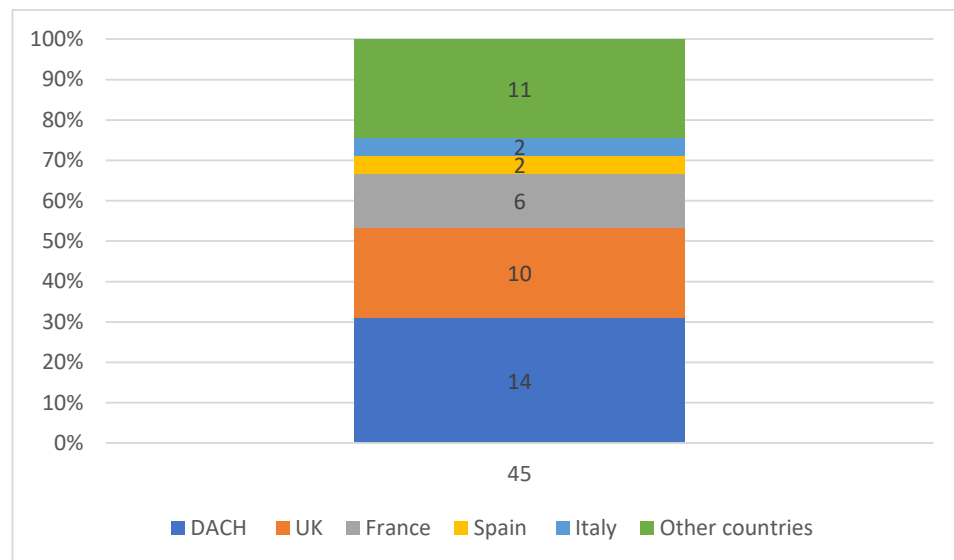
*Created by the author*

Thus, we can observe the situation that consulting covers a significant part of social life.

Taking into consideration information stated above, we can come to the conclusion that global consulting industry is a mature one that has its own structure and segmentation. Last ten years a great increase was seen in the consulting market volume. Downturn happened in 2020 because of the pandemic. Nevertheless, consulting industry accelerates and is going to grow with a bigger compound annual growth rate (GARG). The growth is mainly based on the fact that companies, who suffered from the Covid-19, try to attract consulting firms to recover from the impact, stabilize financial performance and even renew the growth of revenues.

## 1.2. Modern models of consulting markets in Europe

Europe represents 27% share on the global consulting market [17]. UK, France and German speaking countries such as Germany, Switzerland and Austria (which is also known as a DACH-region) are considered to be economic powerhouses of Europe and they are experiencing a considerable economic potential and growth even in times of pandemic. DACH region contributes approximately 14 billion dollars in revenues to European consulting market. France generates 6 billion dollars, which is three times higher that market size of Spanish and Italian consultancy.



*Figure 1.6.- The market size of European consulting market by country, in bln dollars*

*Created by the author on the basis of source [15]*

And almost one third of European consulting companies is included in the list of top companies in the world. Among them we can observe companies from Big Four (Deloitte, EY, KPMG, PwC), Ronald Berge, Simon Kucher & Partner, MRS Consulting, etc. Being leading companies in Europe, they try to find new innovative solution that would help them to defend their top positions and serve better to the

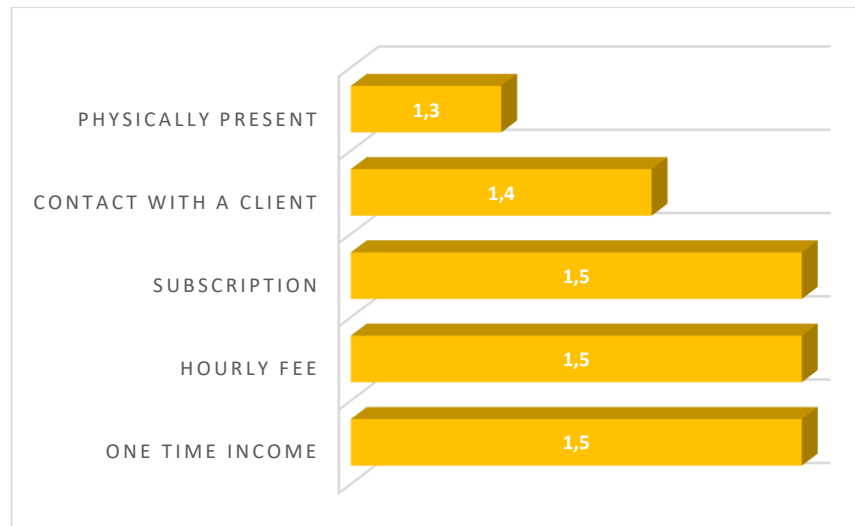
clients. In most situations, they dictate how European consulting market will operate.

But we should not also omit new entrances on the consulting market. Living in times of digitalization and innovative transformation, it is no surprise that new companies try to come up with new approaches of doing business that will differentiate them from the existing companies.

Nowadays traditional business models of consulting market are becoming more and more obsolete. New business models that emerge on the market put at risk the existence of consulting firms and individual consultants, who tend to use more traditional business models.

Due to the impact of widely known companies not only in Europe but also all around the globe and new entrances, we can observe the trend of emerging certain new business models of consulting companies across the European consulting market.

Figures 1,2 have been made in compliance with the research made by Dutch research institute, Sioo [49]. It specifies five features of consulting business models that went through the least and more change and shows lowest and highest score. Consultants and alumnus from European universities took part at this survey. The lowest score indicates the use of traditional business model, while the highest score states that consultants use more modern elements on the consulting market. From Figure 1.7, 1.8. we can see the situation that consulting companies are considered to have a traditional business model if they have features such as level of physical presence, contact with client, hourly fee for the work done or one time income.

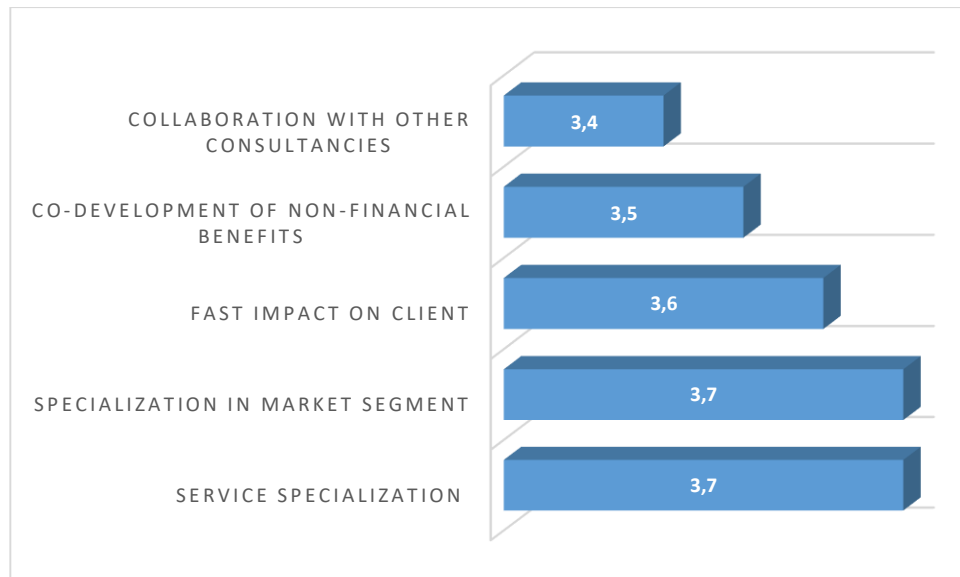


*Figure 1.7. – Features of traditional consulting business model*

*Created by the author on the basis of source [49]*

Whereas consulting firms that have the following elements: service specialization and on marker segment, fast impact on clients, collaboration with other consultancies then they imply the use of modern model in consulting. These elements have become an integral key of success of many consulting business models, which help consultancies to tackle a strong competition on the market. (Figure 1.3.)

According to the research, nowadays clients seek for faster results, sophisticated solutions and implementation of information technology to improve the entire process. Consultants are also required to serve far more than advice. The majority of consultants take part in different non-advisory roles in the client's firm, e.g. implementation of the project and temporary leadership.



*Figure 1.8.- Features of modern consulting business model*

*Created by the author on the basis of source [49]*

Collaborative consulting, instant consulting and continuous consulting are considered to be emerging business models in the consulting industry.

Collaborative consulting means the collaboration between consultancies in a network. Different projects can be carried out by a network of consultancies. This helps firms develop new recommendations quicker by combined knowledge. Among the major advantages of such model is low fixed costs while there is no need to hire a substantial quantity of staff members and organize space for them. Though it can bring to higher variable costs which makes long-term financial planning more sophisticated. The collaborative consulting can be divided into two sub-models: closed and open networks.

First one, closed networks, operate in the way that some consultancies have previously agreed fixed collaboration with some other consulting firms, which work repeatedly on client's project. The main benefit of closed network is the long-term relationships between consulting companies, which led to more intensive sharing of knowledge and at the end an improved value proposition is received. Roland Berger Strategy Consultants has created 'Terra Numerana', a German platform, that can be a great example of a closed consulting network [47]. There are more than 90

partners, who collaborate with each other and offer a variety of consulting services and support big companies on transition to new digital business models.

The opposite to closed networks are open ones. In this situation consulting companies collaborate in a various combination (different partner firms) on different projects. The reason why this business model is appealing to European companies is its better agility to meet changes in demand and capacity to get a wider set of knowledge from different partners, with whom the firm works closely during the project. OpenIdeo is an open innovation network that help people to build partnership and use knowledge to find more advanced solutions to the issues [43].

On the European market also exists an instant consulting model. This model creates a better value proposition for the clients because consultants spent a little time to find a solution to a client's problem. It suits the best to a disruptive business environment, where the speed is a key to keep pace with the rivals on the market and help to maintain their position when new competitors enter the market. Instant consulting model requires little research before recommendations are given, mainly because of already developed tailor-made solutions, which can be implemented immediately. One of the forms of consulting of this type occur when consultants are engaged in realization of the given recommendations or become temporary members of management. Sometimes this can be reached by organizing short games, for instance, The Great Game of Business [27]. It is a system that educate employees in a client company about operations, financial and cultural decisions. By putting all knowledge into action, the outcomes become very fast as there is no need in previous investigation on company's state.

