ARMENIAN BUSINESS SERVICE PROVIDERS

AN OVERVIEW OF THE INDUSTRY

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I. Executive Summary and Conclusions

1. BSP Assessment: Purpose and Process

At the outset of 2006, the CAPS program undertook comprehensive assessments of the ICT, tourism and business service provider (BSP) industries as a first step toward creating specialized management training materials and seminars. Through a competitive tender process, we selected ***The Economic Values and Research Center*** to conduct face-to-face interviews with approximately 50 top managers in each of the three sectors. Interviews were conducted by trained interviewers, all of whom were advanced economics students. Their task was to determine, in detail, technical assistance needs and collect baseline monitoring and evaluation data for each industry.

For BSPs, we identified 77 companies actively engaged in the provision of management consulting services within Yerevan and the marzes of Armenia. We believe these 77 firms represent over 90 percent of the actual population of such companies, from which we extracted a sample of 49 – over 60 percent of the identified population of management consulting firms overall. With such a high percentage of the population of consulting firms sampled, the results and conclusions presented herein are, in our estimation, valid and supportable.

2. BSP Profiles and Statistics

Geographic location: Seventy-four percent of firms are in Yerevan and 26 percent in the regions.

Gender ownership: At least 58 percent of firms are entirely male owned (25 of 43 with 6 non-response) and 75 percent majority male owned. Only 9 percent of firms are entirely female owned.

Domestic vs. foreign ownership: Eighty percent of firms are entirely domestically owned whereas 11 percent are majority foreign owned.

Employment: The average company has 12 full time employees (7 median); in the regions the average dips to 5 employees. Thirty percent of the firms employ 10 or more full time workers, which accounts for over 70 percent of the sector's employment. The sector as a whole employs approximately 865 full time people in Armenia.

Part time employment: Seventy-five percent of firms regularly employ part-time consultants. The average number per firm is 8 (5 median), contributing an additional estimated 395 employed.

Gender employment: Gender is evenly distributed with women comprising 49 percent women of full-time employees and more than half of part-time employees.

Monthly firm payroll: The average monthly wage (based on 36 responses) for full time staff (professional and non) is 140,575 AMD (approx. $312) in Yerevan and 89,731 AMD ($199) in marzes

Average professional consultant hourly wage: The average hourly wage for a consultant is 4,055 AMD in Yerevan and 1,667 AMD in marzes.

Annual revenues: The average consulting firm revenue for 2005 (based on 27 responses) is 79,352,616 AMD (approx. $176,300 average and $62,200 median). Fifteen percent of firms exceeded 100,000,000 AMD ($222,000). Industry-wide annual revenues for 2005 are circa $14.1 million.

Exports: Fifty-four percent of firms (based on 30 responses) derive no revenue from outside the Republic of Armenia (donors in-country are included as domestic revenue). Only 13 percent indicated a majority of revenues from foreign sources.

Profitability: The average industry-wide profit is 17.8 percent with a median of 12.5 percent.

3. BSP Operations and Capacity Building Needs

Armenian BSPs are a significant employer in the Armenian economy. Companies in the sector are typically domestically and male owned organizations with about 7 employees. Much of their business is derived from within Armenia, though the considerable presence of the donor community creates a market unto itself. The fact the industry is evenly split between male and female employees makes it vital to the empowerment of women, as the country transitions to a knowledge-based economy. Moreover, the industry regularly expands beyond its full time employment base by contracting, on average, 8 short term staff per company generating a combined employment of 1200+ people. As importantly, the sector as a rule pays well with an average hourly wage for consultants of 3,128 AMD (approximately $7.00).

The size of the typical firm, with a median of 7 employees (validated during focus group discussions), indicates an industry more mature than can be found in many CIS countries, which are more commonly inundated with micro firms of 1 and 2 people each. However, median revenues at only 28,000,000 AMD ($62,600) would seem to indicate an industry that is struggling to achieve sales, despite generally remaining profitable. Our estimate of 2,142,520,620 AMD industry wide sales revenues during 2005 ($4.8 million) is a solid benchmark from which to gage overall industry growth during the next 3 to 5 years.

Armenian BSPs, on the whole, are not effectively forging linkages with international customers. There are reasons for this, of course, most notably the closed borders and the fact inward diaspora investment and projects often rely on their own resources. More investigation is needed into the potential of domestic BSPs reaching out more aggressively to diaspora for project management, market assessments and the like.

