Estonian Consultancy Market Study for EBRD

Civitta / 13.03.2015

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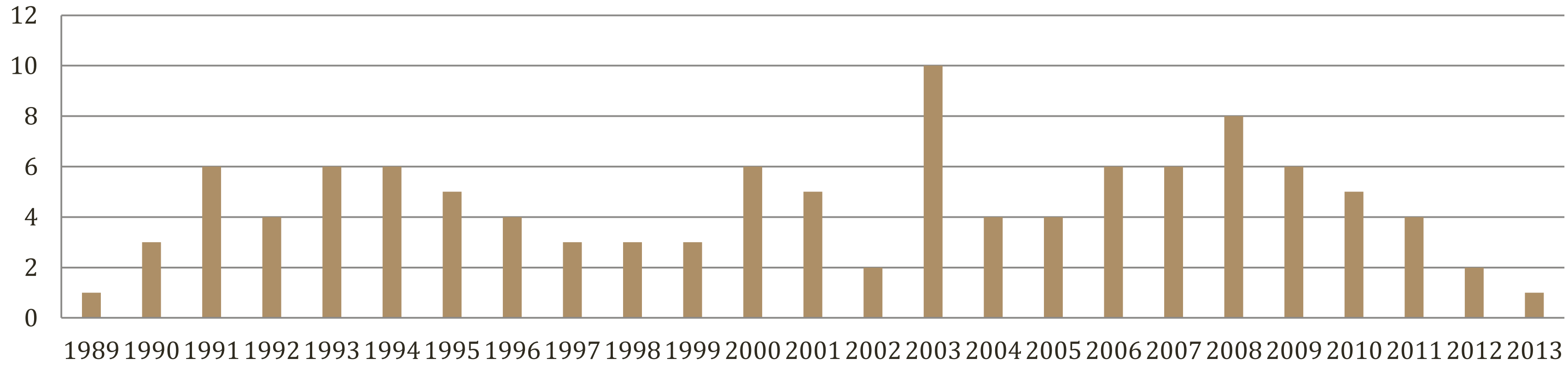
Data collection for the study

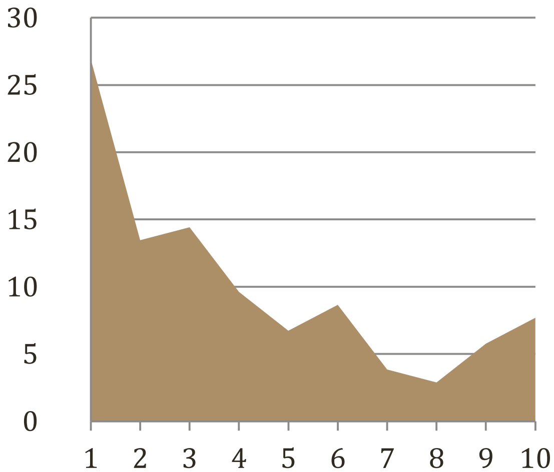
- **Quantitative research:**
  - Survey of n=104 (114) respondents, included the PSFs in the following sectors (sent to 524 firms):
    - Accounting, advertising, architecture, auditing, construction service, engineering, export and import consulting, finance advisory, IT consulting, management and HR management consulting, marketing, patent consulting, productivity and quality consulting.
  - Desk research of annual reports of consulting firms and Estonian Statistical databases.
- **Qualitative research:**
  - Focus group discussions and a number of face-to-face and phone interviews with larger public sector buyers and consulting & training service providers.

Respondents overview (n=104)

