



CEO-level Concerns

An Interview with Dietmar Ostermann, Chief Executive Officer,
A.T. Kearney, management consulting subsidiary of EDS, Plano, Texas



Dietmar Ostermann

EDITORS' NOTE Although recent "difficulties in the global economy have left their mark on the management-consulting industry," A.T. Kearney has "been more proactive than many of our competitors," contends its CEO, Dietmar Ostermann. "Because we acted decisively early on," he adds, the firm continued to improve profitability and gain market share while most of its rivals were downsizing and scaling back. But at the same time, the CEO is quick to note that A.T. Kearney's ability to weather the current economic storm can also be attributed to an array of longer-standing strengths. For, the fact is "the A.T. Kearney brand name stands for quality and results," as "we don't just create a nice, easy concept; instead, we quickly start implementing a strategy throughout all levels in an organization." Further, in addition to its "enormous industry capabilities," the firm is "hands down the leader in the operations space," he argues, and "we demonstrate that with our references, with our experience, with the approaches we put together, and with the benchmark data we assemble." And ultimately, Ostermann concludes, A.T. Kearney strives to achieve "10:1 returns on consulting investments" – one of the leading reasons "why we enjoy approximately 70 or 80 percent repeat business."

When he assumed his present post in

November 2000, Ostermann became the fifth CEO in the company's history, which spans more than three quarters of a century. Previously managing director of A.T. Kearney's European operations, he served as a manufacturing engineer for BMW and a plant analyst for Daimler-Benz before joining A.T. Kearney in 1989.

COMPANY BRIEF The management-consulting subsidiary of Plano, Texas-based EDS, A.T. Kearney is a global consultancy that focuses primarily on CEO-level concerns and offers strategy, operations, and enterprise-services transformation consulting. The firm goes to market through major industry practices, including automotive; aerospace and defense; consumer products and retail; communications and high technology; energy; financial services; government; pharmaceuticals and health care; and transportation and travel. In addition, it offers e-sourcing technology and services through A.T. Kearney Procurement Solutions, and retained executive searches through A.T. Kearney Executive Search. With some 2,700 consultants serving clients in 43 countries, A.T. Kearney reported revenue of \$1.1 billion in 2002.

Are you happy with A.T. Kearney's brand awareness in the marketplace?

The A.T. Kearney brand name stands for quality and results, and I'm very happy with that positioning. When we talk to prospective clients, we say that if they want to hire one of our competitors, they'll get reports, but if they hire A. T. Kearney, they'll get results. In all the independent surveys we've ever conducted regarding client satisfaction, A.T. Kearney's consulting services ranked up to 10 percentage points higher than those of our competitors, and we believe that's inherently connected to the results we're creating. We don't just create a nice, easy concept; instead, we quickly start implementing a strategy throughout all levels in an organization. When clients hire A.T. Kearney for operations projects, they'll enjoy the implementation of positive processes with lots of cost reductions and efficiency improvements. So, again, we

stand for results, and we're very happy with that positioning.

Having said that, however, the area we want to work on going forward is our overall brand recognition, which is not yet where we'd like it to be. To this end, we're working very closely with our marketing and communications people to see how we can create a greater awareness for the A.T. Kearney brand in general.

Is your main focus large, multinational clients, or is your target market broader than that?

We generally work with companies that have at least \$1 billion in revenue and as much revenue as the largest corporations in the world, such as General Motors. It's difficult for a medium-size company to hire a high-value management-consulting firm simply because of the rate structures we use and the value added it takes for us to truly be effective. We do strive for 10:1 returns on consulting investments; that's one of our guiding principles. We have enough opportunity in a larger corporation to achieve that 10:1 return, but in a smaller corporation, it becomes quite difficult.

How difficult is it to differentiate in an increasingly competitive marketplace?

It's always difficult to differentiate your brand and your services, but it's not impossible, by any means. It's certainly very effectively done once you're in a client situation. That's why we enjoy approximately 70 or 80 percent repeat business – because clients who work with us understand very clearly what we mean by results. The results speak for themselves, and that's how we get a lot more business.

In the initial stages of a relationship, however, it's much more difficult to differentiate your services. In the initial stages, you obviously have to compete more and make people believe, and we do that by playing to our strengths. We believe that one of our strengths is our enormous operational leadership capabilities. We believe that we're hands down the leader in the operations space, and we demonstrate that with our references, with our experience, with the approaches we put together, and with the benchmark data we assemble. We

also believe that another great strength of A.T. Kearney is our enormous industry capabilities. We used to only hire experienced consultants out of industry. More recently, we began hiring on the world's best business school campuses. So today, we have a healthy mix of people that differentiates us from many of our competitors.

Has industry expertise become increasingly important for the firm and for the management-consulting business in general?

