

Is big better?



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Workshop 4

Presentation by

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Is big better?

Introduction



- **Is big better?** A question of intrigue complexity. What do we mean by big ? Is big a matter of turnover, number of employees, geographical markets or diversity of business areas ?
- **Is big necessary?** For big companies new market possibilities arises. Big complex projects requires big and robust consultancies.
- **Is big enough?** Investigations suggests that big is to no good unless growth is followed by synergy in the market and integration of business system between business units across borders. How important is this precondition?
- **What drives the growth?** Growth drivers are many and may often be correlated. What are the important drivers ?

Is big better ?

Agenda: Issues on size

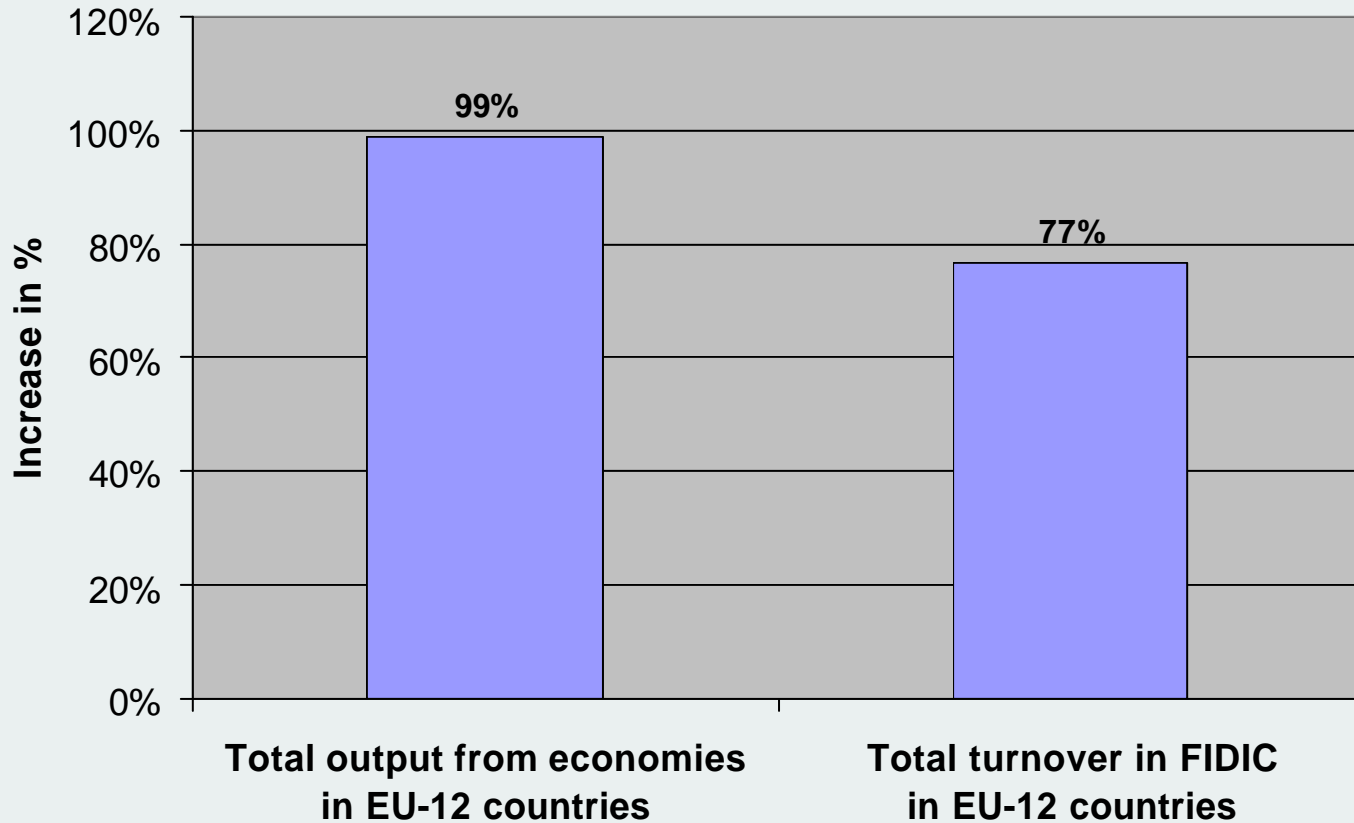


- History on size and profit
- What are the growth drivers?
- On profitability

History on size and profit: I: Consulting business vs. European economy

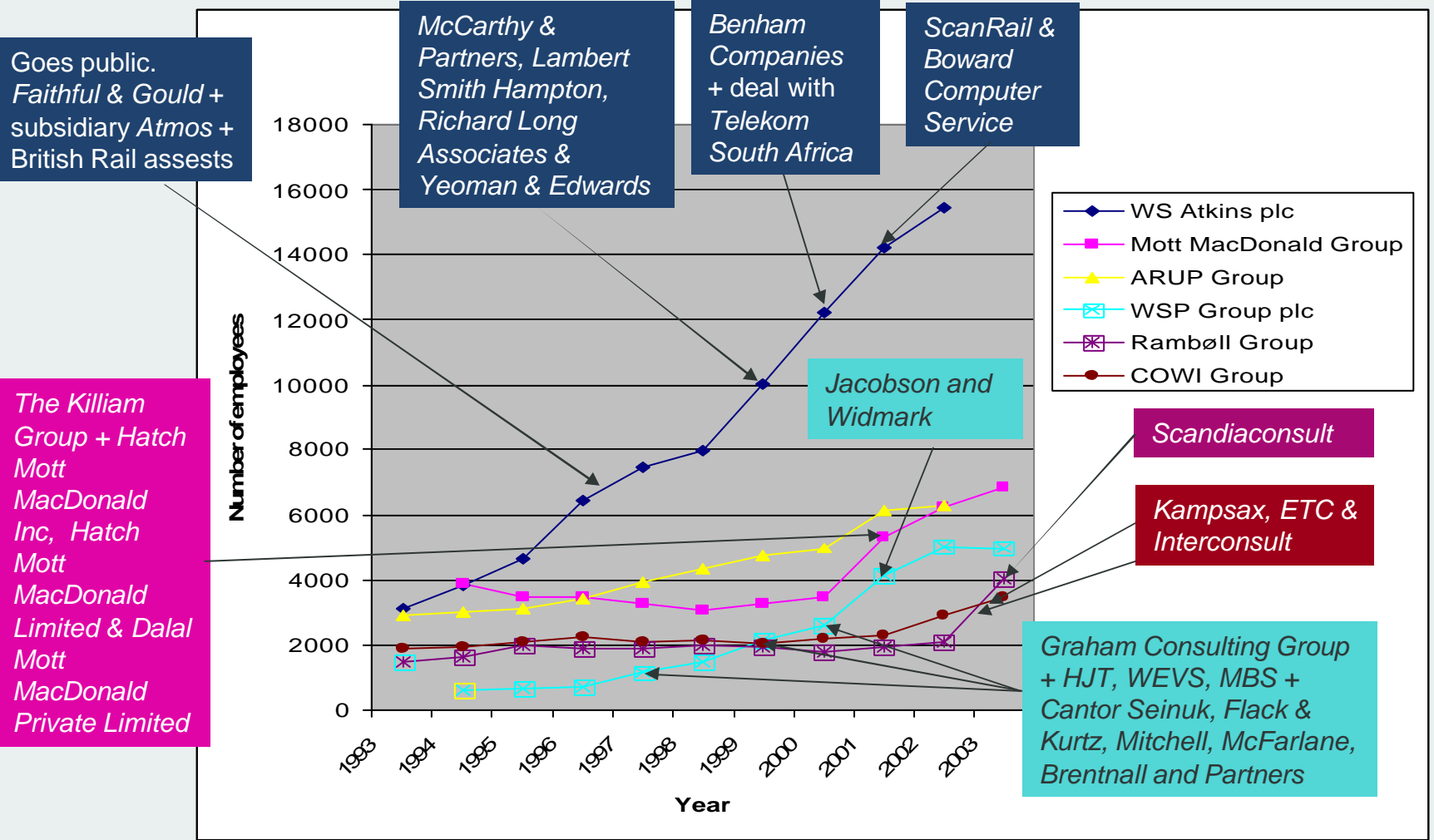


Increase in
total output of economy (EU-12) and FIDIC (EU-12) turnover
from 1991 to 2001



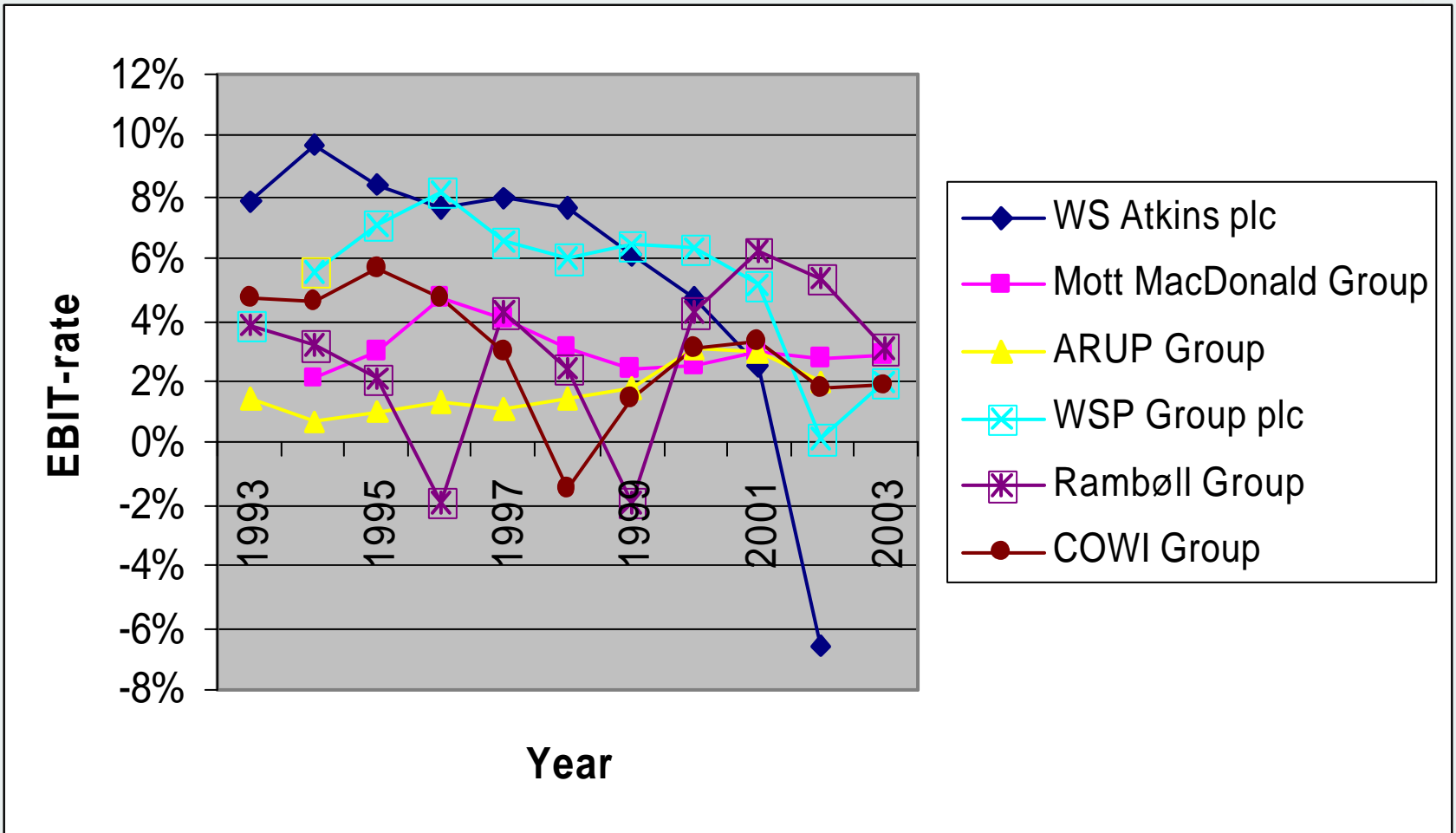
History on size and profit:

II: Company cases: Size

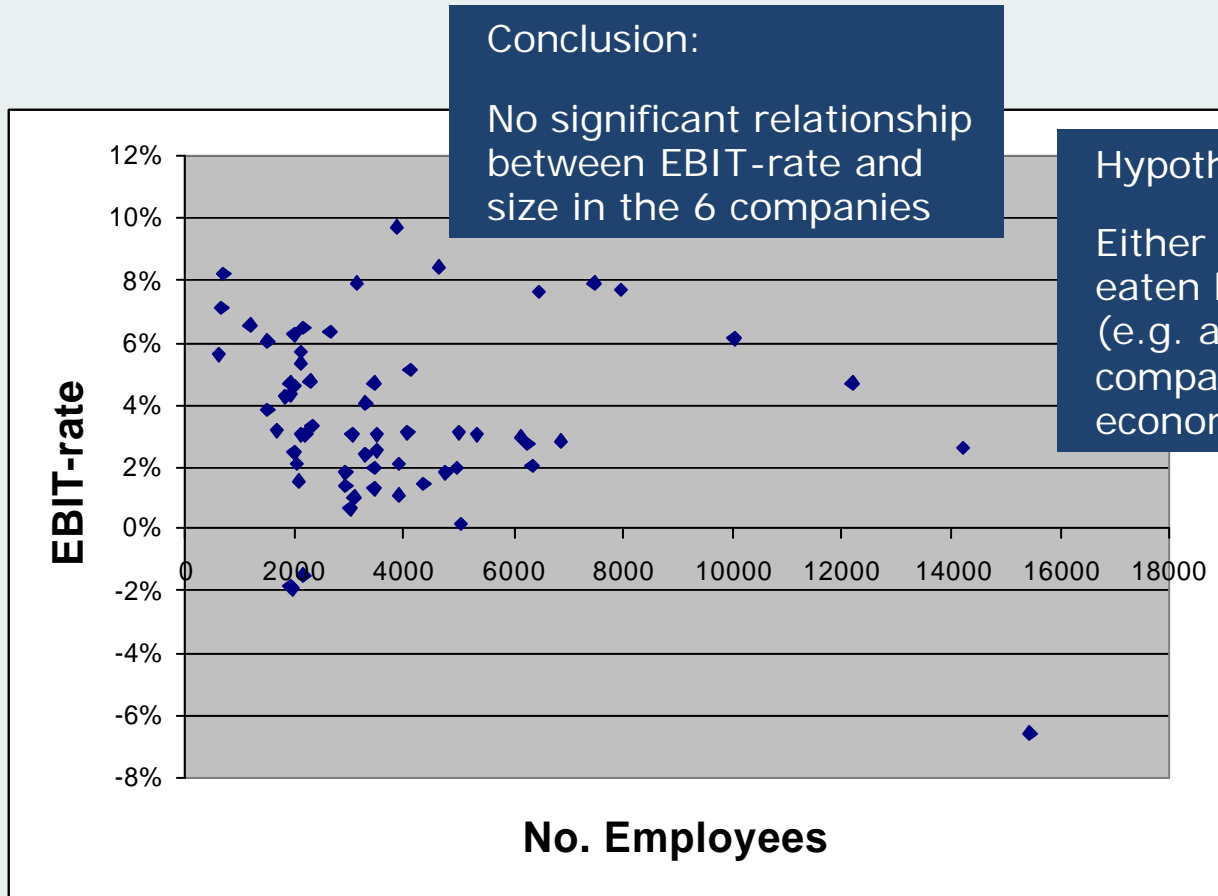


Sources: 6 companies, AMADEUS database (en) + Group (da) + annual reports 1992-2004

