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Suitors circle consultancies

U.S., Japanese, Indian firms eye Chicago companies

By [Shruti Daté Singh](#)

[Acquity Group LLC](#) CEO Chris Dalton receives three to four overtures a week from dealmakers offering to hook him up with bigger firms looking to buy a mid-sized consultancy like his.

Mr. Dalton's 5-year-old information technology (IT) consultancy, which expects to post \$30 million in sales this year, isn't alone. Chicago's mid-sized consulting firms — generally those with up to \$100 million in annual revenue — have become acquisition targets for larger U.S. consultancies, as well as Japanese tech titans and Indian outsourcers.



[Acquity Group LLC](#) CEO Chris Dalton has been fielding calls from dealmakers. He doesn't know if he wants to sell his company. Photo: Erik Unger

"The calls have started to pick up in the last eight months," says Mr. Dalton, who's open to talking but doesn't know whether he wants to sell. "It's certainly not as feverish as the 1990s, but since the downturn, it's the strongest it's been."

Japanese tech firm NTT Data Corp. and the consulting arm of Fujitsu Ltd. acquired tech consulting firms Revere Group Ltd. of Chicago and Greenbrier & Russel of Schaumburg, respectively, in the last few months. Just last week, Technology Solutions Co. of Chicago announced plans to buy Charter Consulting Inc., a firm just down the street. The companies won't disclose the sale prices. Indo-American outsourcer Cognizant Technology Solutions Corp. bought Chicago-based Fathom Solutions LLC in April 2005 for \$19 million.

REFLECTS CONSOLIDATION WAVE

The deals reflect a broader wave of consolidation in the industry. Big firms, many with significant offshore outsourcing operations, see acquisitions as a way to add clients to fill excess

outsourcing capacity and add expertise in higher-margin consulting specialties. The smaller firms often opt to sell because they lack the scale to handle the larger assignments many clients are doling out these days.

Charter Consulting CEO David Benjamin says he sold his 9-year-old firm to gain access to more technology and personnel.

"When we serve larger clients, they worry about our capacity," says Mr. Benjamin, who will stay with the merged company. "It's easier with a 200-person organization than a 40-person organization."

Of course, the acquisition of local firms by national or international companies reduces the number of independent companies headquartered here. What's less clear is whether the current round of deals will produce greater efficiencies for clients or cultivate the chaos that sometimes ensues when merging professional services firms with differing cultures.

For example, "it's tough to mix outsourcing with consulting," says analyst Abhishek Gami of Charlotte, N.C.-based Banc of America Securities LLC. He points to Chicago-based consultancy A. T. Kearney's tumultuous 10-year relationship with outsourcer Electronic Data Systems Corp. (EDS) of Texas. A. T. Kearney managers bought the firm back from EDS this year.

Nationally, the number of acquisitions of IT services firms jumped to 234 in 2005 from 93 in 2003, and could reach 380 this year, according to investment bank Uptdata Capital Inc., which focuses on the IT industry. Prices are rising, too, with sellers paying as much as 11 times earnings, up from five in 2003.

Cognizant is still looking for more small acquisitions across the country, says Senior Vice-president for Strategy Malcolm Frank. He would not provide specifics about interest in additional purchases in Chicago.

"There are certain things in Chicagoland that could have potential, but we are looking across the country," he says.

Julie Johnsson contributed to this story.

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