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EUROPEAN PENSIONS CONSULTANTS

# Developing an office abroad

## Is expanding across borders a good strategy for consultants? What are the pitfalls and advantages? **Nina Röhrbein** reports

Having established themselves in one country, many consultants start considering cross-border operations and even establishing offices abroad.

But cross-border expansion brings many challenges.

"Legislation is increasingly driven from a European perspective, which creates cross-border opportunities," says Alex Waite, a partner at consultancy Lane Clark and Peacock (LCP), which employs some 300 people in the UK and another 100 in continental Europe.

"We think the future lies in being able to provide a pan-European approach. Following our expansion over recent years from a traditional UK partnership into Belgium and Switzerland, we are now looking to expand further across the EU as soon as we find suitable and like-minded organisations."

He says that LCP's strategy is to increase its footprint across Europe.

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"It's good for clients and good for LCP to be able to cross-fertilise ideas across different locations," Waite adds.

"But it is difficult finding organisations that ensure a cultural fit. Discussing a suitable price as well as the bringing together the two businesses and having the right language skills is also challenging.

Nevertheless, Waite says, LCP avoids setting up a one-man band and trying to grow from nothing. "It's much better to find an organisation that already possesses market presence from which to grow and gain the synergies from the cross-European business."

MangustaRisk, which specialised in financial risk analysis, measurement and management, has been working cross-border since it began. Its first office was opened in London and this was followed by offices in Italy and the US and it hopes to open two more offices in the near future. Around 80% of its business is based in Italy with the rest spread across Europe, according to MangustaRisk's director in Rome Andrea Canavesio.

As its US office is used solely for hedge fund selection, the firm has not expanded much on the other side of the Atlantic. "When we started in 1998 very few hedge funds were based in Italy or the UK," Canavesio says.

"And with 80% of the world's hedge funds based in the US it was important for us to have a base there. It is easy to open an office abroad but market penetration and branding are difficult. Smaller consultancies may have an advantage in opening local offices because the pension consultant business is based on personal relationships, trust and contact. Most customers and pension funds around the world want very customised services that are possibly better offered from small to medium companies than very large ones with economies of scale."

Canavesio says the costs of expansion depended on the office structure. Consultants can open offices around Europe at a very low cost and maintain the intelligence in only one or two specific offices or they can go for the more expensive option and open offices by setting up local companies. He says that most countries prefer to have a totally independent office in order to have the information and intelligence locally available.

"It is pretty expensive," he says. "And regulations and fiscal treatment for pension funds and institutional investors vary from country to country, which can be difficult. But expanding abroad helps us enter new, immature markets. We, for example, expanded into Italy because at the time it was an underdeveloped market where only 10% of pension funds had an adviser, compared with 90% in the UK. Although there is still a bit of market left in Italy today, around 80% has now been taken." Canavesio adds: "There are only two ways of expanding the business – increase the number of services you want to offer, which we don't want to do as we still only want to offer financial services, or increase the number of clients. Once the market is mature consultancies can only hope to get somebody else's client but they cannot target that sort of expansion. The best way is to open in a country where the business is not as developed. We are looking to open other offices in Europe and around the world, and eastern Europe and emerging markets appear to be good locations as well."

However, opening offices abroad does not appeal to everyone, and some consultants do not even see an urgent need for physical presence in the country where most of their clients are located.

Swiss-based Kieger consulting has three employees and is working cross-border as its reference market is Italy. "We are trying to avoid opening an office in Milan or Rome because it would be expensive and absorb a lot of our resources," says Fabrizio Ammirati, Kieger's senior consultant and managing director.

"Swiss regulations are also more business-friendly than Italian ones. We cover Italy because, apart from being in a part of Switzerland that shares its language and culture, only a handful of pension funds are based in the Italian-speaking part of Switzerland and the pension fund market is expanding in Italy not in Switzerland. We can do our work successfully wherever we are through telephone conferences and presentations. Even if clients require us to be as close to them we don't have any disadvantages as we are only 70 kms from Milan."

However, Ammirati adds: "Since we started this company in 2003 we have been constantly reviewing our position. We are always thinking about expanding into Italy but we have come to the conclusion that it is not worth it. If we did, we would open an office in either Milan for geographic reasons or in Rome because of potential clients. But so far there have only been a couple of pension funds, a small minority, that have required their consultants have a physical presence in Italy. Should this become urgent, we would consider it but it would almost double our fixed costs and we would also have to pay Italian corporate tax."

Belgium-based Pragma Consulting has been operating cross-border for many years and while it has considered opening offices abroad it has decided against, says managing director Koen De Ryck.

"We have clients in a number of European countries but strongly believe we can undertake our operations sufficiently well from one office," he says.

"We don't have the ambition or feel the need to set up an expensive office in another European country. And despite increasing local competition we may even have a slight advantage over the larger consultancies that have offices in several European countries. We can target clients in other countries, while they would not always be allowed to do that and would have to pass it on to their local office instead. Nevertheless, we are interested in co-operation with smaller or even larger consultants in other countries if such joint ventures promise to be fruitful."

Canavesio: 'personal relationships'

In fact, De Ryck says, as a Belgian member of the European Actuarial and Consultancy Services (EURACS), Pragma already has access to some co-operative agreements.

Director of the EURACS network Max Bogaard explains that its members – independent firms in various European countries – are largely unwilling to open an office in another country because they already have sufficient possibilities to serve their clients. Instead, if they need the expertise of another country, they can contact the other firms via EURACS.

"Non-expansion can have its advantages," he says. "If consultancies are concentrated in only one country they can build up their local knowledge and experience and don't have the extra costs, people or management. And if they do expand abroad they have to make very good investments to have a decent chance of operating there at the same quality level."

But what some see as a disadvantage, others see as an advantage. Waite says that LCP's core focus is actuarial consulting in Europe, which differs from the offering of conglomerates that do lots of different areas of consulting and broking across many continents.

He adds: "LCP's size of 400 people means we are very flexible and I'm sure at 500 or 600 people we will still be flexible. But conglomerates tend to be less dynamic and suffer from too much bureaucracy. However, consultants also need to be large enough to be able to invest in the systems in order to benefit from the synergies across Europe."