The third model called continuous consulting model. Taking up a continuous business model, consulting firms try to come up with new processes or tools that help to speed up the delivery of the project. It often assumes that clients find the tools and methods of a consulting company so appealing that they are ready to use services repeatedly because it can assist on regularly occurring problems and are up to date. Hence, consulting companies can count on a continuous flow of income,

which can be compared to a continuous subscription. A continuous consulting model is more suitable for established brands than the new ones as clients are more likely to have long-term relationship with well-known brands. Several European companies fall into this category. They are Putman Advies and Mckinsey Solutions.[42], [46]

Taking everything stated above into consideration, we can highlight the next main characteristics of each business model on the consulting market that is presented in Appendix A.

To sum up, these three business models are becoming more and more widely used on the European consulting market that slowly replace traditional models. It is predicted that in a few years every company will operate under such models. And it will be quite hard for companies with tradition approach of doing business to gain new customers and be competitive in consulting industry.

### **1.3. Main features of the institutional and regulatory environment of the European consulting market**

Progressive development of the market of consulting services in Europe and all around the world was the result of modern trends in the world economy: globalization and an increasing need to use tools to optimize business processes for start-ups and large enterprises. The trends stated above have led to an increase in the demand for consulting services. Hence, an increase in number of specialists from various professional areas, which were not previously included in the consulting industry, has been observed. The expansion of the professional boundaries of consulting has triggered the need to create conditions and certain infrastructure for organizing the processes of providing consulting services, control and regulation.

The infrastructure includes the following elements:

- 1) Internal codes of ethics and standards of practice for professional associations of consultants and other professionals in the field of professional business support (auditors, lawyers, recruiters etc.);
- 2) The system of state legislation, which directly or indirectly regulate the market of professional services.
- 3) International standards of the quality for provision of services.
- 4) Systems of rules for the recruitment of consultants adopted by the governmental and international organizations, such as European Union, World Bank, European Bank for Reconstruction and Development.
- 5) Systems of internal rules of consulting firms.
- 6) System of rules that are created especially for the recruitment and hiring of consultants from the clients' firms.

Professional consulting associations that exist in 42 countries around the world and Europe is not an exception. Generally, membership in those associations is corporate. In other words, they include consulting firms, and no individual consultants can be observed in the structure of associations. Individual consultants have created special forms of associations, which are called 'Management Consulting Institutions'.

Associations of consultants develop their own requirements and codes, which must be followed by all members of the association. Thus, the association creates a standard of professional conduct, a level of competence that is necessary for a consultant to comply with global practice.

European Federation of Consultancies Associations (FEACO) is considered to be one of the leading professional associations of consulting firms. It is a non-profit organization, which was established in 1960 in Paris. Its headquarters was moved to Brussels in 1991. Currently, FEACO counts 14 European countries and represents more than 3500 firms of all sizes. Most of these firms are located in the Western Europe. The aim of FEACO is to help in the promotion and development of the profession of Consultancy in Europe by supporting its members [21].

Among the main statutory tasks of the professional association are to provide and guarantee high quality of consulting services and professional behavior of its members. To achieve these goals, the following basic elements of regulation and development of the profession can be distinguished:

- Requirements of high level of qualification for membership;
- Codes of ethics for consultants;
- Size of salary of consultants;
- The scenarios how to resolve conflicts between service providers and consumers;
- The rules of public speaking on behalf of the association;
- Exchange of experience and training within the federation (courses, seminars or conferences for consultants).

The FEACO also notes the positive role of introducing certification for its members and identifies the next advantages of its implementation:

- 1) Certification is believed to be an indicator of the highest quality of consulting services;
- 2) Certification confirms the compliance of domestic consultants' activities with the international practice;
- 3) Certification helps boost professional credibility of consultants and prestige within the competitive market;

In most associations and institutions of consultants, membership coincides with the certification. Hence, the membership cards act as a document confirming that the members meet certain standard of qualifications. Some associations, such as the Dutch one, have a special certification procedure for both members and non-members. Sometimes the certification procedures are carried out by professional organization of consultants together with government bodies of accreditation.

The Institute of Consulting in UK is the professional body for the consultancy, which also has created the code of professional ethics and its own certification

system, that should be followed by consultants [33]. Unlike FEACO, the institute supports individuals whose impact boost the performance of small and large organizations within all sectors (private, public, etc.). The Institute of Consulting in UK has introduced various degrees of membership (associate, full, honorary), which allows to include consultants who have received the status of full and honorary members in the professional register. The institutions like the Institute of consulting in UK exist almost in every country of Europe (Institutions of German consultants, Kaizen Institute Consulting Group, etc). These organizations regulate consulting market on the state level, apart from rules and laws issued by the government (code of Dutch Order of Consultants which install the level of price appropriate on the market in Netherlands).

In addition to professional consulting associations, there are also organizations in which consultants are included along with other specialists in the field of management (teachers, professional managers etc.) Among these organizations are the European Foundation for Management Development (EFMD), the Central and Eastern European Management Development Association (CEEMAN).

EFMD assists organizations with better performance by creating Excellence Model [22]. This framework is used in Europe as a management system that instigates self-assessment discipline within the organizations. CEEMAN is an international management association, the aim of which is to accelerate the growth in quality of management development in eastern and central Europe. It consists of various types of membership: institutional, corporate and individual. The association awards companies, individuals with the International Quality Assurance Accreditation which verifies on the global level that a company or an individual provide excellent services, which comply with international quality standards.

Turning to standardization, it is worth stating that there are different types of standardization created by various organizations. For instance, ISO-9001 (10019) standards that were developed by the International Organization for Standardization.

These standards set principles for a quality management system that indirectly regulate and specified requirements for consultancy market and management consultants. ISO 10019 identifies elements that should be taken into consideration when selecting a qualified consultant that meet the objectives, expectations and specific needs of the client [35].

ISO 20700 was created to provide guidelines for consultancy services. The aim of the standard is to improve understanding and transparency between both sides: providers of consulting services and clients. This helps achieve better results from consulting projects and reduce risk in consulting assignments by enhancing ethical behavior, quality of consultancy. This document also includes steps on how to make specifications, execution, acceptance of the results of services, taking into account the experience of a lot of consulting companies and of clients who deal with external consultants [34].

EN 16114 'Management consultancy services' is a standard that was published by the European Committee for Standardization (CEN) [9]. Its main focus is on the guidance for effective assessment of consulting services, which is applicable in private as well as in public sectors. The standard specifies advice for the conduct of consulting services, for example:

- Customer relations;
- The ethical and legal issues;
- Communication and evaluation;
- Planning;
- Execution;
- Closure.

There are also standards of the European Quality Management Fund (EFTQM) that could be applied to regulate the performance on the consulting market. These rules are specified in relation to consulting services, usually by the professional associations themselves, which carry out certification and control [22].

Thematic conferences are held at the international level to discuss and solve applied problems of development of consulting companies and associations. The International CMC Conference is held annually and believed to be the largest conference for management Consultants worldwide [14]. It tends to be a platform of networking for top consultants across countries or regions and helps spread knowledge of leading consulting concepts and practices all around the globe.

To sum up, we can state that the consulting market is regulated on 3 main levels, e.g. on the level of enterprise, governmental and international. Basic rules and ethics are installed on the international level by consulting associations and other organizations. That makes it easier to regulate the performance of different countries. Governmental regulations usually base the laws taking into consideration international standards and the way of doing business in a certain country. And consulting firms introduce ethics based on core principals of a company. All in all, sticking to all those regulations levels makes the consulting market highly regulated and qualified.

## **CHAPTER 2. FEATURES OF GERMAN CONSULTING SERVICE MARKET**

### **2.1. Germany in the system of the European consulting market**

Germany is considered to be a leading economy in Europe and the fourth largest in the world with the GDP about 4 trillion dollars [58]. The same is true for consulting market with approximately 40,1 billion dollars (34.6 billion euros). Its share in European and world's consulting market amounts 21 percent and 8 percent respectively.

Looking into the figures of the size of German consulting market, it should be pointed out that the revenues presented by BDU (Bund Deutscher Unternehmensberater), the associations of consulting firms in Germany, cannot be compared to those presented by Source Global Research as they have differences in determination of the meaning of consulting industry and its integral elements.

According to data provided by BDU, the market size of the consulting industry in Germany has more than doubled between 2006 and 2019 years. It reached a value of 35.7 billion euros [4]. The average industry growth in the period from 2006 and 2019 was 7.5 percent. In 2020, consulting industry suffered from the disruption caused by COVID-19. The pandemic led to the decrease in the figures of the market size by 3 percent, reaching a value of 34.6 billion euros. The whole Germany economy has faced a harsh time due to decline in revenues. Thus, the budgets on consultants were cut. However, Germany is expected to regain revenues that were before the pandemic and even to significantly increase them. It is projected that revenues of consulting market in Germany will equal approximately 44.3 billion euros by 2025 [51], which is about 9.7 billion euros more than in 2020 year. (Figure 2.1.)

