

EMERGING MARKETS

Recruitment, retention and wage inflation in three of the world's most dynamic consulting markets. The development of the Indian, Chinese and UAE consulting industries seems to be the current topic of interest for many major consulting firms. In this issue of 'Perspectives' we take a deeper look at some of the recent developments in these emerging markets as we are currently witnessing them at Vencon Research International...

WHAT DO WE MEAN BY AN EMERGING MARKET?

Irrespective of the status of the national economy, we are referring here to the market for management consulting. In this context, at VenCon Research we would identify a 'mature' market as one characterized by modest, consistent and predictable development in consultant salary scales from Analyst to Senior Manager level. The graphic below illustrates the level of consistency as a multiple of potential salary from entry level in the lowest paying firms to senior manager, or pre-partner level in the highest paying firms for a range of countries, based on our 2006 salary surveys. In markets such as the US, UK and Germany, which are both the largest and most mature consulting economies, the remuneration growth potential typically ranges from 5x's at the Base Salary level to 7x's at the theoretical Total Cash Compensation (t-TCC) level, i.e. potentially starting at \$50,000 at entry level and increasing to \$250,000 at the Principal level.

In contrast, the rapidly developing markets of China, India and the UAE show significantly higher growth potential. As shown in Figure 1, in 2006 Chinese remuneration demonstrated growth potential up to 45x's, while that for India reached 70x's. Clearly the economies of these countries are rapidly expanding but we are still left with the question of how the management consulting sector is developing?

China, for example, is recognised as an economic engine for global growth, but with much of the resulting demand in consulting being supplied by expatriate consultants and returning students from the US, rather than from Chinese Higher Education programs.

Despite its extensive and growing outsourcing industry, India is dealing with high graduate unemployment issues. Finally the United Arab Emirates is currently undergoing extensive developments in infrastructure, including telecommunications, tourism, banking and post-oil industries, once again showing the economic activity that tends to drive the demand for management consulting.

We will look at each country in more detail.

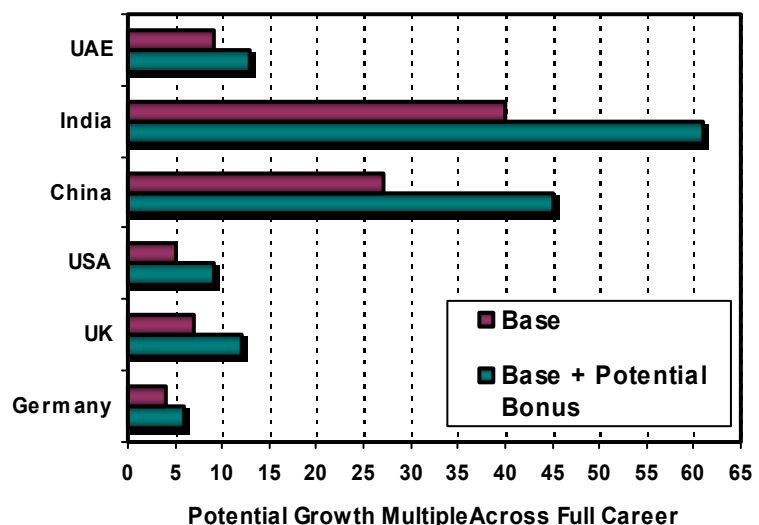


Figure 1 – Comparison of Base Salary and Total Cash Compensation Growth Potential, Mature vs. Emerging Markets
Source: VenCon Research International

INDIA

In a statement to the International Monetary and Finance Committee of the IMF in September of last year Palaniappan Chidambaram, India's Finance Minister, said *“In India, the prospects of sustaining a growth rate of over 8 percent achieved during the last three years appear favourable. Inflationary pressures have by and large been contained so far by appropriate monetary policy action and supply side measures. Business confidence and corporate performance continue to be favourable. The investment boom is continuing for the third year in a row.”*

India is unique among the markets reviewed here, in that it has already developed a very strong indigenous consulting capability. Infosys, TATA Technologies and Wipro, the three largest players in Indian IT, consulting and outsourcing, all employ at least 60,000 staff, all are growing by at least 1,000 people per month and with year-on-year revenue growth of 43% in one case, all have now posted revenues in excess of \$2 billion per annum. In November of last year Infosys became the first Indian company to enter the NASDAQ 100.