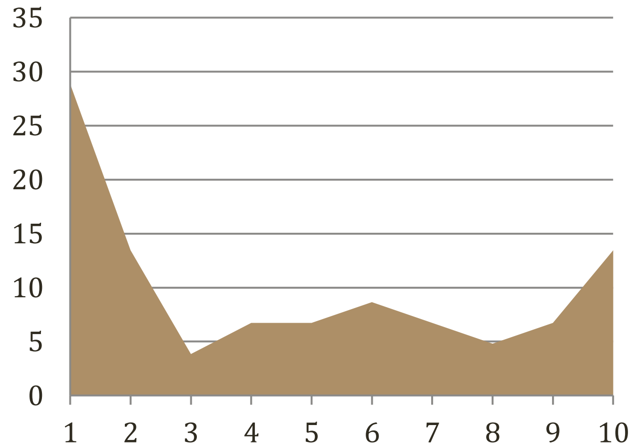
Year of Establishment of the Firm



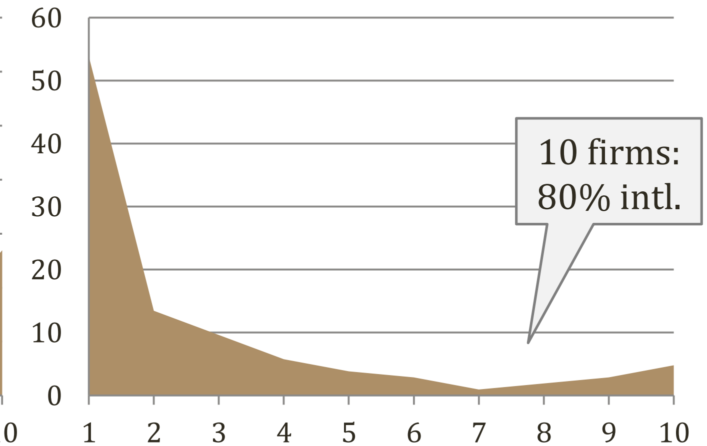
Client Base



Income Base

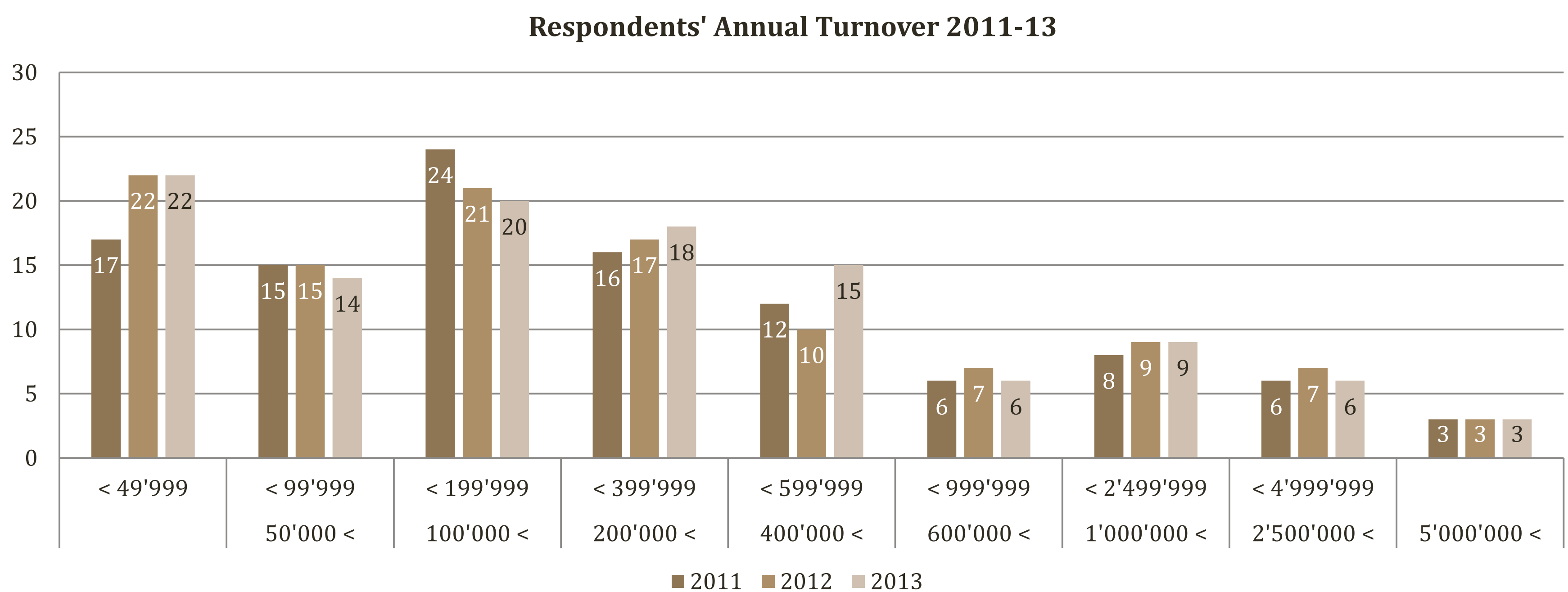


International Revenues

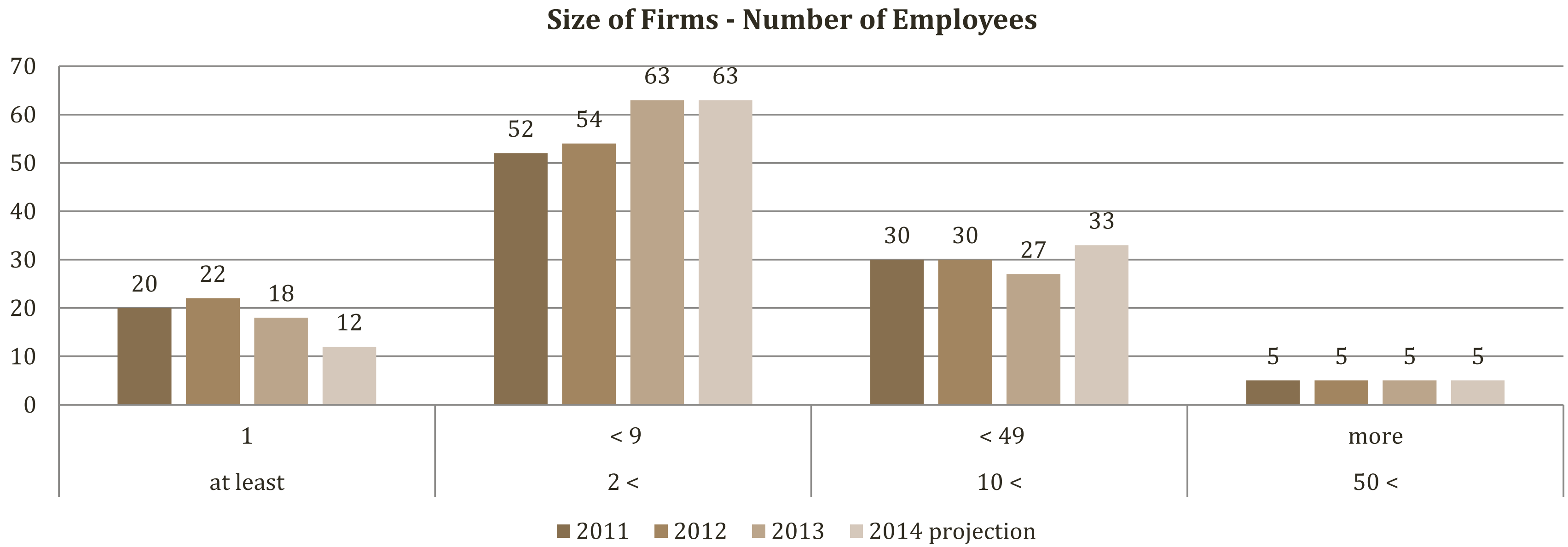


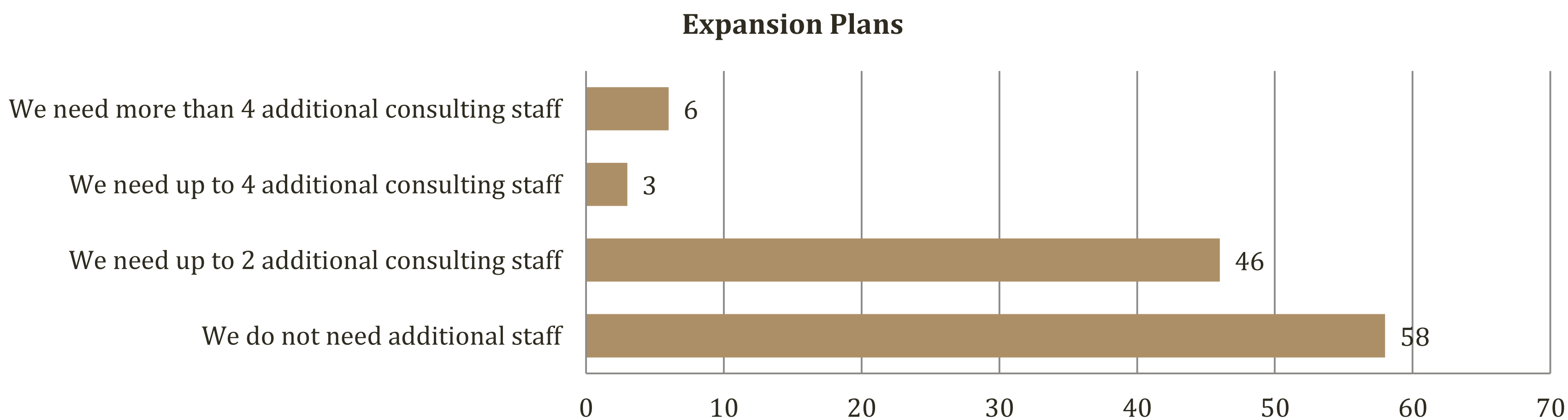
Consultancy firms – key ratios and turnover

	2011	2012	2013
Number of firms in operation among respondents	107	110	112
Total turnover of the firms (EUR)	72,096,824	69,736,318	69,565,389
Total number of employees employed by respondents	1,193	1,162	1,169
Averge turnover of firm	673,802	633,967	621,120
Median turnover of firm	148,000	153,814	200,000
Average turnover per employee	60,433	60,040	59,508
Estonian GDP Per capita (ppp)	9100	9500	9800



Size of firms and expansion plans