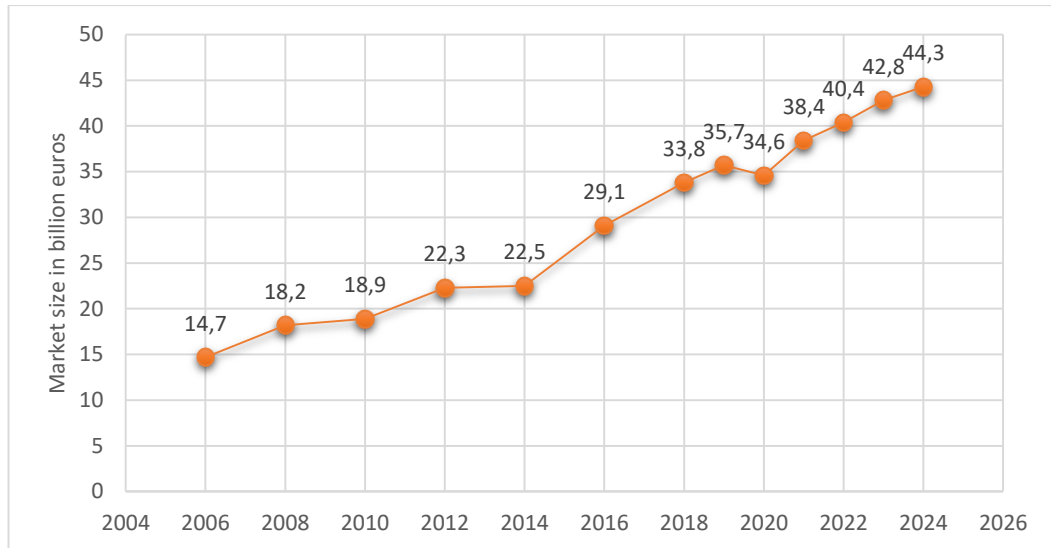


Figure 2.1.- Market size of German consulting market between 2006-2019

Created by the author on the basis of source [4]

As of 2020 the share of consulting market in Germany was at the level of 1.05 percent of GDP. The share of consulting services in the structure of German's GDP has been growing steadily, except the decline observed in 2014 (by 0.06 percentage points) and in 2020 (by 0.02 percentage points). In 2014, there was a relatively slow growth of the value of the consulting market compared to GDP growth in the country. In 2020, the share of consulting market decreased because of outbreak of Covid-19 and slowdown of the German economy itself. All in all, the share of consulting industry has become almost twice more than in 2006. (Figure 2.2.)

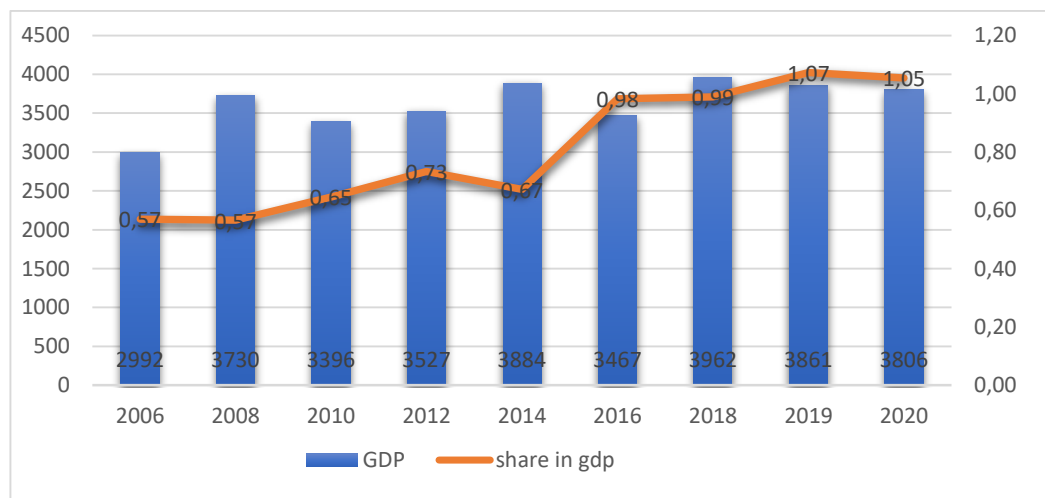


Figure 2.2. – Share of consulting market in the GDP of Germany

Created by the author on the basis of source [58]

Institute for Economics and Research has created ifo Business Climate Index that shows the current state of German business and make forecasts for the nearest future. On the other hand, we have the Business Consulting Climate Index that was created by BDU. Comparing both figures, it has been detected the direct correlation between them. When the ifo Business Climate Index falls and the state of German business is becoming worse, the consulting market falls with the greater extend. And the opposite: when the situation in the German economy improves, the consulting industry accelerates and grows faster than other firms in the country. This can be seen in the figures presented below. In March 2020, the indicator of ifo-Business Climate Index has fallen down to 86, while the situation with the consulting climate became even worse - it has fallen by 1.5 times compared to ifo-Business Climate Index. Beginning from May 2020, consulting climate is improving, and it is predicted that it will more favorable than the business climate in other industries [31]. (Figure 2.3)

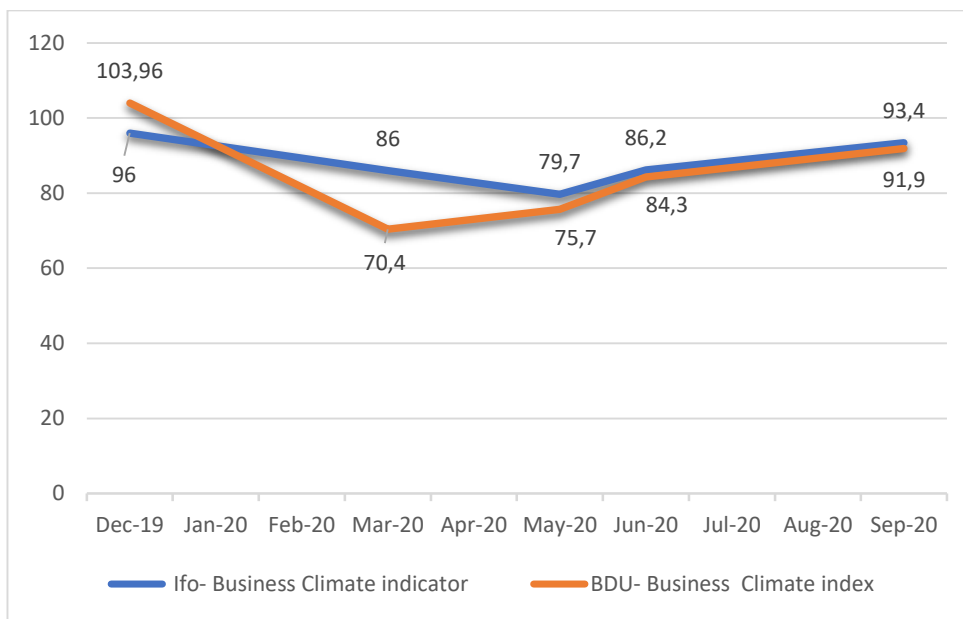


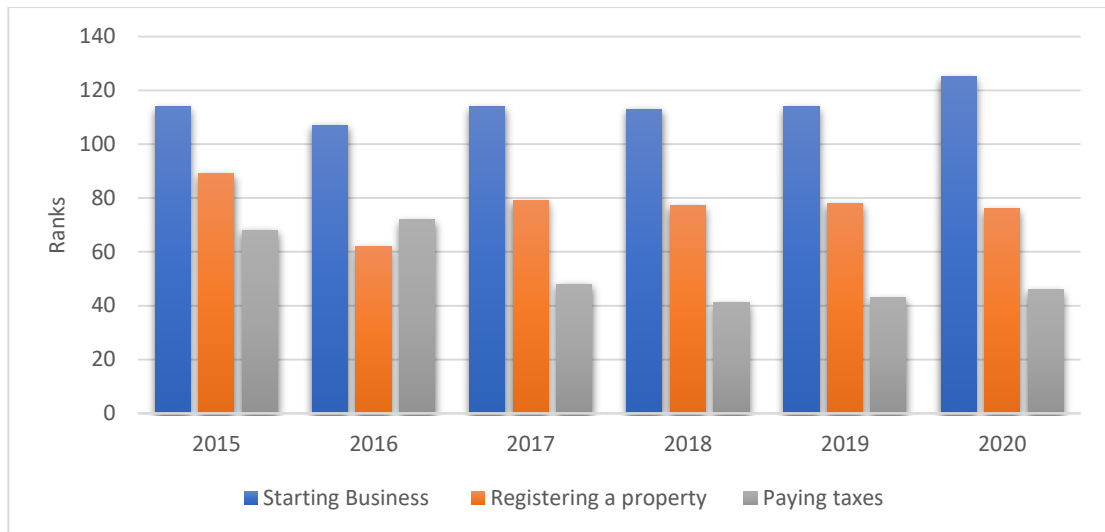
Figure 2.3.- Comparison of ifo- Business Climate Index and BDU-Business Climate Index  
 Created by the author on the basis of source [4],[31]

Why there is huge demand for consulting services in Germany? According to Doing Business Report 2020, Germany was ranked 22<sup>nd</sup> with the overall score of

79.7. Despite the fact that Germany has got higher in the ranking of ease of doing business and improved the total score, it has still some problems with:

- starting a business;
- registering property;
- paying taxes.

The process of establishing a business in Germany underlines the complexity of doing business in the country. Out of 190 countries observed in the report, Germany was on the 125<sup>th</sup> place in 2020. It was far beyond other European countries (UK took 18<sup>th</sup> position, France – 37<sup>th</sup>; Sweden- 39<sup>th</sup>; Switzerland- 81<sup>st</sup>; Italy- 98<sup>th</sup>; etc) [59]. Germany has got such a low position in the ranking due to the number of procedures (nine procedures) entrepreneurs are required to navigate. Moreover, newly registered companies must liaise with the local chamber of commerce, business standards office, professional organization of the certain industry. On average it takes up to 7 or 8 days, or sometimes even more due to language difficulties in local institutions. Most employees do not speak English that makes it harder to establish a business. And the situation has not got better during the last 5 years, Germany remained almost on the same positions. Likewise, registering property is another difficult task that is burdened with bureaucracy. It takes on average 40 days to complete all the steps required. Doing business in Germany requires also adequate cross-cultural awareness. Business must ensure that they stick to both business landscape and the culture. (Figure 2.4.)



*Figure 2.4. – Doing Business in Germany by pillars  
Created by the author on the basis of source [59]*

Germany's fiscal system is said to be extremely difficult to navigate. Companies have to deal with 14 different taxes. There are nine tax payments per year taking on overall 341 hours of their time plus those hours spent during contending corporate income tax and VAT payments that are considered time consuming [24].

Given that the global economy is facing instability and insecurity, there is no surprise that firms prefer to involve consultants that have the opportunity to quickly react to global changes.