There is a clear lack of specialization among BSPs, a factor which is quite common for CIS consulting industry firms, and this situation surely contributes to lackluster BSP industry sales. CAPS research indicates both the IT and tourism sectors, for instance, want value adding services such as market development and in a manner that is highly sensitive to their sector specific needs. The lack of BSP specialization in this regard coincides with the industry's inability, more often than not, to clearly articulate which types of services they offer to which target markets. Nevertheless, Armenian BSPs have penetrated most major industry sectors to some extent, though gems processing stands out as one that relies very little on the consulting services industry.

Marketing and sales are the most commonly BSP provided services, which correspond to the services cited as most in demand by IT and tourism company managers. However, there is an apparent cause and effect relationship here as many of these same managers aren't aware of the range of alternate services or their usefulness. Human resources consulting and training, for example, are not well understood by Armenian companies indicating an over reliance on services that simply happen to be available from BSPs. On the positive side, BSPs want new methodologies and technical assistance from CAPS in the very areas tourism and IT managers indicated needing help (when prompted by questions in each functional area). Tourism and IT assistance preferences include: strategic marketing, export development, financial forecasting and cost reduction, training and developing staff and use of new technologies. The BSP sector will gradually need a paradigm shift to incorporate client education into its selling process. As such, further development of the promising functional areas, e.g.

training and developing staff, will allow for consulting market expansion and the identification of specific consulting product niches therein.

In terms of their own business acumen, Armenian BSPs are not utilizing basic marketing and sales techniques to their full advantage. Only one-third of all companies surveyed use high quality printed literature as sales tools for prospective clients. Moreover, as a logical follow-on to a lack of specialization and target marketing, there is a *wait for the customer to come to me* attitude and little recognition of the need for systematic sales efforts to reach new clientele. One quarter of respondents do no active selling whatsoever and over half use passive techniques such as word of mouth or simple networking. These factors stymie consulting firm growth and market development overall, which presents an opportunity for CAPS to develop such skills and practices.

Interestingly, BSPs indicate target marketing and in niche market specialization as the highest skills based priorities. These combined with project management were cited as first or second priorities in 41 instances. This is a positive self-recognition. CAPS will undertake development of a skills building course to improve the professionalism of BSPs and the way they run their businesses.

Adhering BSP stated preferences for new consulting methodologies and tools, CAPS must address marketing and export development first and foremost, and train BSPs in their use. Such seminars should be very tools oriented as BSPs and industry alike have voiced their disinterest in generic training. Financial planning and access to finance consulting products are other areas of considerable interest to BSPs. These will logically be offered following a second round of CAPS product development efforts. Human resources management techniques, while not prioritized as highly in the survey, were acknowledged during focus group discussions as also important. HR is crucial to CAPS workforce development objectives – to assist cluster companies to more effectively recruit, hire, motivate and develop staff. All CAPS materials will be sector specific in nature to address the specialized needs of cluster members, and to enhance the service provision of the BSP industry at large.

Finally, Armenian BSPs are not overly collegial either internally or externally. That is, they typically do not belong to associations; they do not have an active professional association of their own; they don't subscribe to international standards of professionalism and; they are not overly concerned with selling services that allow adherence to international certifications. All of these factors point to an industry too isolated and without a united focus. The advent of a BSP professional association may help to remedy these conditions.

II. Survey Design and Process

Overview of the Survey Procedures

The survey was conducted by the Economy and Values Research Center (EVRC), an Armenian research group, who were selected by CAPS in a competitive bidding process. CAPS staff designed the questionnaire. EVRC, with input from CAPS, identified the BSP industry population, constructed a sample frame, derived the sample, translated the questionnaire into Armenian, tested the questionnaire on industry members and conducted the in-person interviews. The data were provided to CAPS for analysis and production of the final report.

The following definition of Business Service Provider (BSP) was used: companies involved in provision of "non-financial services" to micro, small and medium-sized enterprises, such as[1]:

1. Market access services;
2. Management and operational development services;
3. Technology and product development services;
4. Training and technical assistance services;
5. Infrastructure services;
6. Policy and advocacy services
7. Access to financial services

1. Population Design and Sampling Plan

Companies operating in the BSP industry in Armenia were identified by

1. The latest dataset of USAID MEDI provided by Marina Poghosyan
2. Spyur: Yellow & Business Pages of Armenia, leading and the most comprehensive database of existing legal entities (www.spyur.am)
3. Dataset of EVRC: designed for Diaspora Investment Research
4. List of sector leaders available at www.amcham.am
5. List of companies operating with US capital available at http://www.bisnis.doc.gov/bisnis/bisdoc/0409uscosam.htm, http://www.bisnis.doc.gov/bisnis/bisdoc/0504uscosam.htm,