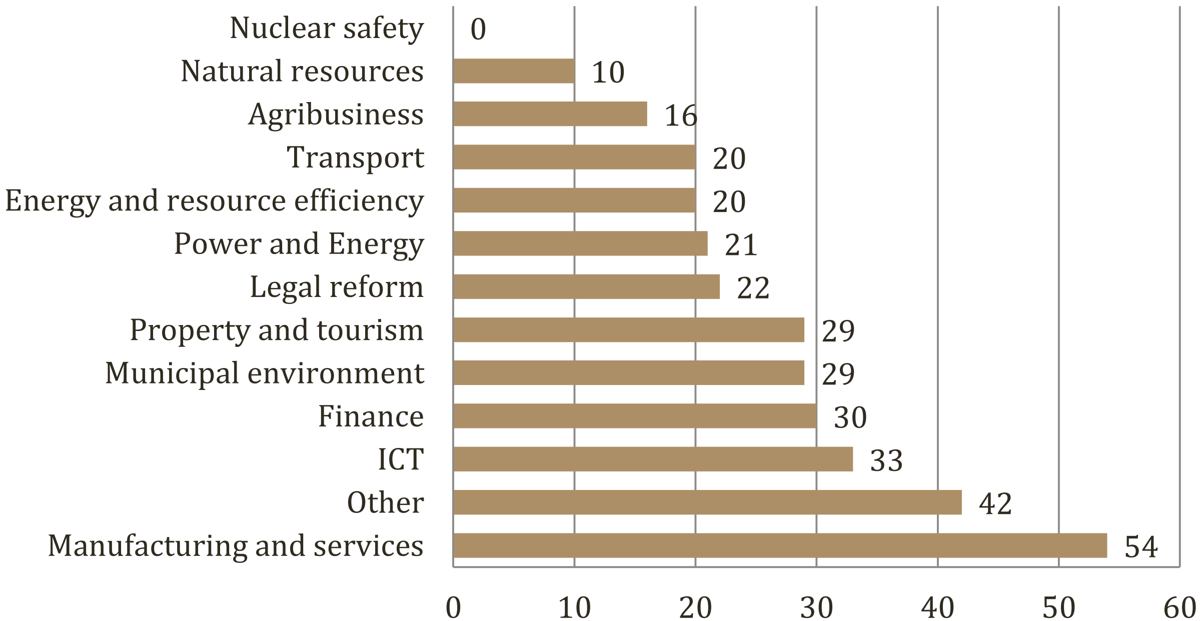


Estonian consulting sector is cosy and stable

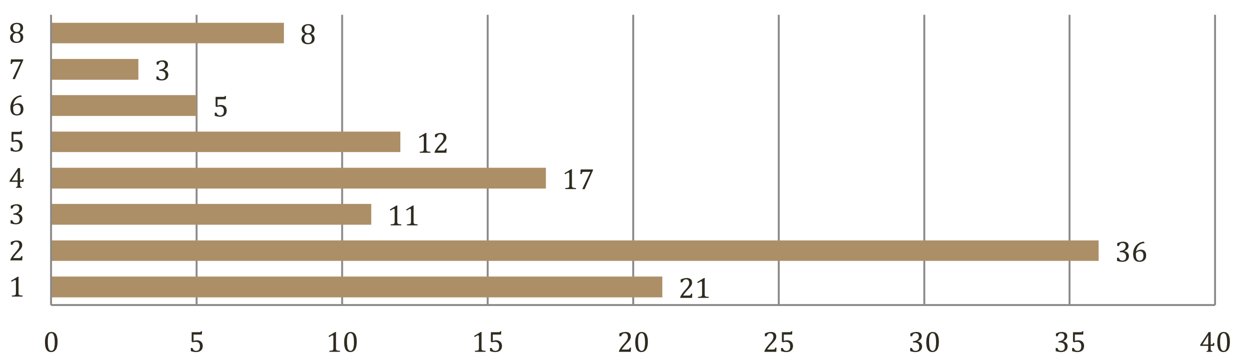
Lifestyle consulting, many service a few clients / year

- Majority (81/104) are **micro firms - less than 9 employees.**
- More than half (58) **do not plan to recruit!** Only 9 firms plan employing 4 or more staff. Two of them already employ more than 50 consultants.
- **A fragmented history of M&A**, some divestments:
  - 1999: Acquisition of EM International with EBS Group into EBS Juhtimiskoolitus;
  - 2008: Acquisition of Noman by BDA Consulting, partial divestment in 2012;
  - 2005: Acquisition of Businessgrain by Deloitte, full divestment in 2009;
  - 2014: Merger of Innopolis and Advisio into Civitta Eesti.