Having looked into these facts, we can come to the conclusion that companies more and more need external consultants in different spheres to effectively operate in Germany, without bearing too many losses and spending too much time.

The main components of consulting market in Germany are the following:

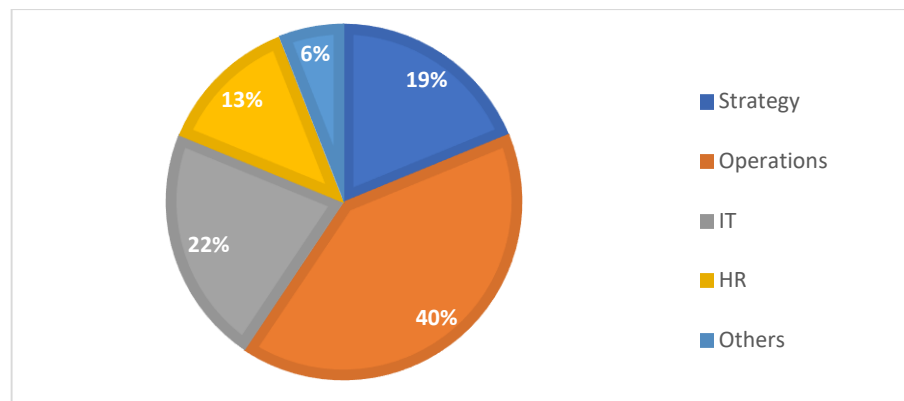
- strategy consulting;
- operations consulting;
- IT-consulting;
- HR consulting;

- others.

The largest share in the structure of consulting market is dedicated to operations consulting. In 2019, the share of this segment was estimated at the level of 40 percent. According to BDU, the segment for operations consulting services consists of such main aspects that support the organization's structure as Sales and Marketing, Supply chain, Finance, Business Process Management, Research and development and others [4]. More and more CFOs turn financial to financial consultants, who can optimize their finance and accounting projects. The total turnover from the operations consulting amounted 16 billion dollars, which is 20 percent less than in 2012.

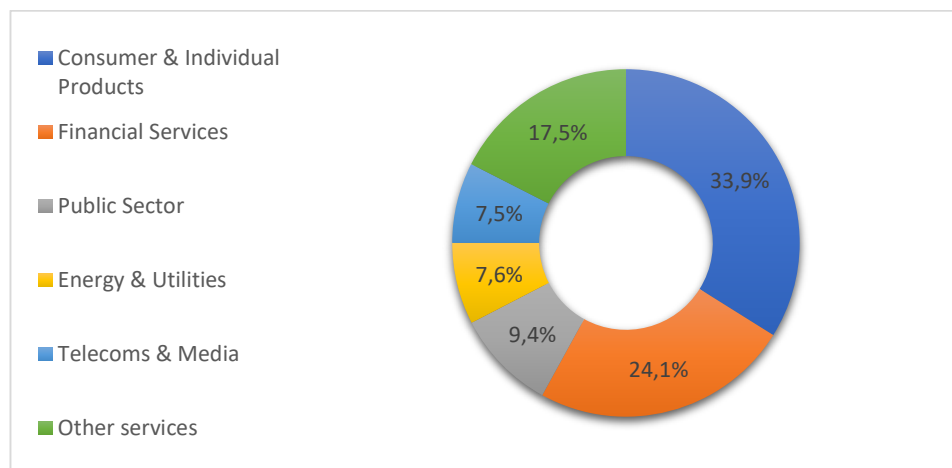
The next fastest growing sector is IT consulting with the share of 22 percent. Almost all IT consultancy companies of TOP-20 have seen profits even in times of pandemic. The reason behind it was the need of companies to organize their work remotely and effect the performance of retail, especially mobile and web services, and delivery [39].

The greatest decline in consulting market occurred in HR consulting sector. In times of isolations, clients were offered only the digital visualization of some HR improvements [15]. And in most cases, clients did not consider it as a good replacement that is why it was hard to realize projects. This is especially true for consultants in search and selection of specialists and managers. (Figure 2.5.)



*Figure 2.5.- Main services in German consulting market  
Created by the author on the basis of source [21]*

In 2019, companies that operate in sectors of Consumer & Individual products and Financial services were the highest spenders on consulting services: 33.9 percent and 24.1 percent respectively. Public Administration is the third largest spender with a market share of 9.4 percent. On the fourth and the fifth position we can observe Energy & Utility and Telecoms & Media spenders. They have almost the same 7.6 percent and 7.5 percent of overall spending structure for consulting services in Germany. Among other services are not homogeneous ones from retail to business services, logistics services to tourism. Hence, there is no clear features to be defined. This sector of consumers of consulting services 17.5 percent of total expenditures. In period from 2018 to 2019, Energy & Utility and Telecoms & Media are two clients industries that are growing with the greatest pace compared to other sectors. They grow on average 15.7 percent and 12.2 percent yearly. Despite the fact that companies that serve financial services are remaining a large client industry, during the period 2018-2019 have showed a slowdown. The Public sector has returned the growth of 6.5 percent after a quite long period of stagnation [21]. (Figure 2.6)



*Figure 2.6.- Main industries that consume consulting services  
Created by the author on the basis of source [21]*

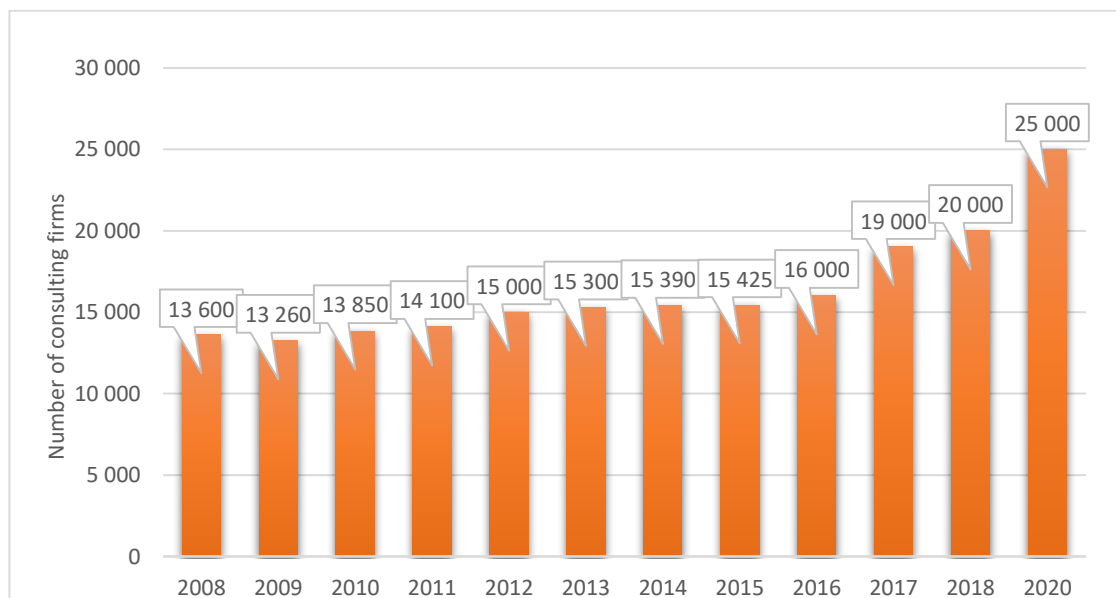
To sum up, we can highlight the next conclusions:

- German consulting market is a mature one and has shown approximately 34 billion euros in revenues in 2020;

- It has high growth potential and with every year it increases the share in the country's economy;
- Consulting services are in high demand among client's due to some complexities of doing business in Germany;
- IT-consulting is the fastest growing segment in German consulting industry due to the need to adjust to digitalization challenges in the world.

## 2.2. Corporatization of German consulting market

According to BDU figures, the number of firms present in German consulting market is growing steadily year by year. In 2020, the amount has reached 25 000, which is 54 percent higher that it was in 2008 [4]. (Figure 2.7.) Around 184 000 consultants were working in this firms in Germany comparably to 85 600 employees in 2008. [51]



*Figure 2.7.- Number of consulting firm in German consulting market*

*Created by the author on the basis of source [51]*

87% of the total firms presented in the German consulting industry generate sales annually of less than 1 billion dollars. The rest revenues in this market are generated by approximately 50 big players. They dominate within the consulting market across different areas of expertise, e.g. operations, strategy, IT- consulting, HR-consulting etc.

The German consulting services market can be divided by the types of firms, which are stated below.

- International consulting companies;
- German leading consulting firms;
- Medium and small sized consultancies;
- Individual consulting networks.

International consulting companies choose Germany as a bridgehead for making European operations and to expand further to German-speaking countries such as Austria, Switzerland and others that form together DACH-region. Among the leading international companies there are Big Four that consists of KPMG, EY, PwC and Deloitte. They propose a wide variety of services for German enterprises beginning from audit consulting, which is considered to be a core competency, followed by tax advisory, consulting on transfer pricing etc. The Big Four is among top-5 consulting firms in Germany both by the revenues and number of employees. Moreover, such companies as Accenture, McKinsey and Company, Boston Consulting Group, Bain and Company are also active players in the German consulting market. We can observe the situation that most of the foreign companies have their headquarters whether in the United Kingdom or the United States. Most of the times, international consulting companies compete between each other, serving mainly the German branches of the largest transnational companies, leading German enterprises and holding operations on global market.

On the graph below, it can be observed the top international consulting firms that are present in German consulting market in terms of their sales worldwide.

Accenture with 21.2 billion euros in sales is at the top of the ranking. The Big Four closes the Top-5, with total sales of almost 57 billion euros. (Figure 2.8.)

