



Xuong Liu, Managing Director & Asia Practice Leader – Transaction Advisory Group, Alvarez & Marsal

How do you feel the consulting market has performed over the past year, and what were its key drivers?

2021 was generally strong but 2022 has seen a lot of volatility. Our clients are almost exclusively financial sponsors, including private equity firms, sovereign wealth funds, and family offices. In many of the regions, we started to see a softening of the market beginning in the second half of 2021 and going into 2022. In speaking to my colleagues around the world, I believe this is also the case globally given supply chain disruptions, the situation in Ukraine, inflation, and increasing interest rates.

In China, Hong Kong, and some South East Asian countries, there's also the added dynamic of stop-start lockdowns. General political tensions between the US and China are an overlaying factor as well, and there's no immediate end in sight for this trade war. Additionally, there's a significant amount of regulatory risk in China now given the government's views on certain sectors and how open, or not, they are to foreign investments. The combination of these factors is creating a very dislocated market.

At the same time, however, the amount of funds being raised, and the amount of capital being deployed continues to increase. This all adds up to a bit of a strange situation. Many of our clients are awash with cash, as very low interest rates over the last 10 years generated a strong ability to deploy capital yet they are also facing a highly uncertain and volatile economic backdrop right now.

Do you think the challenges you're seeing now are different from the challenge that COVID-19 posed in 2020?

I think COVID-19 was, first and foremost, a health crisis that had ramifications for how we operate and execute our work and how our clients execute deals. Ultimately, this turned into a financial difficulty, too, exasperated by supply chain disruptions. However, while I agree that COVID-19 does have its tail, many economies are starting to see the light at the end of the tunnel. I think the challenges we're seeing at the moment are very different from those presented by COVID-19. The new norm we have to adjust to now is high inflation and high interest rates. That's a very unusual phenomenon, particularly for those who entered the professional world during the last 10 or 12 years, as they won't have prior experience managing through this type of economic cycle.

Clearly, there are certain sectors that are still experiencing a huge overhang from COVID-19, principally, these are aviation, tourism, and leisure. I think this will take some time to work through but, by and large, a lot of consumption-driven sectors rebounded very strongly from the pandemic, whether because of pent-up demand, a pivot towards online, or other factors. Generally, that aspect of COVID-19 economic recovery began as early as the third quarter of 2020.

However, while most countries are learning to live with COVID-19, other countries including China and Hong Kong are pursuing strategies focused on eliminating the virus. This presents very difficult, but containable challenges particularly when compared to all of the other fundamental economic issues we are seeing. For example, we haven't seen this level of inflation in over a generation. Inflation has been incredibly benign over the last 10 or 12 years, with unusually low interest rates. The sluggish global growth and monetary policy stimulus that governments have adopted since the GFC has been unprecedented and, to some extent, prolonged due to the onset of COVID-19. However, policy makers will need to adapt monetary policy in light of the new challenges we are witnessing vis-à-vis the conflict in Ukraine, rising energy / input costs, and supply chain disruptions.

How do you think these challenges will impact your clients and their use of consulting?

I think this environment is going to present huge challenges to our clients in terms of how they assess investments. Given that the cost of borrowing is no longer inexpensive, it's going to be far more complex to model expected returns than it was for last 10 or 12 years, when interest rates were low, and inflation was negligible.

Companies will also have to work out whether they have the ability to pass price increases, which are almost close to double digits, onto their customers. If not, they'll have to work out the impact of margin erosion. If they can pass them onto customers, they have to think about the macro spin-off effects such as will wage inflation be pushed up, increasing their costs and creating a virtuous cycle.

How do you think these events will impact business confidence?

I think strategic investors such as multi-national Fortune 1000 companies and their global equivalents



are going to be much more cautious vis-à-vis China. Generally, the prevailing caution is being driven by the factors we've discussed, along with uncertainty over government policy. There are big question marks around whether China is going to be a little bit more inward-looking and if it will focus much more on its own ability to upgrade domestic consumption or attracting capital from overseas instead.

Within private equity, global funds that have investment committees sitting in the US or Europe are in the same situation as the Fortune 1000 companies. They're going to have the same 'wait and see' view on China. However, the fact that they have local teams that must deploy pools of capital in China and the Asia-Pacific region suggests that the current situation will probably be a short-term position, rather than a longer-term view that China is out of bounds.

However, if a large number of investors decide to stay on the sidelines for a while, I think it opens up opportunities for regional and local funds. The latter of which includes local Chinese general partners ("GP"). Private equity firms in this category will have to assess which sectors are safe bets. For example, making investments in companies that are very customer data driven is very difficult right now, given where government regulations are and a challenging IPO market that inhibits a natural IPO exit. I think that we'll see some acceleration in sectors that are much less sensitive and more traditional, and where there isn't any sensitivity around foreign ownership.

We're increasingly hearing about a preference for local talent and local language skills in China's consulting market. Is this something you're seeing, and if so, how is it impacting your firm?