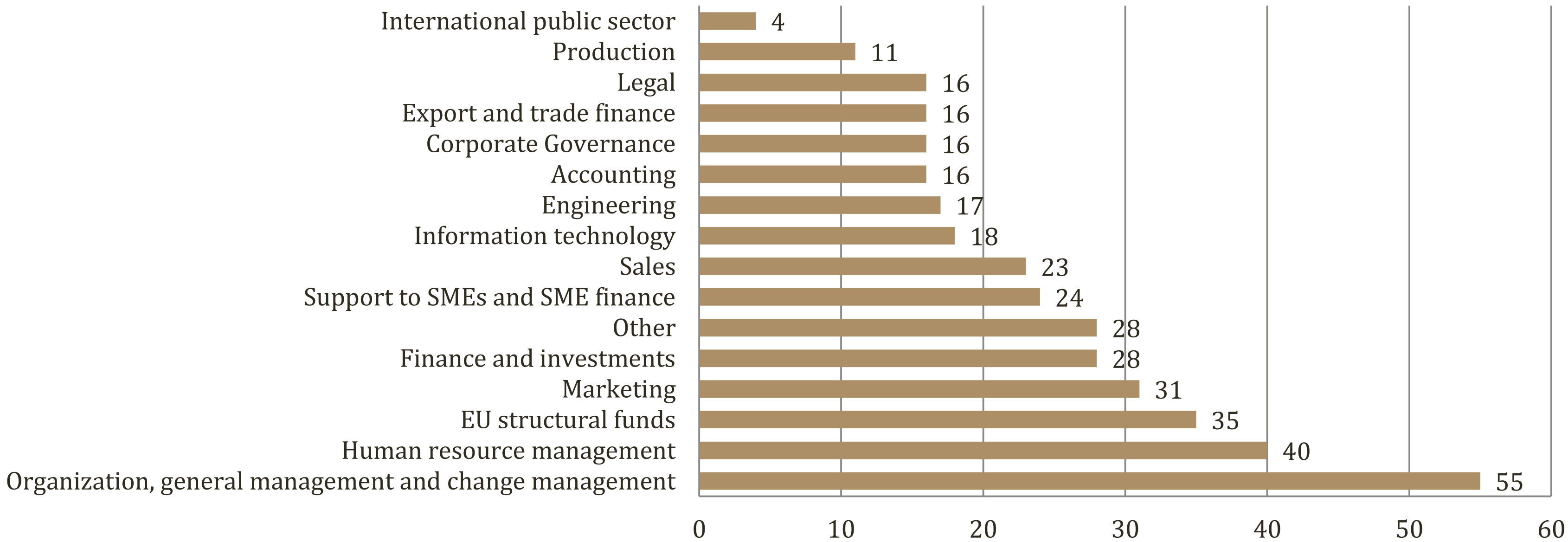
Sectors –Estonian firms employ generalists