From a population of 1 billion, 50% of whom are under the age of 25, India has approximately 9 million students in higher education – comparable to the United States. Indeed, India has the highest number of foreign students in American colleges and universities, with nearly 80,000 students currently studying in the US. Nevertheless, graduate unemployment in India remains high. A perceived lack of quality and, more specifically, relevance of some courses have created a dearth of ‘quality graduates’ to fill a rapidly increasing number of positions in areas such as information technology, outsourcing, and management consulting. This high and increasing demand for graduates with suitable degrees and pertinent experience thus creates the ideal conditions for wage inflation and high job mobility.

In a previous issue of ‘Perspectives’ ([A World of Difference](#)) we illustrated that the greatest disparity between consultant remuneration in India, as opposed to that in the United States or the United Kingdom, is at the entry levels and that the discrepancy reduces with seniority. Specifically, we saw an earnings ratio between the US and UK, and India of 7 to 1 at the Analyst level compared to 2 to 1 at the Principal level and approaching par value at the Partner level. In relative terms, salaries at entry Analyst levels remain low in India, which is where the competitive advantage of outsourcing or relocating work to India lies. However, the plethora of job opportunities for qualified and experienced junior consultants in this rapidly developing market seems to have created a bidding war, whereby short term gain takes precedence over loyalty. We see this reflected in the salary increases at the Analyst level where we have recorded average increases of up to 16 percent year on year. Over the 5 year tenure of a typical outsourcing contract this compounds to a potential 100% increase in cost, challenging the economic basis on which the original decision was made and contract rate proposed.

As an illustration of the complexity of salaries and career progression at the junior levels, we have had to introduce additional levels in our surveys for India. For most countries we utilise three sub-levels at the Analyst level; we now identify nine for India, reflecting differing entry points for graduates from Indian universities, Western universities and from Indian MBA programs. MBA graduates from American or European schools enter, as usual, at the Associate level.

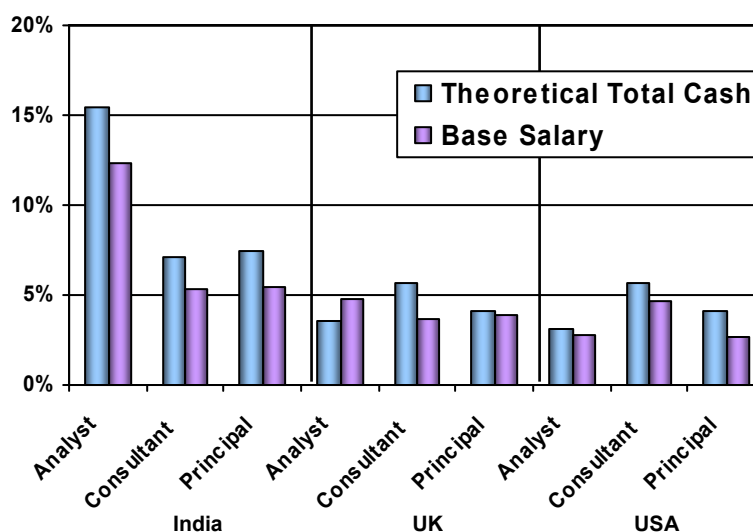


Figure 2 – 2005/06 Salary Increases in India, compared to Western nations
 Source: VenCon Research International

Analysts in countries such as the US or UK progress through the Analyst level in three to four years before advancing to the Associate level, whereas those in India must complete five to seven years.