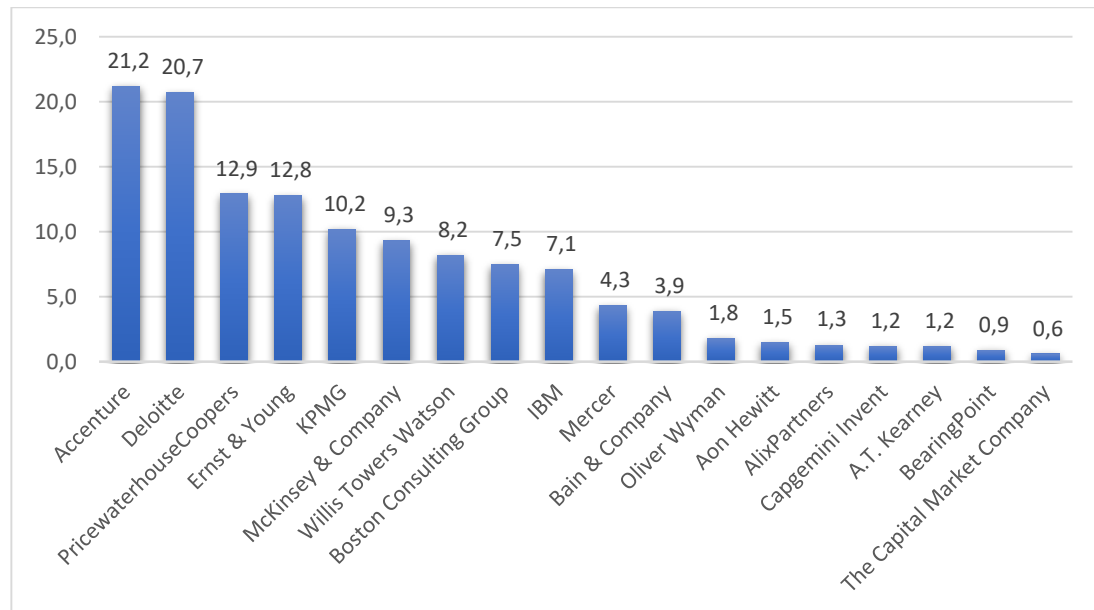


Figure 2.8.- Leading international consulting companies in Germany by sales, in bln euros

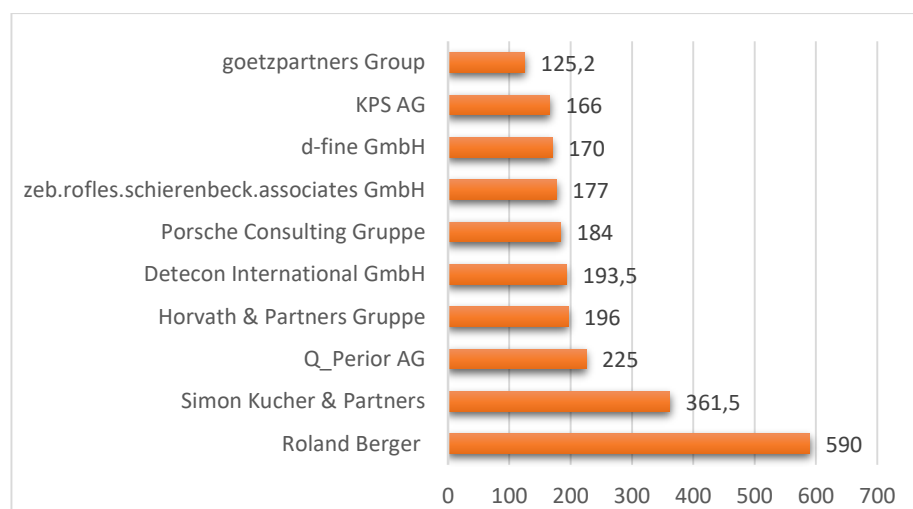
*Created by the author on the basis of source [51]*

The next group in the German consulting industry consists of domestic firms. Among the leading German consultancies are Roland Berger, Simon-Kucher and Partners, Q-perior, Horvath, Porsche Consulting Gruppe etc [3]. In 2020, the first place was taken by Roland Berger with 590 million euros in annual sales and far ahead of other European consulting companies including OC&C Strategy Consultants, L.E.K. Consulting [47]. Roland Berger is considered to be largest consulting firm with German heritage. The company operates in different countries throughout the world. It has grown from a small company to one of Europe's consultancy with all the needed resources to compete with international consultancies like Boston Consulting Group, McKinsey and Company, Bain and Company, A.T. Kearney and Oliver Wyman.

Simon-Kucher and Partners has taken the second place by annual sales in 2020. It generated more that 361 million euros, which was doubled in comparison within previous four years. It specializes mainly in sales and marketing [48]. The

top-3 ranking is completed by Q\_Perior AG with the sales of 225 million dollars. It concentrates in delivering IT-consulting services to its clients. 2020 was very lucrative for the company and helped it to leave the fifth position in the ranking, replacing Detecon International GmbH. All these companies famous not only in Germany but also outside of it given the number of subsidiaries in other countries.

All in all, ten companies from the graph below generated more than 2 billion euros in 2020, which is almost 6 percent of the whole German consulting market. (Figure 2.9.)



*Figure 2.9.- Leading German consulting companies, in mln euros*

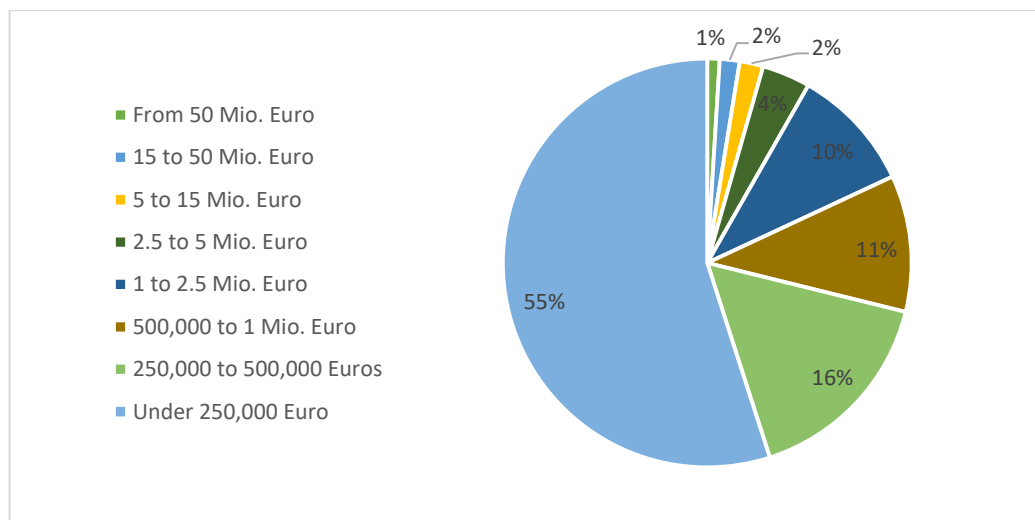
*Created by the author on the basis of source [48]*

Individual consultant networks also play their role in the German consulting market. Germany is believed to be among the top five marketplaces for independent consultants. Networks are agile- organized consultancies that were also included into the ranking of the top consulting firms. Given the accelerating rise of gig economy, individual consulting networks has seen robust growth in the last few years. This segment now represents between 10 percent and 15 percent of the whole consulting industry in German. There are a lot of such networks, but the most famous ones are Comatch, Berate.de, Haufe Consulting, a-connect, Consultingheads.

In terms of revenues, consulting firms can be divided into the following eight groups [51]:

- From 50 million euro;
- From 15 to 50 million euro;
- From 5 to 15 million euro;
- From 2.5 to 5 million euro;
- From 1 to 2.5 million euro;
- From 500 000 to 1 million euro;
- From 250 000 to 500 000 euro;
- Under 250 000 euro.

The vast majority of firms is among the last group, the revenues of which are lower than 250 000 euro. There are 11 200 companies in this segment, having the share of 55 percent of total number of consulting firms existed on the German consulting services market. The next biggest section by the sales is a number of companies, whose sales figures lie in the boundaries from 250 000 to 500 000 euro. They have 16-percent share of consulting market. The lowest segment consists of 200 consulting firms, which revenue is over 50 million euro. (Figure 2.10.)

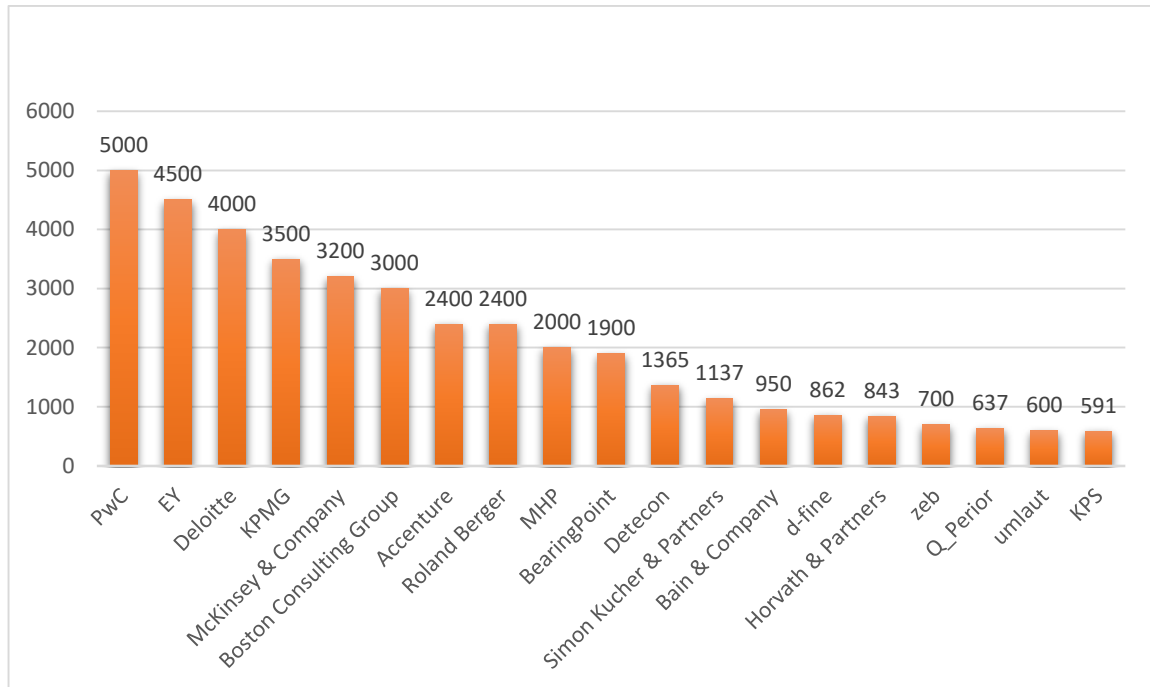


*Figure 2.10.- Share of consulting firms by revenues*

*Created by the author on the basis of source [51]*

The greatest number of German employees is working for companies of the Big Four. In total 17 000 of workers are employed by these consulting firms. McKinsey, Boston Consulting Group, Accenture are considered to be also very

popular among potential workers. 8 600 employees are working there. Others consulting companies that have a great amount of employees is involved in the staff of German consulting firms [15]. (Figure 2.11)



*Figure 2.11.- Leading companies by a number of employees*

*Created by the author on the basis of source [15]*

German consulting market has features of oligopolistic market. Among such peculiarities the following can be identified:

- the market dominated by a small group of large sellers (McKinsey, Boston Consulting Group, Big Four, Roland Bergerand some other);
- ability of big firms to set the prices, whereas small firms can be considered as price takers;
- in the market services provided by the companies are differentiated. They vary in accordance with the sphere of conduction business (marketing consulting, IT-consulting, HR consulting, etc.);
- companies mainly compete on non-price competition (loyalty schemes, services differentiation, advertising).