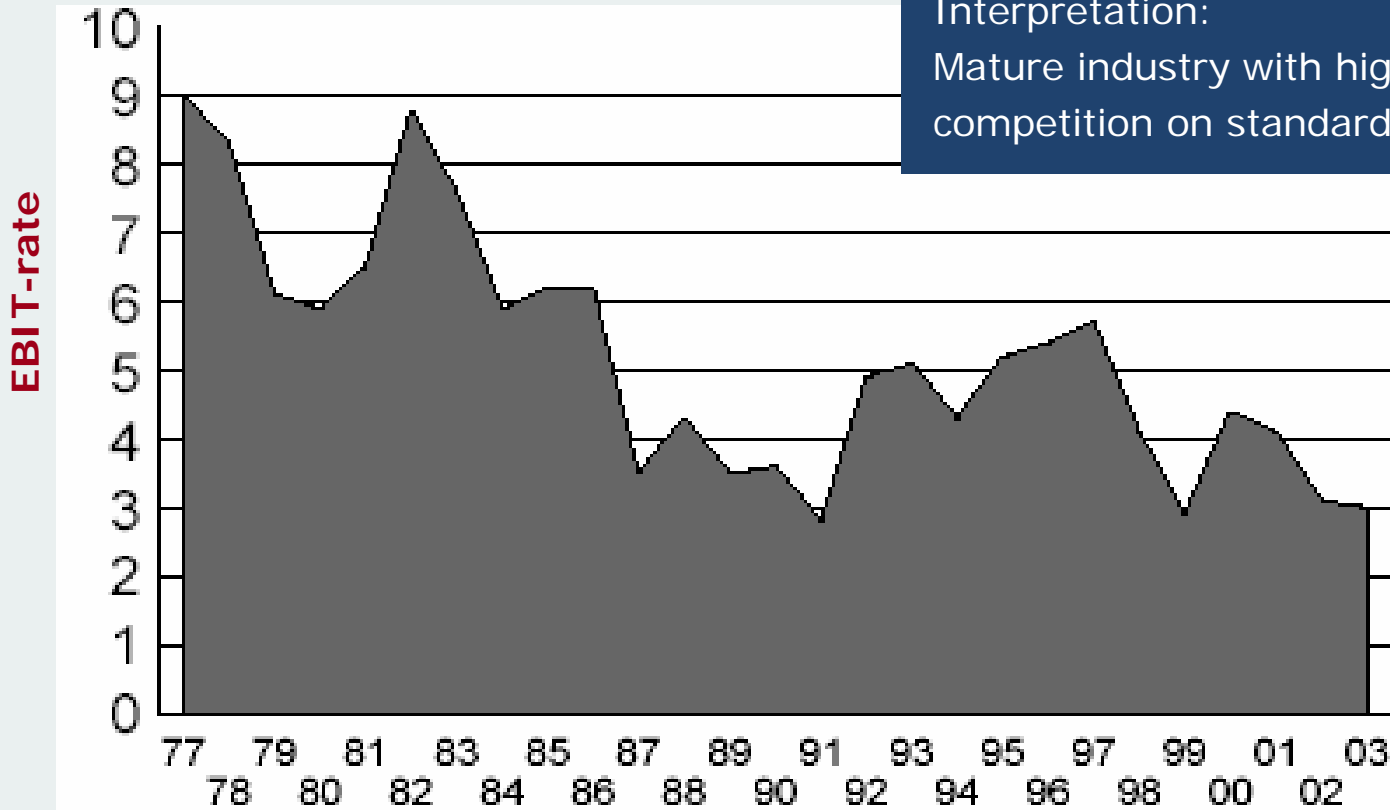
History on size and profit: II: Company cases: Profit