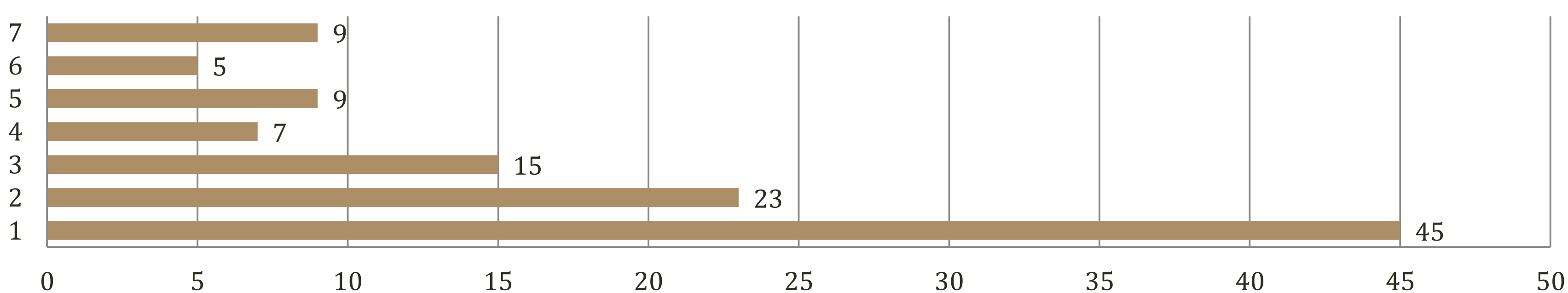
Number of Sectors per Firm



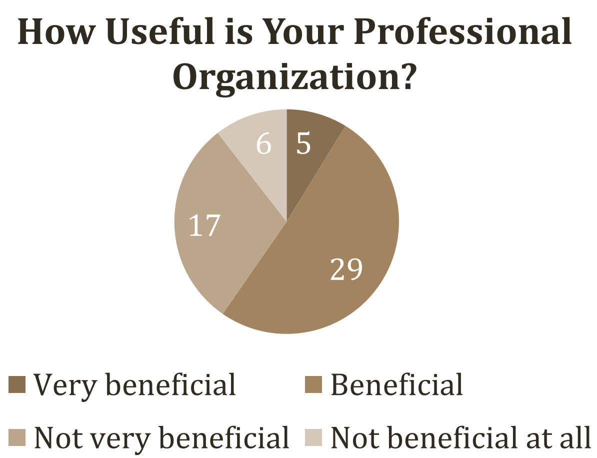
Functional specialization



Number of Specializations per Firm

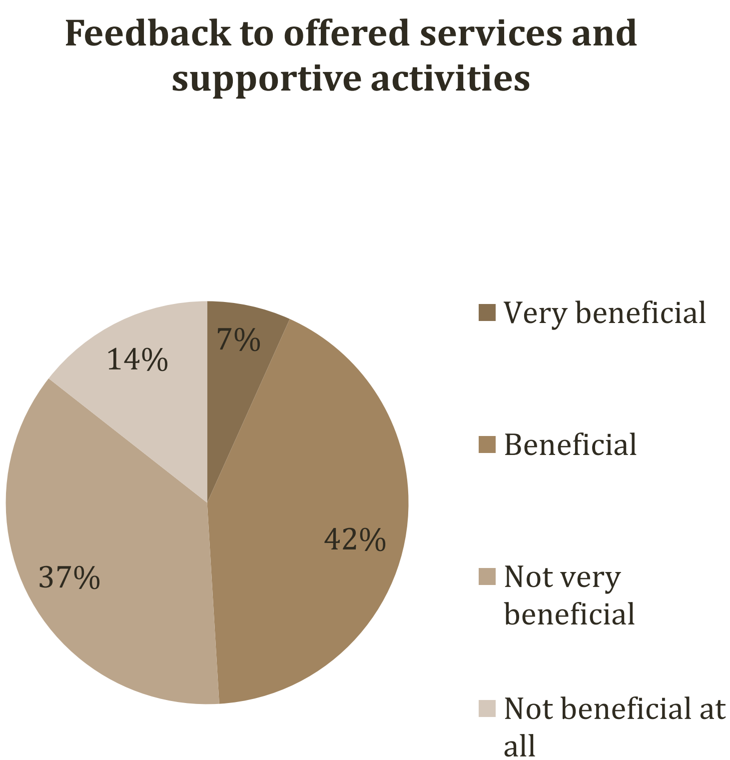


Membership in professional organizations



- Most are **critical** about professional organizations.
- **Positive notes about training and collaboration opportunities.**
- Seen as a **potential vehicle for internationalization**.
- Most **organizations do not fulfil this role up** to their expectations.

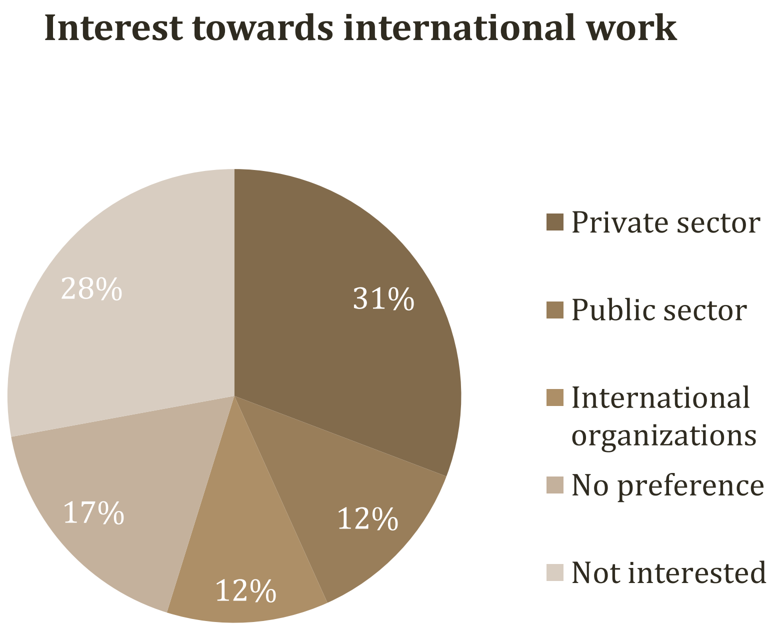
Support of Enterprise Estonia and Chamber for Commerce and Industry

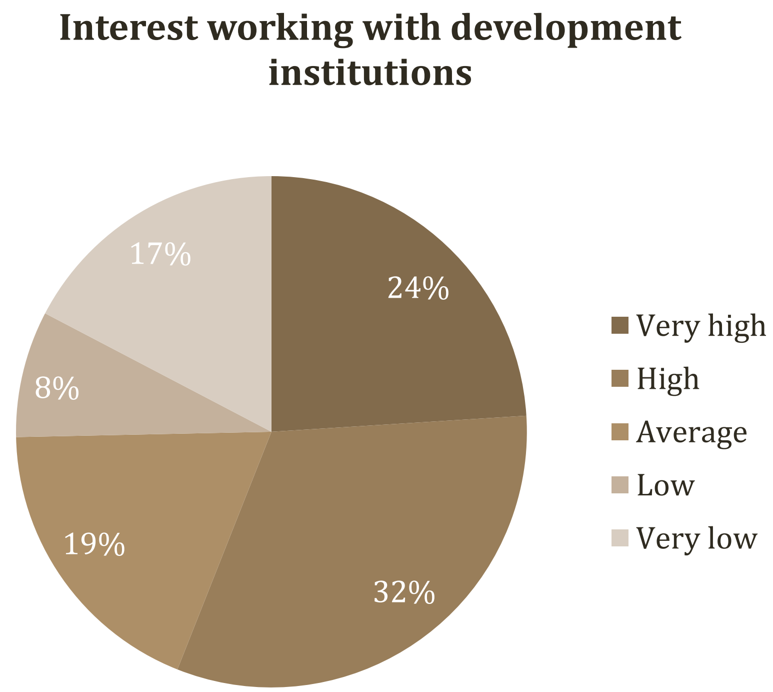


Expectations:

- More **training programmes**, and more appropriate service delivery
- **Networking activities**, but not the old style "coffee and snacks", but more involved – e.g. facilitated discussions, workshops
- Proactive role towards building the capacity of consulting firms and support to **create consulting cluster**
- Careful about them trying to do the work of consultants