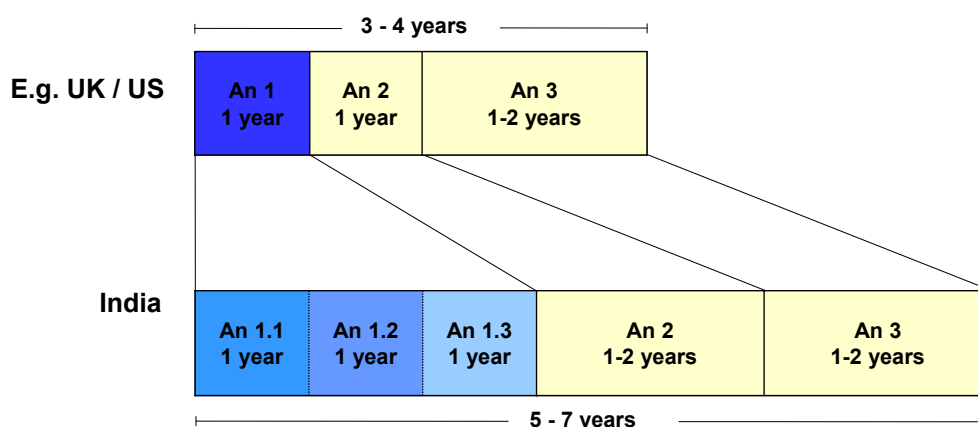


Figure 3 – Career Progression through the Junior levels in the United Kingdom and India

Source: VenCon Research International

When we consider the tax rates for high earners - such as consultants - in India, other aspects of the compensation package become increasingly important and competitive. Every aspect of the benefits package must be evaluated, and in a country where even a driver for the consultant's company car can be within a standard benefit package, this too is becoming a competitive and administrative challenge.

The problems being faced are therefore twofold. Firstly, what is the total employment and conditions package that will resolve the issue of staff turnover? Secondly, at what point will continual increases in junior salaries become economically untenable and lead to outsourcing decisions being reversed?

There is clearly huge potential in India, but the dynamics of the employment market make it a challenge for Human Resource and Operations managers trying to establish a stable business.

CHINA

After 15 years of more than 10 percent growth, China is now the World's fourth largest economy. Additionally, with international trade now exceeding \$1.5 trillion, China has also become the World's third largest trading nation, after Germany and the USA. Its population of 1.3 billion is roughly equal to that of the whole of Europe, North and South America combined. It therefore comes as no surprise that, despite being a single party communist state, there are regional variations in employee earnings. What is unusual, however, is the extent of variation between urban and rural employment, and between major conurbations and smaller cities.

Incredibly, for a country with 20 percent of the World's population, labour shortage is now cited as the major problem for US companies operating China. Of the 3.4 million graduates from China's 2,000 universities in 2005 only half had secured permanent employment contracts one year later. In addition, starting salaries for graduates had dropped to below their 2003 levels and certainly well below the expectations of recent graduates. Although central planning has nearly doubled the number of Chinese in higher education over the last 5 years, it has also controlled entrance requirements, educational syllabi, as well as the subject of study. Apart from science and engineering graduates from China's top universities, the system has failed to deliver the graduate skills required by the

knowledge industries. Compounding this shortage of appropriately skilled graduates, the ‘one-child’ policy means that China now has one of the most rapidly aging populations in the world.

Consequently, the demand for qualified, experienced graduates is at least as competitive as that in India, but for very different reasons. With insufficient graduates, no indigenous consulting industry, business education still in its infancy and a dearth of fluent English speakers, the consulting industry must look to either expatriate existing staff or try to recruit employees from among the 15,000 Chinese students graduating from US universities each year. This, of course, means salary expectations equivalent to those in the US. Similarly, those graduating from the ever-increasing number of Chinese MBA programs, often run in conjunction with US or European schools, will have committed a great deal of time and money and will expect commensurate reward when returning to work.