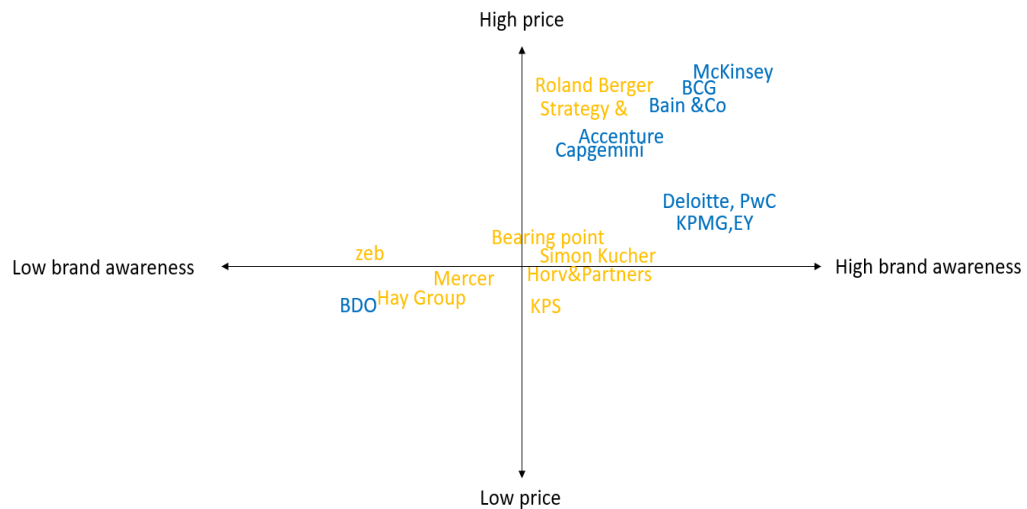
In German consulting market, rivals use different instruments of survival: price and non-price. Brand awareness is among the highly used non-price instruments to compete in the industry. Nowadays, company should put a lot of efforts into the right brand positioning, in order to stand out from other consulting firms. Branding creates value for the company. Due to this fact, companies can charge larger fees per hour. The next widely used non-price instrument is the range of services. Some companies offer a substantial range of services that touches almost every aspect of the functioning of the company.

Having a look into price instruments of competition, we can indicate that companies with the higher level of brand loyalty and a wider range of services, impose higher fees for the projects done. Global companies that consult on strategy management charge the highest rates. McKinsey, Boston Consulting Group, Bain & Company and German companies such as Royal Berger, Strategy & are among this category.

The next price category consists of functional consultancies that mainly concentrate on one or two areas. They usually have from 265 000 to 353 000 euro fee in a year per consultant. The Big Four falls under such requirements. Even though companies of the Big Four have high brand awareness, they charge relatively low prices compared to global strategy consulting companies. German functional specialists have almost the same prices as Big Four. However, it should be considered that their fee structure depends on their positioning in German consulting market, area of focus and service portfolio.

Global technology firms serve mainly IT-consulting services. As IT-sector of consulting is accelerating the most, such companies as Accenture, Capgemini charge significantly higher fees than Big Four and other functional specialists for their services. Their fees per consultants start from 327 000 per year. Rates charged by independent consultants vary significantly, from the lowest on the market compared to those charged by companies. Their fee usually ranges from 45 000 up to 360 000

euro a year. But it is worth mentioning that they do not have limits and can charge the fee that they want. (Figure 2.12.)



*Figure 2.12.- Perceptual map of main competitors on German consulting market*

All in all, it can be concluded that mainly international consulting firms dominate on the market due to worldwide recognition. Big corporations and government institutions that are present in Germany involve international companies such as McKinsey, Boston Consulting Group, etc. German companies, Royal Berger, Strategy& try to compete with the international ones. And we should not also omit domestic small and middle-sized consulting companies. They are also trying to find their niche in the local market by specially serving to local companies with an intention to better satisfy their needs.

### **2.3. Strength of German consulting market**

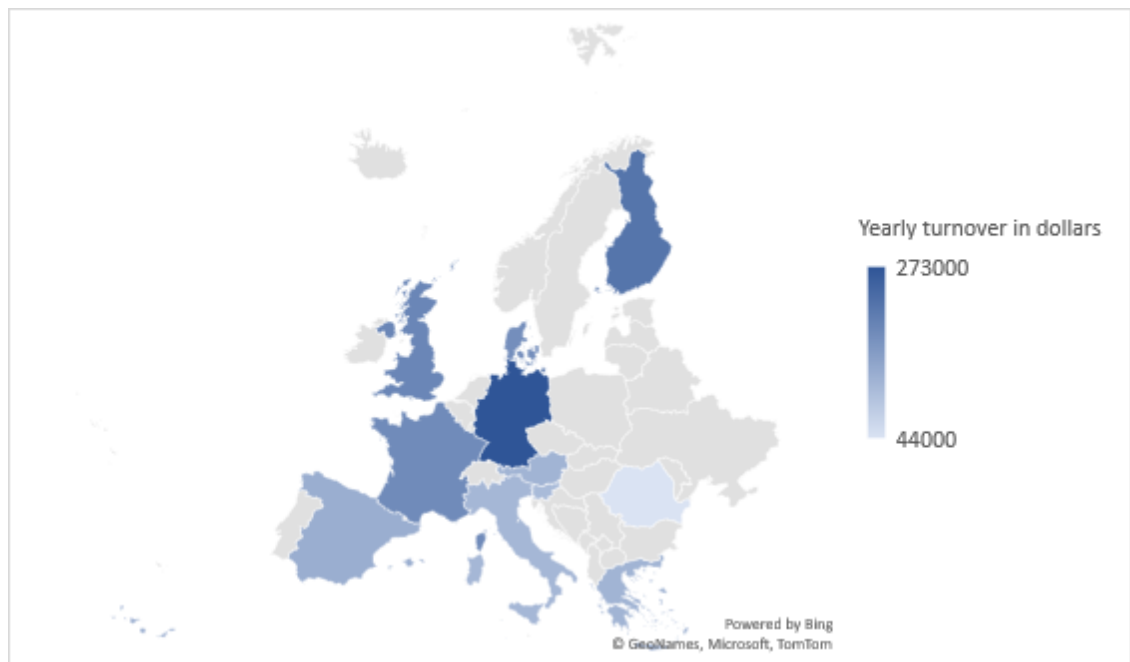
In times of pandemic consulting market of Germany showed its strength and the capacity to tackle slowdowns in the economy. Therefore, it is possible to highlight the following strength of German consulting industry.

One the main strength of consulting market in Germany is the organized regulation of the market and availability of unified professional standards and ethical norms of consulting activities. All these lead to better performance of consulting companies on the market and assure the high quality of consulting services. Among the associations that regulate German consulting services market, BDU can be highlighted.

Bundesverband Deutscher Unternehmensberater (BDU or The Federal Association of German Management Consultants) is a professional association of management consulting companies in Germany. The aim of BDU is to improve economic and legal framework in the German consulting industry. Furthermore, it formulates quality standards for its member companies and defines professional principles [4]. The BDU is a member of the Federal Associations of Liberal Professions (BFB), the Network European Movement Germany, The International Council of Management Consulting Institutes and the European Federation of Consultancies Associations (FEACO). There are also some standards defined by European Union that also aimed at clearer vision of performance of consultants in the market. Combining regulation of different levels helps in creating better conditions and consulting culture awareness in Germany.

German managers of enterprises have a high level of understanding of consulting culture. Many managers realize that organizational decisions require high competence and deep specialized knowledge, and they are ready to delegate some stages of decision-making to an external consultant.

Another strength that is worth mentioning is the turnover per professional. This indicator is considered to be an important performance indicator. It takes in account average price level and the numbers of days consultants are working on a client's project. The annual average turnover per consultant in Germany is 271 400 euros between 2017-2019, which is higher than the average of European countries (197 000) by more than 74 000 euros. (Figure 2.13)



*Figure 2.13- Yearly turnover per professionals in 2020 [21]*

Given that we live in times of digitalization, consulting firms are trying to find new innovative models and strategies to be in line with modern digital developments. Germany is believed to be very innovative country. Having the capacity and needed resources for innovations, Germany tends to be faster in implementing innovations in the consulting industry.

According to Global Innovative Index 2021 created by WIPO, Germany takes the tenth position in the ranking. Considering human capital and research, Germany is on 3<sup>rd</sup> place and performs better than the United Kingdom (10<sup>th</sup> place) and France (15<sup>th</sup> place), who are the closest competitors on the consulting market. That is crucial indicator, while consulting market is said to be human driven and the results are highly dependent on the professionalism and innovative human potential. The same

situation with the pillar knowledge and technology output. Germany is on 13<sup>th</sup> position in the ranking, which shows that Germany has a high level of knowledge in innovations that is very beneficial for the market [60]. (Table 2.1.)