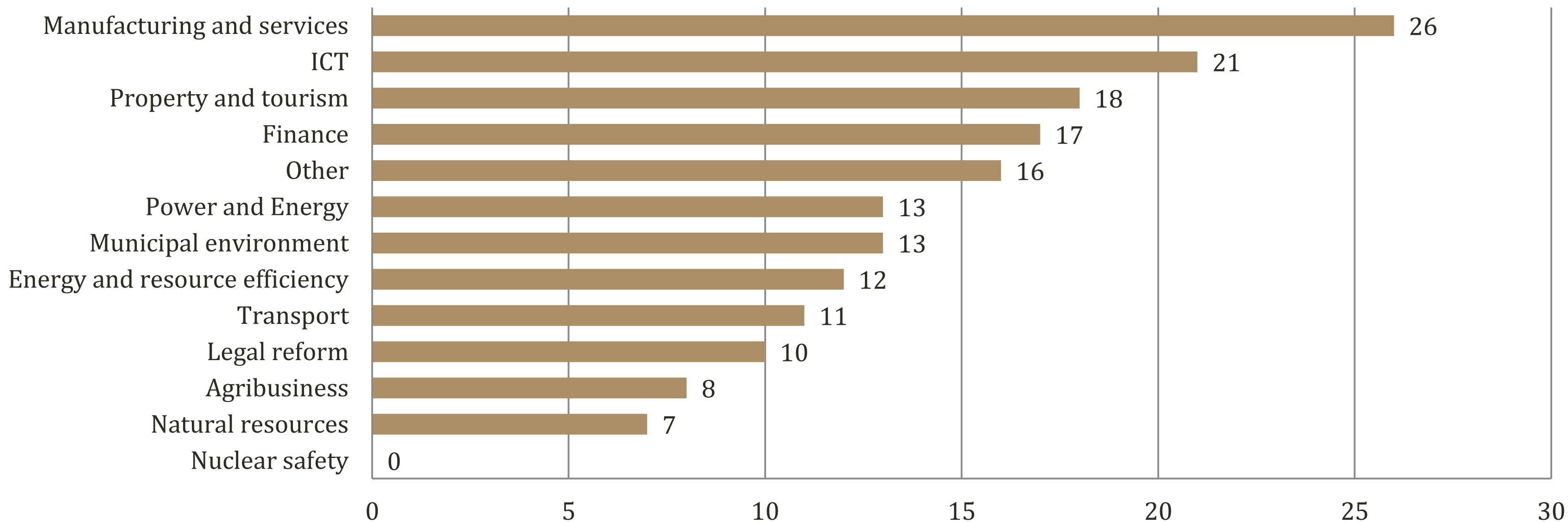
Interest towards international work and countries



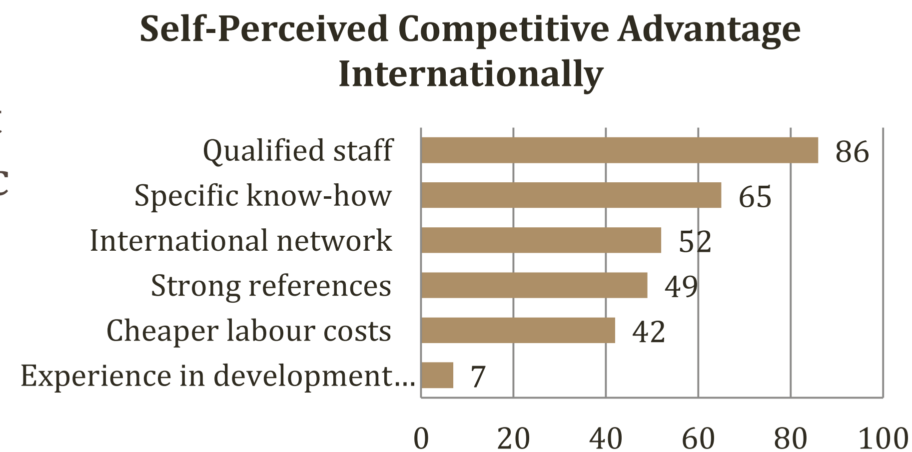


- **Top countries of interest:** Finland (21), Sweden (12), Ukraine (12), Latvia (11), Germany (8), Lithuania (7), UK/England/GB, Norway, Byelorussia (6), Russia, Moldova, Georgia (5), Armenia, USA, Denmark (4).
- **Also:** Belgium, Croatia, Serbia, Switzerland, Vietnam, India, Kazakhstan, Romania, Oman, Uganda, Hong Kong, Turkey, Italy, Poland, Bhutan, Indonesia, Dubai, Afghanistan.

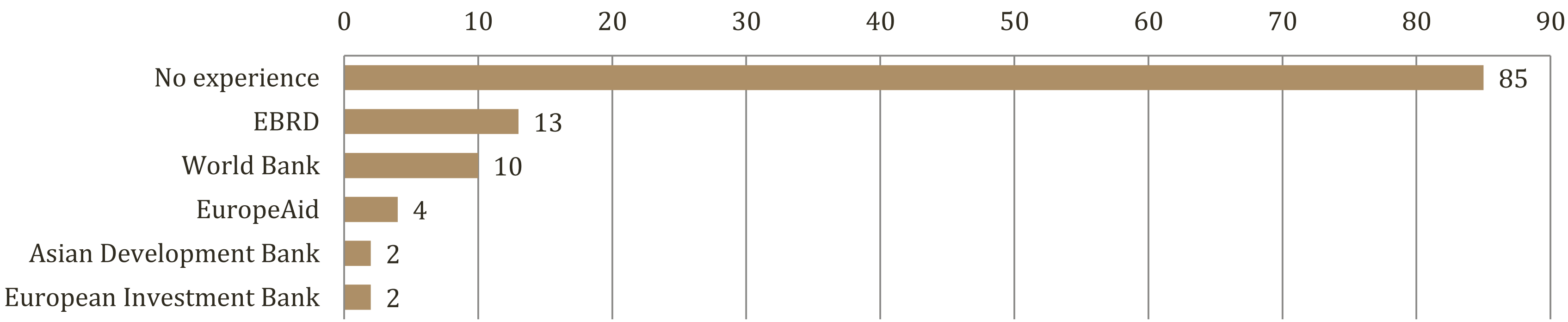
Interest towards international sectors



Other: public sector reform, studies & analyses in social sciences, project management, biotechnology, graphic design, software design, communications, tourism, construction, services for start-ups