History on size and profit: III: EBIT-rate vs. size



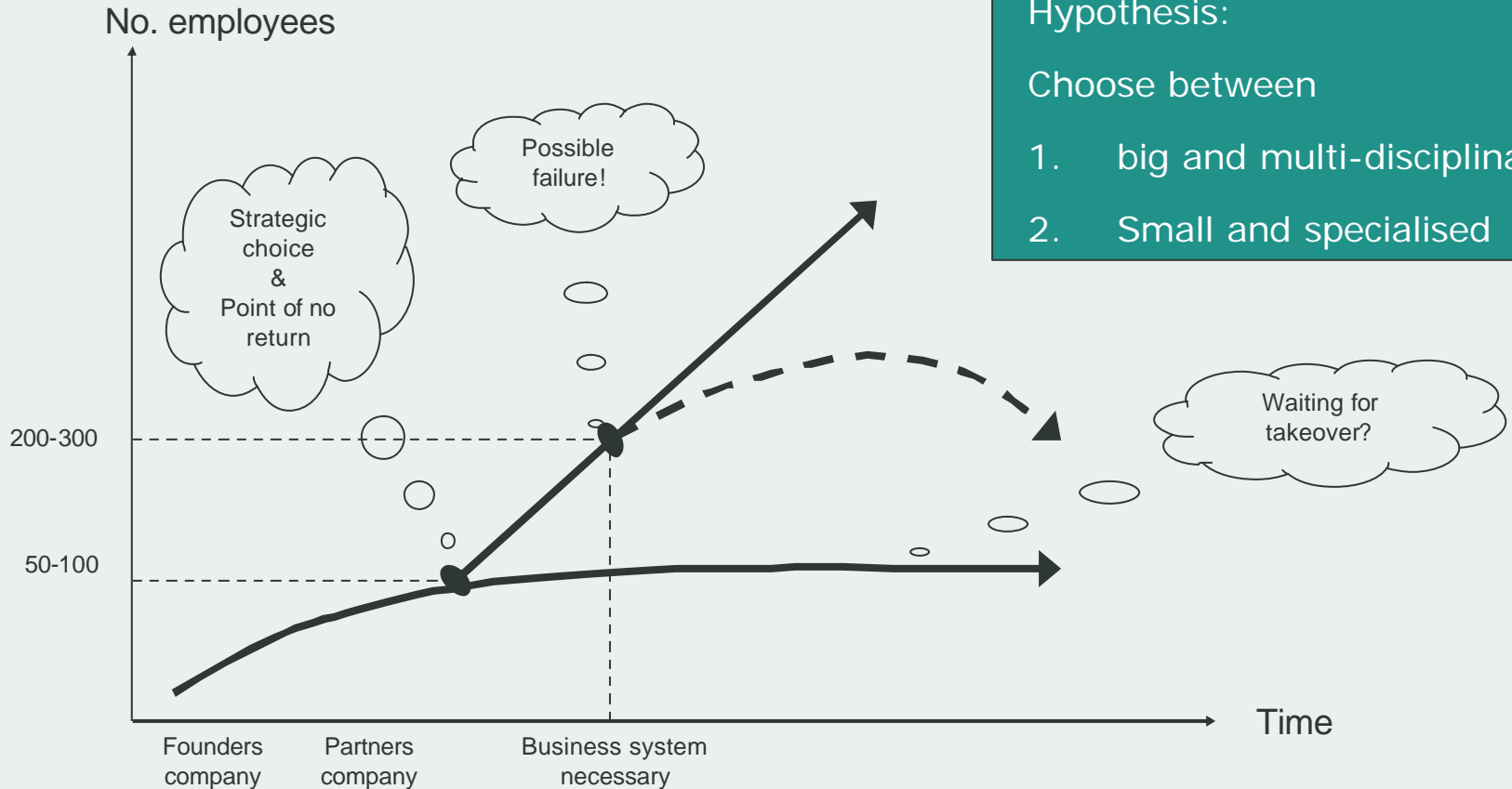
History on size and profit: IV: EBIT-rate for the consulting industry; example: Denmark



Interpretation:
Mature industry with high level of competition on standardised services.

Source: F.R.I., 2004

Growth drivers: I: Stages of evolution



Hypothesis:

Choose between

1. big and multi-disciplinary
2. Small and specialised

Growth drivers: II: Growth strategies



	Challenges	Opportunities
Mergers & acquisitions	<p>Heavy investments</p> <p>Integration difficult</p> <p>Variety of brands</p> <p>Still waiting for synergy?</p>	<p>Quick access to new markets & technologies</p> <p>'Cheap' takeover of strong brands</p>
Organic growth	<p>New markets difficult</p> <p>Expensive to build business systems from scratch</p>	<p>Controlled growth => min. risc</p> <p>Robust company culture</p>

Growth drivers:

III: It's all about knowledge



1. Desire to diversify
 - Total consultancy, ability to solve big multi-disciplinary projects, easier quality control & interface check, single point of responsibilities, differentiation against competitors, sharing of brand etc
2. Critical mass in professional disciplines
 - Ensure professional development, attractive workplaces, ability to acquire professional cutting edge tools
3. New geographical markets
 - Access to new markets, robustness
4. Reduce competition through dominance
 - Minimizing price competition, easier sale of related/additional services, volume as dominator, snowball effect
5. Cost cutting through economies of scale
 - Sharing business system, sharing expensive technology, professional management, use of technological development in society

Growth drivers:

IV: Big/global vs. small/local



- Advantages for different company sizes
 - Small companies: Often have local advantages
 - Big companies: In position to have global activities and manage big projects
- Big vs. Small externally, e.g. COWI strategy:
 - RML services: Multi disciplinary, close to market
 - ISL services: Top specialities, global
- Big vs. Small internally, e.g. COWI organisation
 - Decentralized autonomy through shared values
 - Centralized management on key issues, e.g. strategy, business system, brand etc
- Think global, act local: all projects are local by nature