Extensive checking of the above sources and databases identified 170 companies (both commercial companies and NGOs) operating in this industry using the above definition as a guiding rule. NGOs and foundations were excluded from the sample, reducing the population to 128 companies. Furthermore, companies providing pure auditing, accounting and legal advice were also excluded, bringing the total population of BSP companies to 91. During the interview process, some companies were identified who were in process of liquidation or who indicated that they provided only auditing, accounting and legal advice. New companies were also identified.[2] This filtering process resulted in a sample population of 77 consulting companies. The sample for the survey consisted of 49 of these companies from the BSP population according to the geographic stratification below:

	Population			Sample		
BDS Sector	Yerevan	Marzes	Total	Yerevan	Marzes	Total
Distribution of companies	57	20	77	*39*	*10*	*49*

[1] This definition is used by the Small Enterprise Education and Promotion (SEEP) Network http://www.seepnetwork.org/section/programs_workinggroups/bds/bds_guide.

[2] New companies included some who were previously in the ICT sector but switched to consulting service provision as well as start-up companies discovered in the process of interviewing other firms.

2. Data Collection

Interviews were conducted between January 9 and February 11, 2006. The interviews lasted approximately 40-45 minutes, and all but one were conducted in Armenian. A team of female economics students from Yerevan and neighboring marzes administered the questionnaires. The enumerators were provided with extensive two-day training by EVRC and CAPS designed around the administration of the questionnaire and handling respondent questions. Pilot interviews were conducted to test the questionnaire instrument, which was adjusted slightly prior to final implementation.

Managers of companies (usually high-level management) were first contacted by phone, informed about the survey and face-to-face meetings with enumerators were scheduled. Only 10-15 percent of the industry players declined the survey (these are companies that can't be considered as major players in the sector). In some cases, managers were unwilling to provide detailed financial data because they felt the information was too sensitive (confidential).

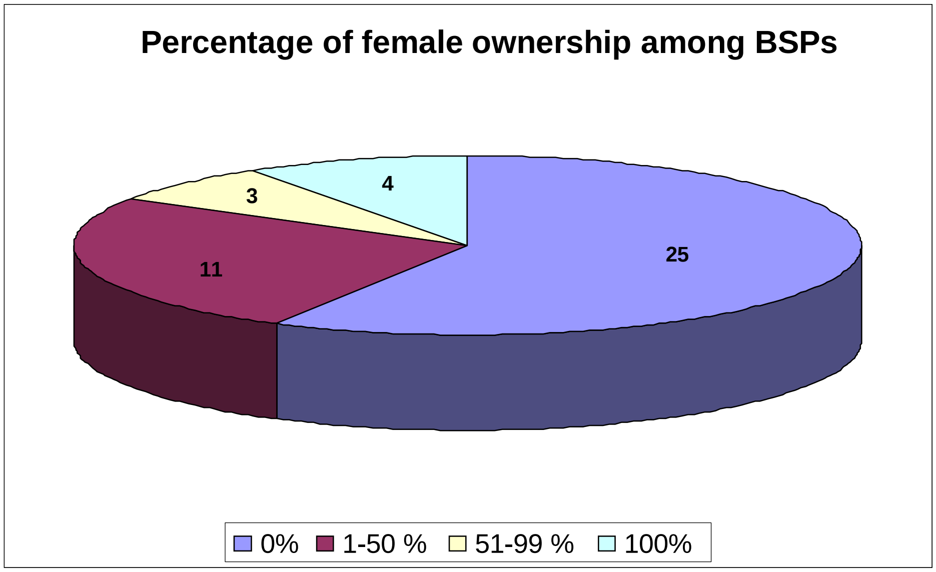
III. Survey Results

1. Description of BSP Companies

Approximately 170 concerns in Armenia were identified as providing business services. For the purpose of our research, non-governmental organizations and foundations were removed from the sample, as were firms who provided only legal, accounting and auditing services. The one exception to this was the Shirak Competitiveness Center, a foundation we left in our sample due to its status as a very active BSP in Gyumri.

Of the 77 Armenian firms remaining after filtering the industry down to consulting services providers, 57 are based in Yerevan and 20 in the marzes. The sample for this analysis is based on in-depth interviews with 49 of these companies. With sample coverage of greater than 60 percent of the BSP consulting population, we believe survey validity is very high and accurate conclusions about the sector may be made.