Industry expertise has become much more important in management consulting over the past 5 to 10 years. In fact, you can't show up at a client site anymore without it, and this increasing focus has served us well. At A.T. Kearney we have a very strong positioning in the industry sectors on which we focus. For example, we believe that we're the worldwide leader in the automotive-consulting and consumer-products- and retail-consulting spaces. Plus, we believe that we're among the top two in the communications and high-technology industries, as well as in the energy sector, which encompasses oil and gas, chemicals, and utilities. In addition, we believe we have a strong, reputable positioning among the top five firms in the transportation, aerospace, and government sectors, particularly outside of the United States.

How much of an impact has the economic downturn had on management consulting and, more specifically, on A.T. Kearney?

The difficulties in the global economy have left their mark on the management-consulting industry. When the world economies turned into the recession, discretionary spending was cut left and right. The initial reaction of management teams was that management-consulting spending was discretionary, and of course, it is discretionary because it's easy to simply cancel it or not hire any more consultants. Obviously, over time you see that some of those consulting engagements were done for a reason, and usually those reasons are to strategically position the company better, improve its efficiencies, improve its processes around the world, or reduce costs. It's not a wise long-term decision to cut consulting spending, but it has happened in some cases anyway. It happened drastically in the United States in 2001 and in Europe in 2002, although the research institutions haven't yet gotten their arms around the magnitude of the extent to which it has happened.

Now, how did A.T. Kearney weather that storm? We're in a bit of a different position in that we're part of a New York Stock Exchange-traded corporation, EDS, so we're getting reported out to Wall Street as one of the four lines of EDS' business. So I don't have the luxury to sit there and say: "Our first quarter 2002 revenue was down compared with 2001, and we're just going to wait and see what happens." That's not an attitude you can take very easily on the

Street. For this reason, we've been more proactive than many of our competitors. We restructured in the U.S. in the first quarter of 2001, while competitors waited. McKinsey laid off 1,300 consultants in the third quarter of 2002, by which time our U.S. business had already turned around. We gained market share in the United States largely because we acted decisively early on.

To be competitive and successful in the management-consulting arena, do you need to be a large global player? Or will there always be a role for the smaller, niche players?

I believe both: You have to determine which business you want to be in and what roles you want to play. Consult-



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ing, as a profession, has been around since Plato, so I believe that there will always be people in the advisory business. I think you can do that single-handedly as an individual and maintain a reasonable income if you're any good. In addition, I believe that there will always be room for some small boutique firms.

Having said that, if you want to play in advising Fortune 1,000 corporations, you need to have a global footprint, and you need to have industry capabilities in many sectors. Additionally, you need to have a broad-based service capability, which is more than just a particular aspect of a problem for a client. For example, if you want to be the consultant of choice for General Motors, you need to have the breadth and capabilities it takes to be the consultant of choice for General Motors. You need to help them in Italy with Fiat, and you need to help them in Korea with the integration of Daewoo. You also need to help them with their sales and marketing efforts, which are influenced by consumer confidence in the United States. Plus, you need to help them with operational problems all over the world, and you must be able to respond to what they want to do with information technology. So, as a consultant, you need to have the

breadth and depth of capabilities a corporation of that size demands.

Is it a major focus of A.T. Kearney to work within different layers of these organizations, rather than just at the C-level?

If you want to be one of the top general-management-consulting firms in the world, you need to have the ability to work with people at every level of an organization. In large corporations, there are some very strategic projects that are conducted by the CEOs or the CFOs themselves. Then, there are many strategic and operational projects conducted by a line of business leadership. Even though the initiator of the consulting engagement might have been a divisional president, the people we would work with on a day-to-day basis is a team assembled by the client, which would encompass various levels – from engineers to union representatives to mid-level management to senior-management leaders. You need to be in the position, and we are at A.T. Kearney, to sit down with the local shop representative and understand what his issues are, and you also need to be in a position to work with the shop floor manager, the guy on the machine, and the plant manager.

Is the Internet strictly an informational tool for A.T. Kearney, or are there certain areas in which business can actually be transacted online?

The Internet primarily is and will continue to be a tool to get information for certain projects, whether it be background or market data. We don't anticipate that high-value management consulting will ever be sold or delivered via the Internet. However, we do transact business over the Internet in our e-sourcing subsidiary, eBreviate, which offers clients online reverse auctions and other e-procurement services as part of A.T. Kearney Procurement Solutions.

Given the recent, widely publicized scandals in the corporate world, the public seems to be showing a growing lack of faith in the integrity of the business world. Does this trend concern you, and are you optimistic that individual companies and sectors will be able to show their integrity?

When it comes to accounting and corporate leadership, we're in the midst of the most fundamental crisis we've ever experienced. That's very serious, of course, but there's no question in my mind that 99.5 percent of all North American corporations, and probably most corporations around the world, are working as they're supposed to work. There were a couple of black sheep, which is very unfortunate, and we'll clean that out in a hurry going forward. But the rules that American businesses have adopted and are continuing to adopt are generally very healthy. Certainly it will take some time until the confidence of the general public and corporate America comes back, but ultimately I believe trust will be restored. ●