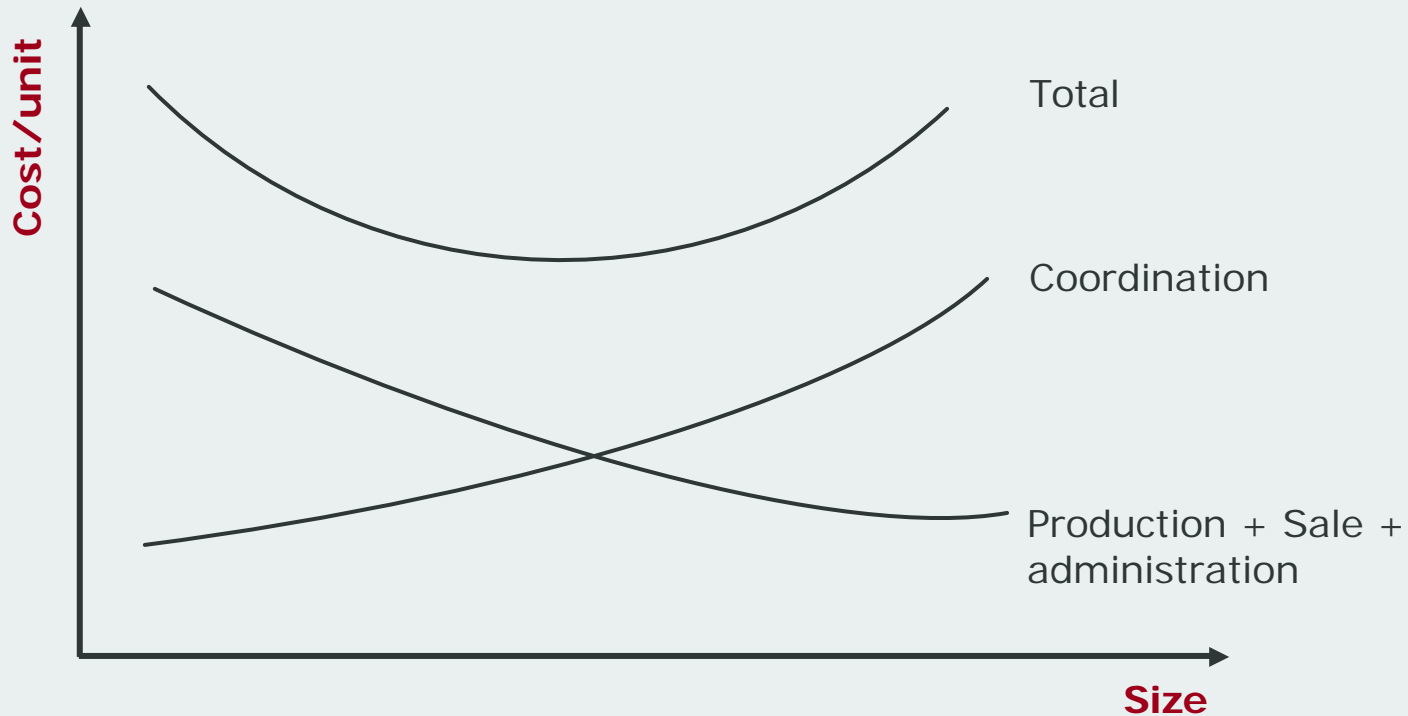
Growth drivers:

V: Economies of scale – A management challenge



"There appears to be no clear evidence that traditional economies of scale exist in professional service firms where the primary strategic resource is the competence of the individual professionals."

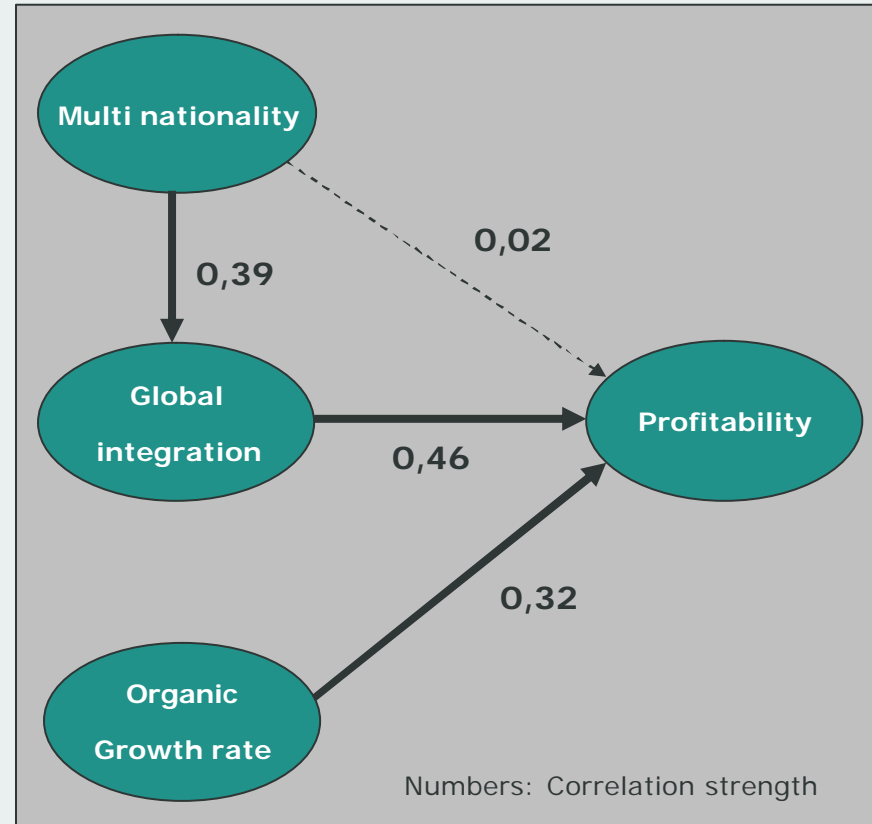
"Strategic management of professional service firms", Bente Løwendahl, 1997



