




April 2020

COVID-19 Impact on Indian Consulting Industry



COVID-19 cases are on an exponential rise around the world, however in India with an efficient, 40 day lockdown being imposed at the early stage of the outbreak, it appears that we have somehow managed to keep the impact to a moderate level. While this lockdown is effective, it has certainly brought the economic activity for quite a few sectors to a grinding halt.

With the early signs of recovery in India's business activity in January 2020 post sluggish growth in GDP in the first nine months of FY20, Indian Government would have hoped for a turnaround to close the fiscal year on a high. However, the sudden outbreak of COVID-19 in the nation in the following months has pushed India Inc. on the back foot. One such industry which is most likely to get away with a lesser burn from COVID-19 would be the **Indian Consulting Industry**. Our views have been elucidated through the length of this paper.

- 1. Pandemic impact** - While as per the early reports from Consultancy.org, indicate towards a reduction in size of the Global Consulting Industry from ~\$160 billion in FY19 to ~\$130 billion by the end of 2020, a decline of 19.0% on year-on-year basis, the only relief has come from the Asia-Pacific market where countries like China, Singapore, South Korea and India have been able to deal effectively with the pandemic. This has been made possible on account of various appropriate measures adopted by their respective Governments which include social distancing, travel restrictions, nationwide lockdowns for extended period etc. Many analysts have argued that these measures may have brought the economic activity to a temporarily halt, however, these measures would certainly be effective in keeping the impact to a moderate level. These measures have certainly had an adverse effect on the consulting industry in terms of new business development activities where often a face to face interaction is quintessential to gain the confidence of the stakeholders.
- 2. Social impact** - As the entire corporate India is forced to operate from home amidst the nationwide lockdown announced due to the outbreak of COVID-19 and get accustomed to the new way of working life, the scenario to the Indian Consulting Industry is somewhat familiar. Many consultants have resorted to operate remotely in the past in special situations. The Consulting Industry pioneered the remote working solutions as often consultants are required to work from different parts of the globe for their varied projects. Though, it can be rightly argued that consulting industry often requires face to face interactions for the rightful understanding of the problem areas of the client and attaining appropriate closure of the projects, technologies such as videoconferencing, internet telephony and instant messengers have aided in reducing the impact to a certain level.

- 
- 3. Cash flow impact** - As majority of industries continue to be in lockdown, their own cash flows are severely affected and these have left with no other option but to resort to rationing of funds to the most essential areas, while non-essential activities taking the back seat. Substantial number of on-going consulting projects have been put on hold and there is delay in awarding of new projects until the cash flow position stabilizes. This is also expected to reduce the scope of work and reduce the price points until the normal resumption of activities. The major cost component of consulting industry is the salary cost. A reduced cash flow from delay in receipt of payments from the clients has a most immediate impact on the payroll costs. Delays in the payroll payments may lead to discontentment amongst the workforce which in turn would affect the quality of client relationship management and deliverables.
 - 4. Supply chain impact** – With China topping the list amongst the nations having the highest industrial output, majority of the supply chains rely heavily on the Chinese manufacturers. However with the uncertainty prevailing over China's role in the outbreak of COVID-19, the businesses have acknowledged the need of having a diverse supplier base. This is expected to result in more opportunities for other nations to become an alternate supply chain destination to these businesses. This presents a potential opportunity for the Indian suppliers to play a greater role in the global supply chain in the future. Consulting industry is also expected to play a major role in this by providing their expertise on ways to streamline the operations and integrating the Indian suppliers with their global counterparts. As some of the largest MNCs willing to explore an alternative source other than China, India is likely to be the most popular destination to look at owing to its demographics and rich natural resources. This provides as an opportunity for the Indian consulting industry to capitalise and help the businesses achieve their goals.
 - 5. Business impact** – In the current scenario, traditional Indian business houses have been the worst hit and are facing roadblocks in managing their business and cash flows. Many of these challenges will continue to exist post COVID-19 era. The management of the traditional business houses have begun to identify the need of improving and establishing robust processes to deal with similar situations in the future. Another impact of the declining economic activities will lead to failure of some companies due to multiple reasons including high leverage, fractured and old processes among other areas. These organizations may reach out to advisory firms to help turnaround their businesses and efficiently adapt to the changing and technology driven environment. Further in the post COVID-19 era, it is most likely that the companies would focus on the core business activities and look at opportunities to relook at their business model. The companies may resort to options like hiving off or sell the non-core business segments or outsource non-core areas of the business, thereby eliminating redundancies and keep the operational cost in check. This would again certainly present an opportunity to the Indian Consulting Industry in terms of increased M&A activity and offering companies with the outsourcing solutions or modules.



Concluding Remarks

Based on the above, insights can be drawn that the outbreak of the COVID-19 pandemic in the country will lead to dwindling business and stringent cash flows, delaying or reduction in business spends. Initially it might have a bearing on the new consulting engagements but with passage of time and most industries coming back to its normalcy, it certainly would present the Indian consulting industry with some potential opportunities. These opportunities if tapped will help the India Inc. to rebound and make up for the lost time and make good of their growth post COVID-19. The real opportunities for this sector is likely to be felt earliest from the fourth quarter of the FY21 and shall continue in FY22 which may come across as a more beneficial year for the Indian consulting Industry.