1.1 Ownership. Company ownership in the BSP industry is primarily male. Of 43 companies who specified share of ownership by gender, 25 were entirely male-owned (58 percent of firms) and only 4 were entirely female owned (9 percent of firms). Three quarters of the firms in the industry are majority male owned. Average male share of ownership was 75 percent.

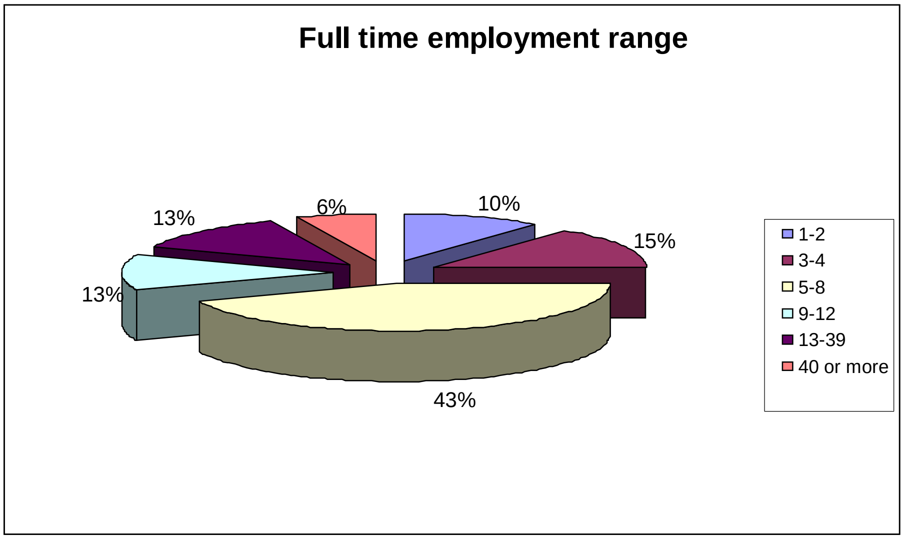


The BSP industry is largely domestically owned. Only 5 of 45 respondents who divulged the source of their ownership indicated being majority foreign owned. Not taking into account non-response, 80 percent of firms were entirely domestically owned, whereas only two firms were entirely foreign owned. Ownership of BSPs outside of Yerevan was entirely domestic. The average domestic share of ownership was 86 percent.

Foreign ownership share	**Frequency**
0 percent	36
1-50 percent	4
51-99 percent	3
100 percent	2
Total	**45**

1.2 Employment and Wages. BSP firms range from very small, including 10 percent with only one or two full-time employees, to large sophisticated companies with over 40 employees. The average firm size is 12.1 employees and the median is 7.0 employees. The divergence of the mean and median firm size is caused by the existence of a few large firms. Fifteen firms employed ten or more workers and were entirely Yerevan-based. These larger firms comprise just 30 percent of sample firms but account for more than 70 percent of overall employment. A subset of this group (6 percent of the total sample) employs 40 or more people on a full-time basis. Regional BSPs tend to be much smaller – the average and median number of full-time employees is 5.0 in the marzes.

Full-time employment in the industry is evenly distributed among men and women. A total of 48.5 percent of employees in the industry are women, while the average (median) share of women in each firm is 50.8 (50 percent).



Three quarters of firms responded they employ part-time consultants or trainers to work on projects. Of those who did hire consultants, the average number regularly hired was 8 and the median 5. Roughly one third of those answering this question reported hiring more than 5 external consultants. Twelve of these firms were Yerevan-based, which mirrors the concentration of larger firms. Contract employees in the BSP sector were also equally likely to be male or female, reinforcing the importance of women in the workforce of this sector.

Of the 36 firms willing to provide payroll data, the average monthly wage for full-time professional and non-professional employees was 130,117 AMD (approx $289) Unsurprisingly, the average in Yerevan of 140,575 AMD was much higher than the average of 89,731 AMD in the regions. The average hourly wage for consultants in the sector was 3,128 AMD. Again the average in Yerevan (4,055 AMD) was considerably higher than in the marzes (1,667).

Using the sample weights stratified by region, we estimate that the consulting BSP sector employs a total of 865 full-time workers in Armenia. An additional 395 consultants are estimated to work on a part-time basis in the industry, bringing total employment in the sector for 2005 to 1260.