On profitability::

I: Profit through global integration

1. **Global integration** necessary for profitability; meaning cross border transfer of operational resources within the company; e.g. staff, project components or project solutions
2. Multinational expansion as basis for global integration should *primarily* occur through **organic growth** rather than acquisitions.
3. Global integration is particularly beneficial when it is driven by the desire to leverage **specialised skills**.
4. Usually better **profit** on home market projects than projects abroad
5. 1 + 4 => Globally integrated business with local roots are optimal



Source for bullet 1-3 and figure: *Study of the relationship between global integration and performance in multinational professional engineering companies*, Research report, University of Western Australia, 2003.
Source for bullet 4: *Effektiv planlægning og projektering*, Internal analysis, COWI, 1998

On profitability: II: The knowledge proposition

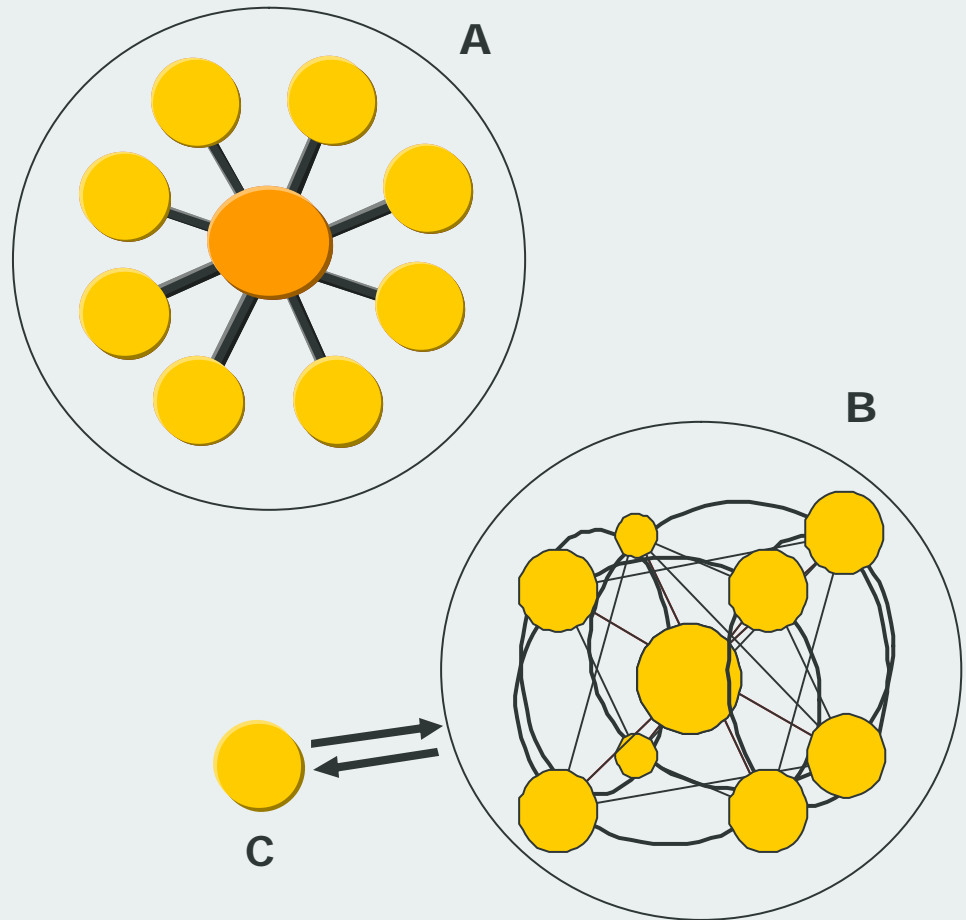


- Consultancy is about putting knowledge into action
- Present challenges
 - Strategy integrating knowledge management into business
 - Innovation and knowledge creation
 - Sharing knowledge: best practices, who's who and who knows what
 - Interaction between people and business system