When comparing post MBA salaries within strategy consulting in China with those in Europe or the US, we see very little difference in total cash compensation. Only at Analyst entry level do we find a significant divergence from Western salaries.

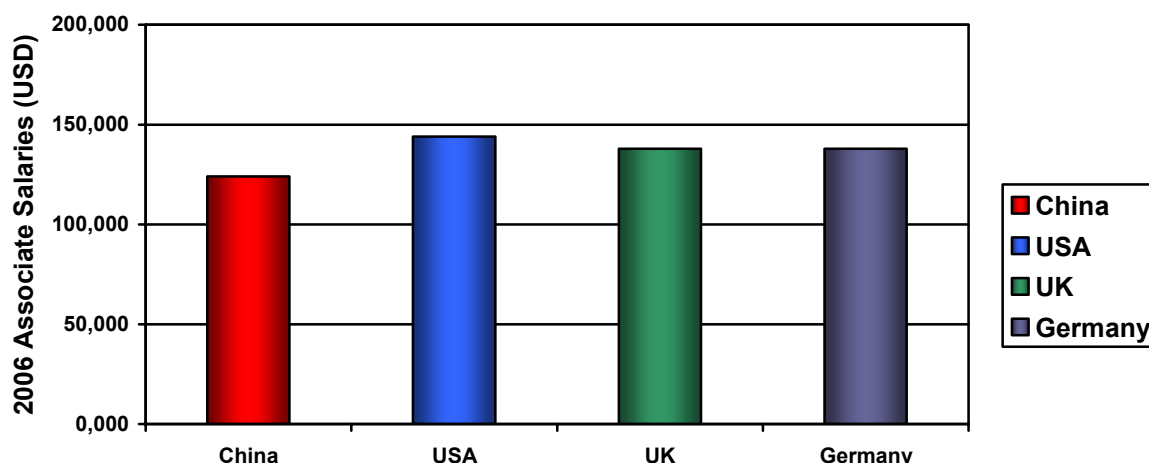


Figure 4 – Average 2006 Mid-Track Associate/Consultant Salaries in China, compared to the USA, UK and Germany (Strategy Consulting only)

Source: VenCon Research International

China has high and ever increasing demand for management skills, knowledge and experience. According to a recent McKinsey study, China will need about 75,000 top-level executives with global experience by the year 2010 – some 70,000 more than it has now.

Compared to India, where the drivers of the consulting industry are the provision of lower cost centres of development, research and CRM, the demands for consulting in China are more likely to concern the provision of management skills and ideas in order to commercialise new industries.

This seemingly insatiable demand for consulting skills, limited availability of suitably qualified talent – at least for the foreseeable future – and a stable exchange rate would suggest that consulting salaries will increasingly move in line with those in the US. This was case last year when we saw earnings at the more senior levels starting to plateau as they approached US-equivalent levels. Furthermore, China is becoming an ever more desirable destination, with experience in this vast economic engine of change becoming essential for the ‘seasoned’ global consultant.

Equally important to the compensation trend in China is the significance of the benefits package, as discussed in a previous issue of Perspectives ([Where's the Benefit?](#)). Although China's state benefit provision is very comprehensive, it is geared toward the average national income level. Consultant salaries however, start well above average, even when allowing for the differentials exhibited in major



cities. Therefore, we see insurance, health and lifestyle benefits emerging as differentiating factors and we anticipate this trend to continue even as salaries stabilise.

UAE

Superlatives for the United Arab Emirates are manifold, although hard data is somewhat more difficult to come across. Consider the following; the entire population of the seven Emirates that make up the UAE is 4.1 million – based on the official UAE census statistics for 2006. This is comparable to the population of Ireland (Republic and Northern) and is contained within approximately the same geographic area. The official government data also include the observations that nearly 70 percent of the total population is male and that 80 percent of the population are non-nationals.

There are currently a number of both local and international consulting firms operating in the UAE, but such is the interest that nearly every major consulting firm we have spoken to either has people on the ground prospecting or is seriously considering entering the market.