The fact is that firms like ours and our competitors have to localise, or we won't be relevant to the clients we serve in China. We must have expertise and IP that is locally developed. We need the ability to converse seamlessly in the local language. And we have to demonstrate an ability to bridge the difference between international best practices and an understanding of the local regulatory environment and business customs. However, this needs long predicated changes in government policy. Our firm has been reacting to it for even longer than I've been around by hiring local talent and increasing our geographical footprint in the region.

While there clearly will be a preference for local talent, I don't think there will necessarily be a distinction made between whether you're a foreign enterprise or a local Chinese enterprise. I haven't seen that as a key factor in clients' selection process. A&M's ability to blend international best practices

with its intricate local knowledge of China and South East Asia has benefited our regional and international clients.

To what extent are you seeing the push towards nearshoring in manufacturing impacting consulting demand?

I think supply chain disruptions are weighing very heavily on companies that manufacture in Asia. A disproportionately high amount of manufacturing occurs in this region because of wage arbitrage and lower general costs. Supply chain disruptions are impacting how our clients view the supply chain robustness of the companies in which they're investing. We've certainly seen companies that are servicing the US or European markets look at much closer to home alternatives, so they have a 'Plan B' for local suppliers within their local markets. As a global firm this scenario does not preclude us from opportunities and we are able to service clients regardless of where the asset is physically placed. For smaller boutiques that operate in Asia this current dynamic may be more challenging, particularly if restrictions were still limiting their ability to travel between and to other markets.

The political situation in Hong Kong remains challenging, with firms telling us last year that some clients were shifting operations out of the region—typically to Singapore. Are you seeing this trend develop, and what impact do you think it might have?

While the world has opened up to Hong Kong and its residents, Hong Kong still has a quasi 'zero-COVID' strategy that requires you to quarantine for seven days upon return from travel outside the region. That makes travelling from Hong Kong fairly prohibitive. I think this is one of the factors driving the exodus from Hong Kong to Singapore, particularly for the ex-pat community without permanent roots in Hong Kong.

We're not seeing this in our business. However, some of our clients' businesses are relocating some of their employees to Singapore because it's easier to operate there from a travel and COVID-19 policy perspective. A&M's Singapore and South East Asia teams can service these clients with the same offering and operational approach as we do from Hong Kong or China.

Having said that, we want to balance between what we have in South East Asia and Greater China, which includes our mainland China and Hong Kong offices. As a result, we're not moving people from one location to another, but rather growing both. In the last 12 months or so, we have invested significantly in the region.



We've opened offices in Australia, Indonesia, Vietnam and Malaysia, and have really increased the size of our team in Singapore. We've also expanded in Hong Kong and China. We're building out our entire Asian business in response to the fact that we see strong opportunity in the region, notwithstanding macroeconomic headwinds and geopolitical tensions.

How do you think the new Five-Year Plan is going to impact consulting demand?

For us, the Party Congress is very much an indicator of where government policy is heading and what sectors they want to encourage. Our clients pay a lot of attention to this as well. Over the last 10 to 15 years this has impacted demand in the sectors our clients want to deploy capital correlating closely with the Five-Year Plan.

If certain sectors are going to receive much more encouragement from the government, I suspect there will be a much stronger capital flow to those sectors. What's important to our clients will have a knock-on effect for us, so we need to ensure we have the capability and bandwidth in sector-relevant services to meet that increase in demand.

Clients generally choose the best team for their needs. We stay up to date with developments to ensure our credentials mirror their plans, thus making it more likely to get that mandate. Clients select advisors in the same way they assess target companies. They look at differentiation, the unique selling proposition, and what makes you better than the competition. Understanding this thought process and ensuring that we have a compelling answer to each of these key questions is fundamental to our success.

Are you seeing growing interest in the ESG space, and if so, how do you think that will translate into consulting demand?

As far back as I can recall, ESG has been widely discussed. We're hearing even more about it today than we ever have before, so it is clearly gaining momentum. But there's still a question about whether it translates into something even more tangible than it is today, thereby requiring firms like ours to respond by further strengthening our ESG due diligence and post-deal capabilities.

We set up an ESG-dedicated team two years ago that is responding to client demand. However, how important ESG becomes for our client base depends on how much pressure limited partners put on GPs to ensure that ESG is a key focus in their investment criteria and due diligence. That will be the fundamental spark that ignites ESG's take off. I think it will be driven by public opinion, climate change, diversity, and inclusion.

When something is high on the political agenda, that's a reflection of the public conscience, and is then highly relevant given that these pools of capital are largely derived through pension and endowment funds.

How has the shift to remote and hybrid working impacted how you operate as a firm?

Working from home has certainly impacted how we operate day-to-day. I think people have realised that there are efficiency gains to be made by not being in the office five days a week. Given that we've had working from home mandated on us for the best part of two years, this lifestyle choice has also taken a stronger hold in the general workforce. I think it's going to be very hard to shift back to in office full-time and that a hybrid model will become the norm.

However, it's really important for consulting firms to get the right balance. We hire a lot of people who have just come out of university or who are two or three years into their career. It's critical that those of us who have been in consulting for longer share our learnings and experiences. This is particularly true for soft skills. We need to ensure that social and technical execution skills of the next generation of leaders won't be limited or impaired. It's really important for leaders to understand this and ensure we have a system in place that gives people the right balance.