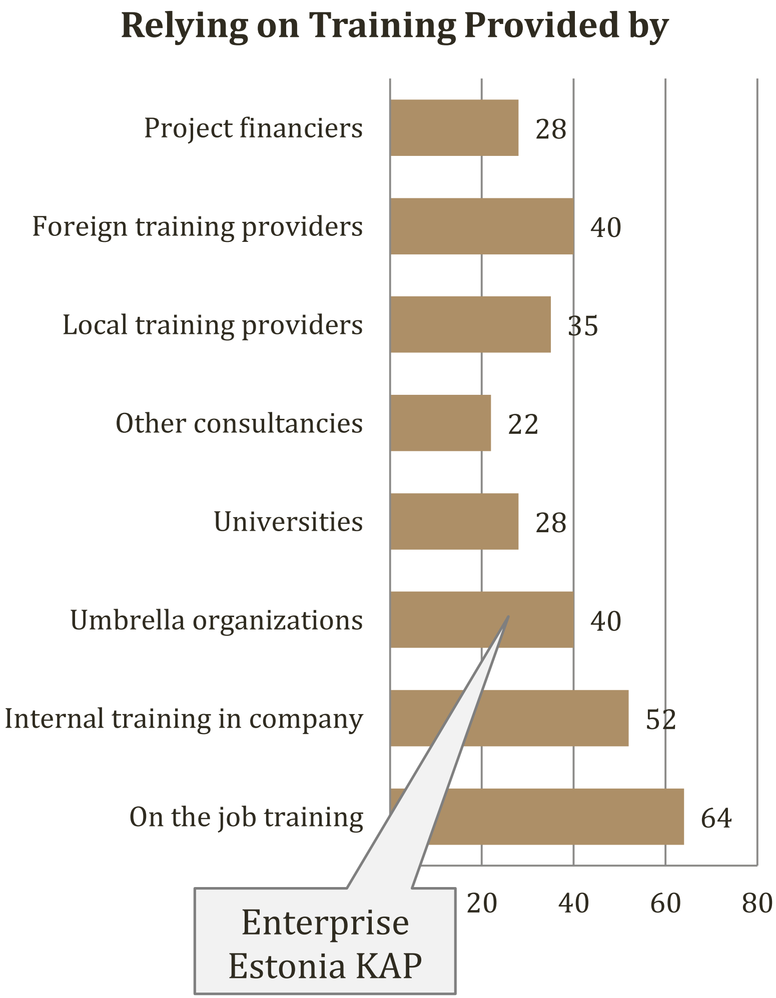


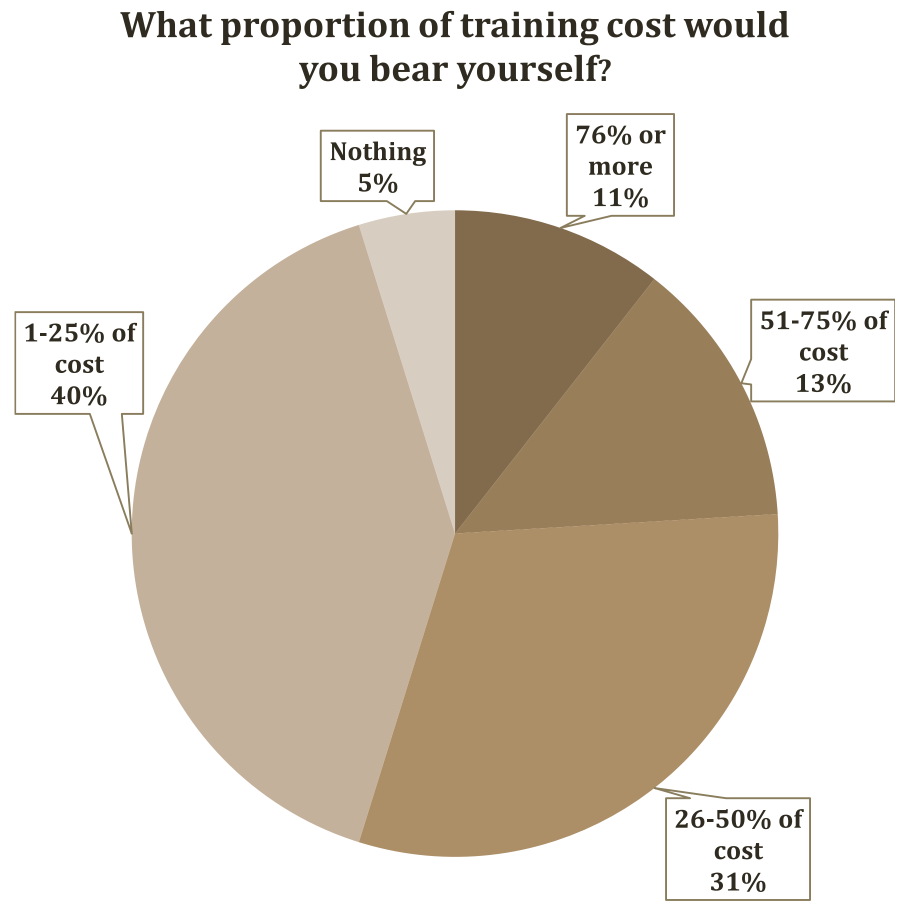
16 respondents confirmed that they have previous experience of working with development institutions:



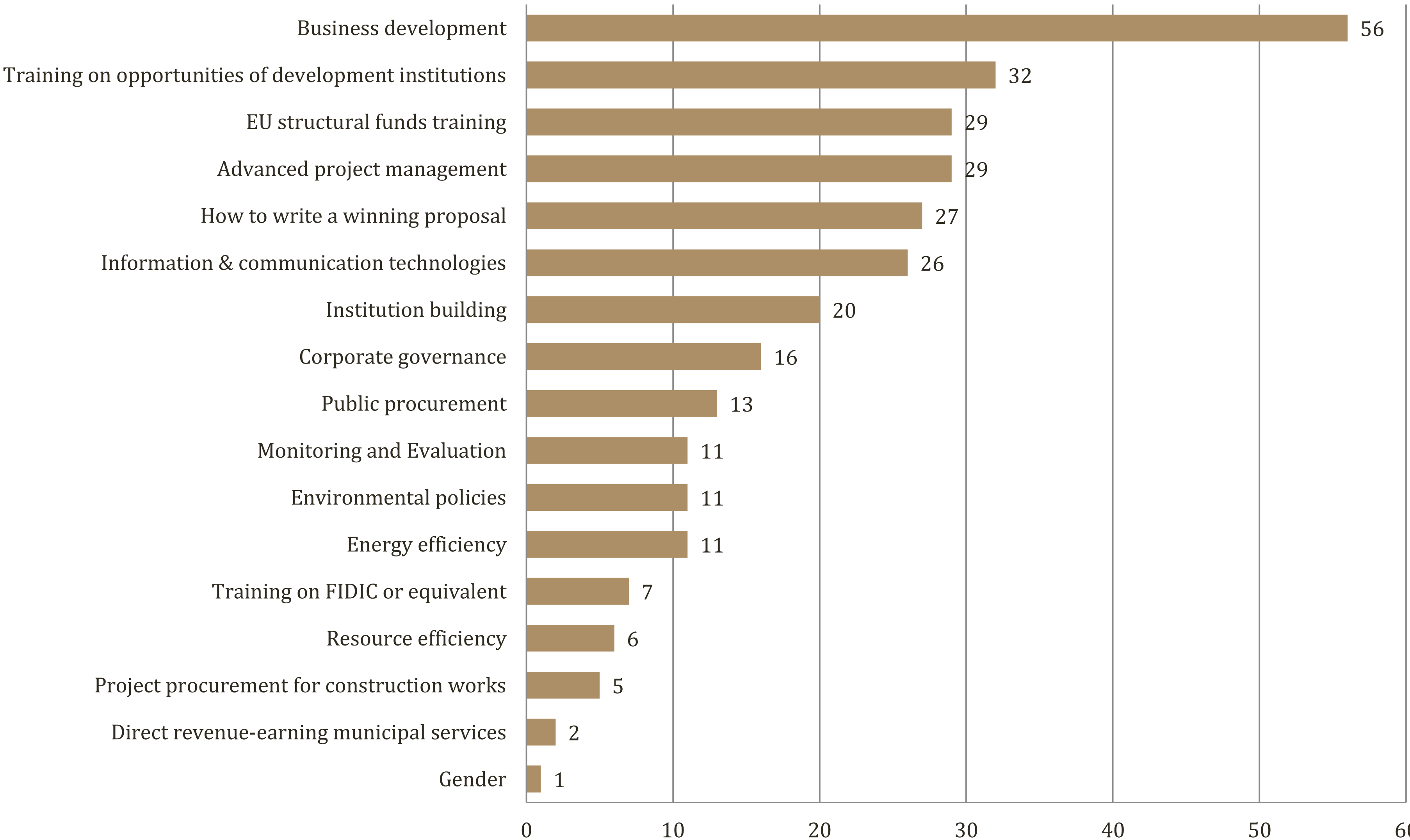
- 6 firms with active experience and 5, with first steps to start international development work.
- There have been 3 companies, who have **been very active (dozens of times in shortlists, winning bids)** and 3 reasonably active

Development of consulting skills, training approach and self-financing





Training topic interest



Final conclusions and recommendations

Estonian consulting market in general

- Estonian organisations are slow to engage consultants
  - Esp. companies of local owner-managers have do-it-yourself culture – consultants come after first trying and failing.
  - Larger organizations, public sector, companies with international management, new start-ups and younger generation have a more proactive track record of relying on consulting.
- Comparatively – Latvia, Lithuania, Finland and Sweden use much more consulting service
- **Vicious circle** – leads to lack of competition between consultants and no push to innovate and focus. Hence, prominent firms bring "real specialists" of "proper consultancies" from abroad

Conclusions - Macro level in Estonia

Estonia – **findings**	• Estonian legal and procedural framework for doing business locally received high assessment. • Most tenders do not have minimum turnover requirements. Therefore, given previous experience, the entry barriers are virtually non-existent. • Estonian state eProcurement integrates the whole public sector into electronic bidding system providing one-stop full overview of all bids - procurement and appeals process work in a transparent and effective manner.
Estonia – **conclusions**	• One issue pointed out by some as a strength, by others as a weakness is lack of consultant certification mechanism, which makes it difficult to differentiate between poor and good consultants.

Conclusions - Macro Level Internationally

Development work - **findings**	• Estonian firms have not shown interest in projects of a size above 200 000 EUR. • Regulatory or procedural constraints • Minimum turnover and headcount requirement. E.g. 50 employees and annual turnover beyond 5 MEUR. • Only 3 Estonian consulting firms meet 5MEUR 50 employee criteria alone.
Development work – **conclusions**	• The main solution for working internationally is to join the consortia and to combine the references either alone or preferably through an umbrella organization (such as Estonian Consultants Organization or alternative).

Conclusions – Meso Level

Estonian consultancy associations - **findings**	• The consultants are expecting a number of services, e.g. for:
	  • Professional development and training;
	  • Networking and communication for peer interactions;
	  • Creation of consortia for international bidding.
	• Consulting service clients are looking for a database of consultants or a first-stop shop to search for expertise.
	• Current organizations are considered inadequate for both.

Estonian consultancy associations - **conclusions**	• Professional organization's role to join the forces of individual Estonian consulting firms to bid together. • A central database of consulting providers and consulting marketplace might be useful. • If any one of the associations would be chosen as a counterpart for development work, they need capacity building support.

Micro Level – International Work
"International work? Yes, absolutely! But not me!"

- Primary limitation for international work at individual level is the **requirement for long-term full-time on-location service provision** for experts in most international projects.
- The most successful consultants in Estonia are **family people in the age bracket of 35-45 years of age**, **who are not willing to take up long-term assignments** in target country.
- Therefore – **if the international institutions are willing to relax their requirements for long-term in-country work**, a number of highly qualified experts would be very interested in international tasks would increase substantially.

Questioning: "(Stereo)typical Estonian Consulting Firm"

- "My farm, my family, my tools, my way!"
  - 90% are careful and happy - do not want to grow nor expand
  - Learning by doing
  - The smaller the firm, the more specializations and sectors
- Turnover per employee 60'000 EUR
- Two clusters of firms:

  A) Projects of 500 – 3'000 EUR

  B) Projects of 2'500 – 20'000 EUR

  The max project size: 200'000 EUR

Conclusions – Micro Level

- A precursor – a specialized training programme for consultants, specifically targeting the topics of 1) **development institutions**, on 2) **advanced project management** and 3) on **how to write winning proposals** would increase the skills of consultants to work in international context.
- International work requires **complete rethinking of consulting business models**. From lifestyle generalists to efficiently operating specialists!

Report Commissioned by the EBRD and lead by Civitta Eesti AS team

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