As with other growth areas for consulting, the burgeoning market in the UAE is responding to financial activity. In the case of the UAE, this includes managing existing oil wealth, investing in major infrastructure projects to meet current needs and building a sustainable economy for its post-oil industries.

Infrastructure developments are clearly areas where consulting firms are active. In Dubai, for example, with a population of 1.3 million, there exist 2.7 million phone lines, including 2.3 million mobiles. Clearly, telecommunications – especially mobiles – is a major sector; but much as one may applaud the impact of telecom marketing consultants, one might also ask, how many mobile phones can any one person use or need?

Bearing in mind that the UAE is only slightly smaller in size than Ireland or the state of Maine, it is home to no less than four major airlines – Etihad, Emirates, Gulf Air (jointly with Bahrain and Oman) and a budget airline, Air Arabia. Currently, there are seven air charter firms in operation with another six due to launch this year; fortunately, there are at least 37 airports from which they can operate. In addition, an Abu Dhabi company has recently signed a JV agreement to develop and build a business aircraft in the UAE. Obviously aviation is another opportunity for consulting.

Construction and tourism exemplify other areas where the UAE, and particularly Dubai, are defining new standards; Burj al Arab is the World's first 7 star hotel and currently the World's tallest hotel; the Palm Jumeirah complex is the World's largest man-made island; and "The World" tourist and residential complex is, by definition, the planet's largest artificial World.

Lastly, if we look at banking, both Dubai and Abu Dhabi are vying to assume the mantle of Banking Capital of the Gulf from Bahrain, developing not just retail and private banking for the wealthy individuals of the region but also investment banking at the corporate and government levels.

In terms of the trends we see in consulting salaries in the UAE, the spread of 'growth potential' was around 12x's, significantly less than that seen in the other 'emerging markets' we have examined.

This level of growth potential is more representative of a relatively mature market. It is also possible that even this potential growth multiple is slightly exaggerated. The small number of firms who are actually employing staff on a UAE pay-scale means that the 2006 survey included a wider range of firms, from strategy to operations based, than would normally be observed within the same study. Furthermore, the study included both local firms, who recruit and pay at local rates, alongside leading international firms, who are currently offering contracts in US dollars and usually paying expatriate-type accommodation and transport allowances as part of the salary package. Hence, as more firms enter the market and



employ staff in situ, we would expect to see greater harmonisation of salaries, thereby reducing variances and increasingly becoming a mature market. In addition to growth potential, the salary increases we witnessed over 2006 were modest at all levels, suggesting a market exhibiting significant stability.

Nevertheless, perhaps one further characteristic of a mature market has yet to reveal itself – at what point does the consulting market become saturated? How many telecoms networks, airlines and investment banks

does a population of 4 million need? Clearly most firms are using the UAE as their base of operations throughout the Gulf region, to cover not just the Emirates but also Bahrain, Oman, as well as Kuwait, Saudi Arabia and potentially Iraq. As an expatriate base, Dubai or Abu Dhabi can prove quite amenable, and in this context a multiplicity of airlines, airports and extensive telecoms networks begin to make sense.

At present, consulting firms seem to view the UAE as a Klondike; our advice is to stake your claim early.

In closing, we see that there is no single trend in compensation within these emerging markets. From high wage inflation in India, through stability in the UAE to potential deflation at the senior levels in China, the only common characteristic is an increasing demand for consulting, driven by high economic activity.

Sources: Vencon Research International; Asia Times; Business Week; China Statistical Yearbook; CIA World Factbook; Institute of International Education; Manufacturing Business Technology; The McKinsey Quarterly; The National Center for Public Policy and Higher Education; UAE Interact; World Bank

Should you wish to discuss any of the issues raised by this article, or are interested in a detailed benchmarking analysis of the benefits being offered by the major consulting firms by market, including comparison against the benefits offered by your firm please contact [David Warren](#) or [Erwin Harbauer](#) at VenCon Research International.

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