Country	Overall score	Institutions	Human capital and research	Infrastructure	Business sophistication	Knowledge and technology output
United Kingdom	4	15	10	10	21	10
Germany	10	17	3	21	12	13
France	11	19	15	17	19	14

In Germany, there is quite a lot of small and medium-sized consulting companies. It is widely known that the smaller the enterprise, the more chances to react faster on the changes in external environment and to be more flexible. They have also shorted distance in decision-making processes. Moreover, small consulting firms are believed to be highly specialized in certain field and therefore they can be even ahead of the industry leaders (if taking only one field of expertise).

In the research “The Hidden Champions of the Consulting Market 2020/21” provided by WGMB (Scientific Society for Management and consulting), it is possible to observe the situation that companies score more than giants like McKinsey, Boston Consulting Group and Bain & Company [29]. This is due to the fact that they are very specialized in their field of expertise. Berylls Strategy Advisors GmbH and Horn & Company are included to the group of “Hidden Champions” on customer satisfaction and lead the ranking. They score 412 and 406 respectively. The figures are higher than those received by international companies (McKinsey - 397, Boston Consulting Group- 391 and Bain & Company- 384). (Table 2.2.)

Table 2.2. <i>Ranking of companies</i>		
<u>Rank</u>	<u>Consulting company</u>	<u>Score</u>
1	Berylls Strategy Advisors GmbH	412
2	Horn & Company	406
3	McKinsey	397
4	Boston Consulting Group	391
5	Bain & Company	384

Furthermore, a good level of competition is observed in the German consulting industry. It is widely believed that a healthy level of competition is an indicator of constant stimulation to improvement and innovation. It also maintains a high quality of services provided at the same level of prices. Hence, customers receive better satisfaction.

It should not be omitted that German economy is one of the strongest and there are present a lot of international companies that need help to better operate on the German market. And there are a lot of German enterprises that are willing to compete with the international rival and to overcome risks. All of these companies obtain substantial number of financial resources to attract external consultancies in decision-making process.

Taking all argument into account, it is possible to conclude that there are several strength of German consulting market: unified standards and ethics codes; developed management consulting culture; innovation economy; high level of salary for consultants; highly skilled workforce; “healthy” level of competition; availability of financial resources. These strengths help Germany increase the capacity of the consulting marker and to be widely recognized all around the world.

## **CHAPTER 3. PROBLEMS AND PROSPECTS OF DEVELOPMENT OF INTERNATIONAL MARKET OF CONSULTING SERVICES IN GERMANY**

### **3.1. Key problems and reserves for development of the consulting service market**

Currently, German consulting services market is facing problems, which are stated below.

COVID-19 has become the hugest problem for German consulting industry and revealed the problems of business models of domestic companies, in comparison to international competitors [45]. Due to pandemic and social distancing, more and more companies turn to digital forms of doing business. Most of small and medium sized German consulting firms have traditional business model, which means low level of digitalization and virtualization. Given that, they all end the year with minuses on their account, while some large and established consulting firms even faced a 1.6 percent increase. Even before the pandemic most international companies and some big German companies started to invest in digital transformation and set up digital transforming initiatives (Bearing Point Asset-based Consulting and McKinsey Solution, etc.). Thus, we can define common problems of traditional consulting companies. First of all, they have not make changes in their business models for quite a long time. This fact can be explained by growth tendencies on the market in the past. Secondly, most of them have standardized operations to ensure a high level of quality of services. Companies are more focused on established process of providing consulting services than on technological disruption, which lead to less flexibility in times of crisis. Thirdly, traditional consulting business model is considered to be untransparent, expensive and complex. Whereas new market companies that serve consulting solution that are technology-driven offer

cheaper services, which can be easily understood and instantly available at an international level. That makes them more appealing to established consulting providers.

Another problem of the German consulting market is that all consulting industry leaders situated in the big cities and considered to be metropolitan organizations. Frankfurt, Berlin, Munich, and other large cities are the home for almost the half of whole amount of consulting firms. Their highly successful position can be explained by favorable location, the possession of highly qualified personnel. In big cities a lot of top companies in different spheres have their offices and they tend to tightly cooperate with consulting companies. Moreover, some regional companies turn to consultancies whose experience and resources are more significant. Even governmental institutions tend to attract American consultancies in most of the situations. That is why, we can state that consulting companies that are presented in distant areas are faced with severe competition. They also do not have a substantial number of resources to fight giants and often go bankrupt.

There is also bad situation with the qualified people. Consulting companies in Germany regardless the type of them (international or domestic consultancies) employ mainly people with a high knowledge of German language. That issue result in shortage of qualified staff, which always a limiting factor for better development of the company and industry. Being focused on people with a fluent German distance from people who are professional in their field with an impressive amount of years practice but who is fluent in English. Furthermore, 44 percent of companies surveyed in the Deltek study said that they have troubles attracting young talents. German students prefer international companies to domestic once due to the social package, higher future perspectives for them and flexibility in the form of distant work. That is why, German consultancies even more struggling of shortage of qualified work force.

One more problem that exist on the German consulting market is its separation into clusters. Nowadays, there are two different polar sides. On the one hand,

international consulting companies with the global presence and well-known established brands, are selling well and earning a substantial amount of revenues. On the other hand, there are small, specialized consulting companies that have a high level of expertise and competence in one specific segment of consulting market. They serve clients with experienced projects teams and have a better understanding of local market. Having looked into these, we can state that medium sized consulting firms are likely to face a crisis in the nearest future. Almost 30 percent of total number of consulting firms in Germany are under threat.

There also can be seen a trend of shifting to inhouse consulting. Most of the banks and governmental companies, automobile concerns have their own internal consultancies. That cause the major threat to the vast majority of external consultancies. Among such companies we can observe Deutsche Bank Management Consulting, DB Management consulting, Lufthansa Consulting, Volkswagen and Merc-Benz Consulting, Telekom Inhouse Consulting, DHL Consulting, etc. German people are quite closed one and they believe that inhouse consulting have many advantages compared to the external consulting firms, e.g. high level of confidentiality and greater cost effectiveness, high level of awareness of business processes in the company and access to more internal information.

It is also believed that there a substantial number of new entries in the German consulting market caused by no entry barriers existing on the market. Due to this fact we can state that there can be new companies with relatively low expertise in the field of consulting and with no ethical codex of performance. That creates a bad image for the whole domestic consulting industry.

The development of the German consulting industry can be characterized by the following main trends.

1. Acceleration of growth after post pandemic times, which is predicted that CAGR will be 6 percent and in 2 years it will increase and be on the same level as was before COVID-19.

2. The number of consulting firms is likely to continue to grow in the future. The main reason for that is the restricting of large companies such as banks or insurance companies. Employees of such firms sometime turn to consulting in the sphere of their expertise.
3. Digitalization is also a huge trend. More and more consulting firms, even the smallest ones, try to digitalize internal processes to increase efficiency and productivity, tasks can be done in a shorter period of time with the maintaining quality.
4. There is a trend of transition from market with oligopolistic features and a dominant position of international to a competitive market, where the share of German consulting firms will increase.
5. Strengthening of regional asymmetry.
6. The number of consulting firms is likely to continue to grow in the future. The main reason for that is the restricting of large companies such as banks or insurance companies. Employees of such firms sometime turn to consulting in the sphere of their expertise.
7. Digitalization is also a huge trend. More and more consulting firms, even the smallest ones, try to digitalize internal processes to increase efficiency and productivity, tasks can be done in a shorter period of time with the maintaining quality.
8. Consulting firms will continue to significantly increase their investments in staff, a new workplace culture and technical equipment.
9. Pressure in small business consultants and individual consultants will continue to grow in future.

Taking all stated above into account, we can identify that consulting industry in Germany is highly perspective and will demonstrate an increase in the number of consulting firms and an acceleration of digital transformation. But as well as positive shifts in the market, we will observe the aggravation of some existing problems, such as strengthening of regional asymmetry, shortage of qualified

staff, saturation of the consulting market with new appearing firms, etc., that needed to be addressed.

### **3.2. Recommendations on improvement of competitiveness of German consulting companies**

Having looked into the main problems that German consulting market faces now and will do in future, it is necessary to point out the key areas for improvement. The recommendations how to increase competitiveness not only in the German market but also internationally are going to be discussed in this sub-chapter.

In order to protect strong position on the market, established German consulting firms have to overlook and evaluate not only their business models but also the way how they provide their services. Consulting companies with an outdated business model should resort to restructuring. For instance, they can gain a competitive advantage by implementing disruptive technology to make their business processes innovative. Virtualization is a trend that should be applied by consulting companies. The main goal of virtualization is to reduce the time spent on direct communication between consultants and clients. It can help to increase the flexibility and efficiency of consulting services. Not to say, that it opens new markets with the new customer base that is out of geographical reach. That will help to decrease the level of regional asymmetry and help companies earn more revenues even if they are located far from big cities.

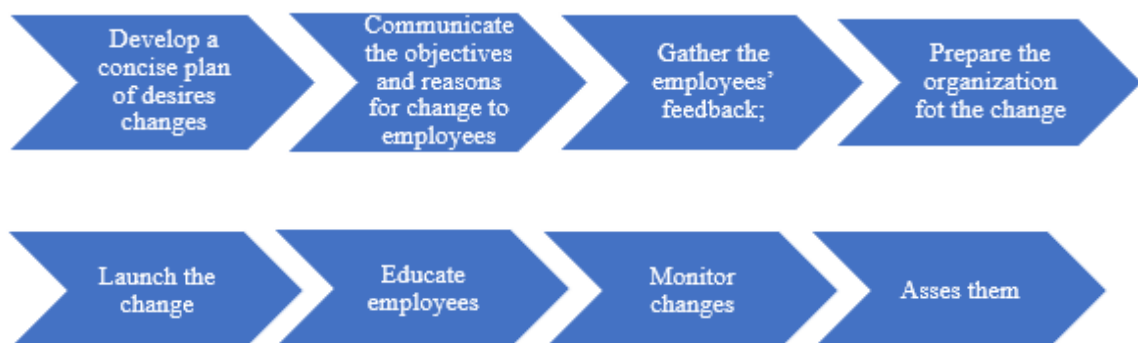
The virtualization can be reached with the help of an interactive virtual assistant for clients that be available in any time of the day and can provide an urgent help to clients in a standardized way. What differentiate German consulting companies from international ones is that they have strict working hours and do not actively communicate with the client beyond these hours. Whereas international companies try to be available for the client even at night. There is when a virtual

assistant can come in handy that could provide some initial data on the problem of client. And within the working hours the consultants will look into the problem in more detailed way.