On profitability: III: The organisational challenge



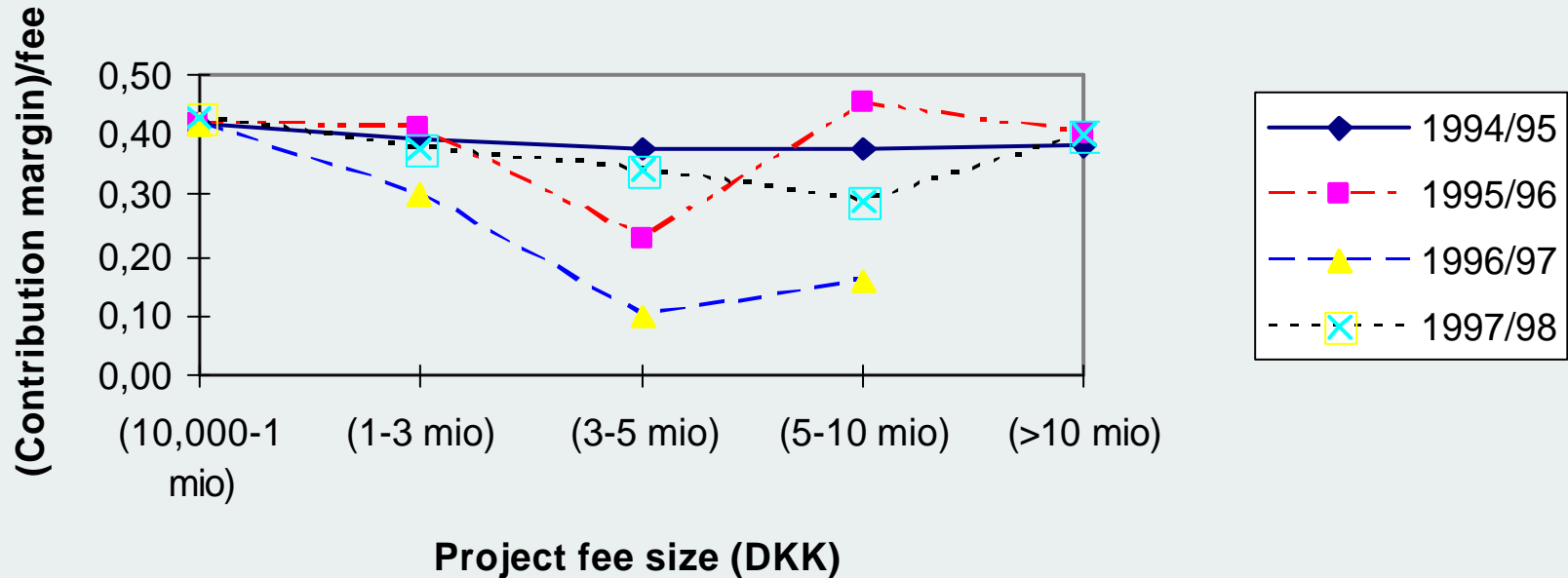
- Transition from (A) mother + daughters to (B) corporate network
- Both way benefits when integrating new companies (C)
- Keeping the organisation coordinated at reasonable cost
- Focus while still diversified
- Geographical and cultural differences; e.g. language
- Economy of scales require investments



On profitability: IV: Profits vs. size, COWI projects

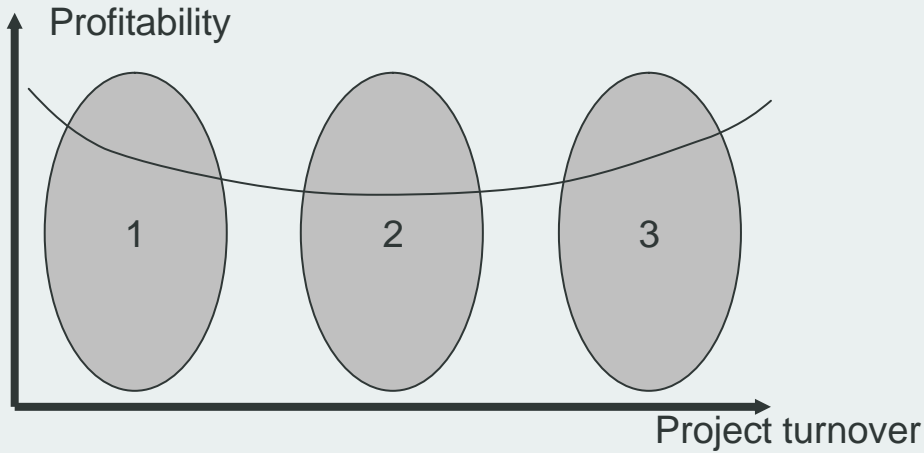


The project: A business in the business:



Source: *Effektiv planlægning og projektering*, Internal analysis, COWI, 1998

On profitability: V: Some remarks on profit from projects



Project size	No. people	Complexity	Tools/planning	Profit
1	1-5	Low	Simple/no	OK
2	5-25	High	Critical	Difficult/Risky
3	> 25	Very high	Advanced	OK

On profitability:

IV: Economies of scale – only if you..



- Develop unique tools or products: methods, software, databases models ...
- Share investments in
 - Business system
 - Technology
 - Brand and marketing
- Ease networking and informal team building
- Fine tune the sales process and business intelligence
- Share management resources and ensure quick decision making

Is big better?

Key question: Will the growth continue?



1. Why is it attractive to be a big consulting company? Please set priorities for
 - prestige,
 - profitability,
 - professional quality,
 - attractiveness for new employees,
 - capabilities,
 - customer relations
2. Investigations suggests that it is expensive to run a diversified big company. How do we maintain profitability when expanding?
3. Will the competition encourage outsourcing of services to low cost countries? If so, how will the company be influenced in terms of
 - quality,
 - company culture
 - customer relations?
4. Will integrated company structures prevail, or will the big firms be subdivided into independent, even sometimes competing, profit centres? What are the critical indicators for subdividing the big firm?

Is big better?

Workshop discussion



- 25 min. Is big better? / Presentation by Klaus H. Ostenfeld
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- 10 min. Recap on questions.
 - 15 min. Discussions in trios - each concentrating on one question.
 - 40 min. Plenary discussion of each question.