Moreover, for consultancies it is of high importance to improve the productivity of each individual consultant withing a company. That could be done with the implementation of software tools that speed up the process of data analysis and have an impact on the time frames within which the solution is made. It shifts the focus of consultant from routine data-intensive tasks on more creative ideas. At the end, the data mining tools accelerate the analysis phase of the project, raise the effectiveness and productivity as well as agility of the consultants, which result in high level of quality.

In order to make digitalization a reality, consultancies should collaborate with international or domestic IT- companies to make tools for digital transformation. The chances of a successful expansion of the consulting are to increase the level of digitalization, which will lead to significant leaps in efficiency and increased marketing transparency.

And it also should be taken into account that with every change of business model and implementation of technology, companies should be convinced that employees understand and accept these changes. Otherwise, it will impact on loss of loyalty, absenteeism, etc. In order to omit negative opinions about the change, companies should follow the next steps:



*Figure 3.1.- Steps of change implementation in an organization*

To tackle the next problem with the shortage of qualified staff, companies should pay more attention to methods and requirements used for recruitment of personnel. While consultants are a key supplier of services for consulting firms. Among the main methods that could be used to attract more potential candidates are the following:

- creating marketing campaign to attract the attention of potential candidates;
- cooperate with universities not only in the country but outside the borders;
- organize conferences, different forums, lectures on the consulting topic;
- conduct business workshops with the solution on particular business issues;
- conduct challenges that can be used to generate solution to complex problems and to get highly qualified people, who will propose those solutions.

These methods will help to spread awareness not only about consulting culture but also about the companies that use those methods. Consultancies that do not obtain substantial amount of financial resource, can implement virtualization on this stage.

Companies should also overlook their requirements for potential candidates as well as to provide more benefits for existing employees. In today's world, salary do not play a key role while choosing a company to work for. What really matters are opportunities for growth, company culture, social benefits offered, etc. Considering these factors, qualified workforce and young talents choose the company. Distant work can also be a trigger for choosing the company. Young generation seek for flexibility in form of distant work. Companies simply need to implement appropriate technologies and crowd tools for communication and collaboration. That will allow employees and clients exist in digital ecosystem. This will lead to more productivity and effectiveness (77 percent of employees of consulting industries say they are more productive thanks to flexible work models). Now say that companies should invest in the training of the personnel. Consultants is a person that always requires additional information and acquires new skills and

knowledge. With the help of workshops and training, companies can increase the qualifications of their employees and boost the quality of advice they offer.

The main advantage of German consulting companies is the fact that they can better understand the peculiarities of German business environment and legal system. Given that, domestic companies can provide better services than international companies, which despite their image and experience cannot always clearly understand the problem of German enterprises. Due to this fact, German consulting companies can use their competitive advantage to stand out from international consultancies. Small, medium-sized consultancies and individual consultants can tightly cooperate with each other. Different forms of collaboration between firms and individual consultants can be used. That will be extremely beneficial for all sides. There can be seen the following benefits of cooperation:

- access to client base and more financial resources;
- increased source of revenue and better market image;
- access to information and knowledge;
- new innovative ideas can be generated.

Given that technological transformation is very important nowadays these could be done also with the help of technology. For example, the government can create a consulting platform. On the platform will be presented not only small and medium-sized consultancies, individual consultants but also experts from other field of expertise (e.g. IT-specialists). The solutions to the client's problem can be found with the help of crowd collaboration on the issue.

Thanks to that kind of digitalization, the consulting industry can reach a new level of transparency. Potential clients can easily get a comprehensive picture of consulting firms from a large amount of available information. This increases competition in the industry and at the same time ensures the quality of consulting recommendations. If advice is not appropriate and of a bad quality, the market

immediately recognizes that. From a long-run perspective, such transparency can lead to the filtering of the German consulting market.

To solve the problem with the division on clusters of the consulting industry in Germany, it is advised for middle-sized firms either to offer a broader range of services to the clients or to specialize in one specific area. Demand for specialized consultancies has been growing steadily, according to Lünendock research. Due to this fact, more specialized consultancies will be able to become increasingly competitive in the market. Being highly specialized and rarely offered can provide a sufficient volume of business. After those businesses can think about the expanding to German-speaking countries and then even globally. Hence, small consulting enterprises can increase their profits with the right business and marketing model.

To sum up, we can state that there are several recommendations that could help to improve the performance of German consulting market. The actions can be done on different levels, beginning from the corporate level ending with governmental level. But all that levels should pay a lot of attention on the implementation of technology as it one of the tools for growth.

## CONCLUSIONS

The goal of investigating main characteristics and prospects of development of German consulting market as well as to provide recommendations for improving its competitiveness has been achieved in this master's thesis.

The results obtained during the research make it possible to outline the following conclusions:

1. Having analyzed the global consulting market, it becomes easier to identify the market size and main tendencies, key producers of consulting services by share (the USA, Europe). It was also found out the structure of consulting industry, which consists of transnational firms, highly specialized firms, independent consultants and associations, and its six main segments by services provided (Strategy consulting, Operations consulting, Marketing consulting, IT-consulting, HR, Financial consulting)
2. There were also identified three main modern business models that are present in the European consulting market, which are collaborative consulting, instant consulting, and continuous consulting. The reasons of their emergence are the intentions to defend top positions, serve better to the clients and to stand out from the competition with the help of new innovative approaches.
3. Regulatory environment of the European consulting market was analyzed and three main levels, e.g. on the level of enterprise (codes of ethics), governmental (rules, norms and laws that regulate consulting market) and international (standards and certification of consultants) were detected.
4. An analysis of scales of German consulting market was conducted, on the basis of which the following conclusions could be made. German consulting market is a mature one and shows the prospects for future growth, despite a slow decrease in times of pandemic. The firms that manufacture consumer and individual products or serve financial services can be considered the main

spenders. Moreover, it was possible to identify the fastest growing segment in German consulting market, which is IT-consulting. This is due to the accelerating digitalization in times of pandemic. Whereas the lowest demand is seen for HR consulting.

5. Having analyzed the corporatization of consulting market of Germany, we can state that international companies dominate in the market, despite a substantial number of domestic firms. They compete mainly with non-price instruments such as strong brand positioning, loyalty programs and services diversification.
6. Among the main strength of German consulting market, there can be highlighted the next: unified standards and ethics codes; developed management consulting culture; innovation economy; high level of salary for consultants; high level of competition; availability of financial resources.
7. Despite the advantages of consulting industry in Germany, there are still some problems that should be addresses. During the research, it was outlined outdated business models, low levels of digitalization and virtualization, lack of highly qualified employees, regional asymmetry, untransparent consulting industry due to no entry requirements and lack of information available concerning the quality of services provided by different companies.

The study made it possible to identify a number of recommendations with different focus, including technological, economic, personnel and marketing. From the economic perspective, it is advised to German consultancies to thought over the business models, while the vast majority of them stick to traditional models that are no longer competitive in the market. Companies should also think about digitalization and virtualization of some business processes, implementing such tools as data mining, a virtual assistant, consulting platform for small businesses and individual consultants, etc. Moreover, it is recommended to cooperate with IT-companies, which will help to create those tools. To attract highly qualified

personnel, the marketing campaign could be improved that will spread the awareness of the companies.

The implementation of proposed recommendations is going to help German companies to gain brand awareness and to strengthen position not only on the German consulting market, but also abroad.

## Abstract

The economy is changing in an accelerated speed and new challenges arise: digitalization, regulation, scarcity of resources, etc. Thus, consulting service has become an integral part of every company's daily routine due to economic instability and unpredictability, especially in times of crisis. Companies attract external consultants because of they are unable to quickly react to the shifts in economy. This study aims to determine existing problems of German consulting market and find solutions how they could be solved in order to increase competitiveness not only in domestic market but also out of the borders.

Having analyzed consulting market with the help of statistics and reports, the main problems were identified. The results showed that German consulting industry faces lack of highly qualified employees, regional asymmetry, overlapping of different service categories, problems with market estimation due to no entry requirements.

These results help to identify key recommendations, which Germany can use to improve performance of domestic consulting firms and to help them gain better brand image.

**Keywords:** consulting market, consultancies, German consulting industry, consultancies, consulting firms, business model.

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## APPENDICES

## Appendix A

<i>Table 1.1.</i> <i>Characteristics of modern business models</i>	
<b>Business Model</b>	<b>Main features</b>
Collaborative consulting	<ul style="list-style-type: none"> <li>• collaboration among consultants within a network on a regular basis;</li> <li>• powerful means to identify the real causes on the client's problem;</li> <li>• high variable costs;</li> <li>• low fixed costs;</li> <li>• high level of involvement of consulting firms in a project;</li> <li>• transfer of knowledge between companies which ensures continuous learning and improvements in consulting project;</li> <li>• development of new market proposition.</li> </ul>
Instant consulting	<ul style="list-style-type: none"> <li>• little research about the company's position;</li> <li>• immediate reaction to the changes in the company;</li> <li>• quick advice on a problem;</li> <li>• greater value proposition for a client;</li> </ul>
Continuous consulting	<ul style="list-style-type: none"> <li>• creation of new tools and methods;</li> <li>• continuous income from a client;</li> <li>• high level of interaction between a client and a consultancy;</li> <li>• high recognition of a brand.</li> </ul>