	Yerevan	**Marzes**	**Total**
Full-time employment	785	80	865
Part-time employment	339	56	395
Total employment	1124	136	1260
Average revenue	107.4 million AMD	12.9 million AMD	
Total revenue	6,121 million AMD	257 million AMD	6,397 million AMD

1.3 Revenue. The response rate for total revenues was lower than for other quantitative questions, which was to be expected. Despite only 27 of 49 firms in the sample answering this question, the results should be reasonably indicative taking into account a response rate still achieving 35 percent of the overall population (77). Average annual revenue for calendar year 2005 among these firms was 79,352,616 AMD (approximately $176,300), while median revenue was 28,000,000 (approximately $62,200). Only 15 percent of firms responded that their revenue exceeded 100,000,000 AMD annually.

Total revenue among the firms who answered this question was approximately 2,142,520,620 AMD (approximately $4.8 million). If we stratify by location (Yerevan vs. marzes) and assume the 22 firms who answered are representative of the Armenian industry at large in that location (a fair assumption since non-response is distributed among large and small) the total annual revenue of the narrowly defined sector is approximately 6.4 billion AMD ($14.1 million).

1.4 Value Added Per Full-time Employee. For a sector with low capital requirements, revenue per employee gives a simple measure of productivity. For the BSP sector, the average value added per employee is 6.4 million AMD, while the median is 3.5 million AMD. This productivity is expected to grow each year, as BSP firms expand and improve services to Armenian firms.

1.5 Exports. To gauge the importance of the international markets, the survey asked what percentage of gross company-wide revenue was derived from customers residing outside Armenia (which means that donor-funded programs in Armenia are considered domestic revenue). 21 of 39 respondents (53.8 percent) indicated that none of their revenue was derived from sources outside Armenia. Only 5 companies indicated the majority of revenue came from nonresidents. None of the BSPs outside of Yerevan indicated more than 10 percent of gross revenue stemmed from non-residents. Thus, we can conclude that the BDS sector in Armenia primarily serves the domestic market. Certainly this is influenced by the closed borders of neighboring countries. However, it is also indicative of the reliance on diaspora for inward investment in the sense they tend to have their own resources for market assessments, due diligence and the like.

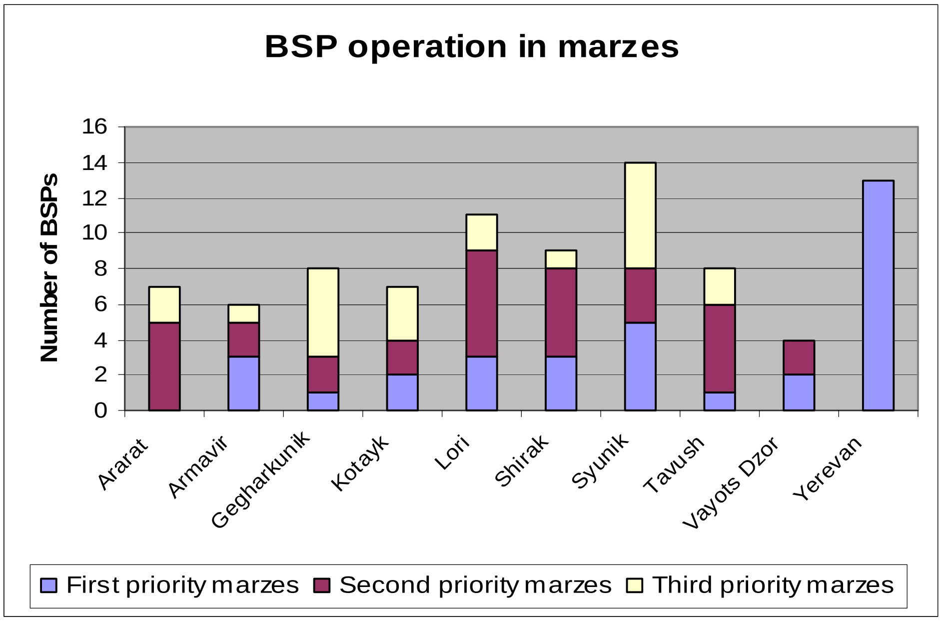
Revenue from foreign customers percentage range	**Frequency**
0 percent	21
1-20 percent	9
21-50 percent	4
51-99 percent	4
100 percent	1
Total	**39**

1.6 Profitability Average net profit was 17.8 percent, while median was 12.5 percent. This indicates an industry that is profitable and able to internally finance some expansion. It is a good indicator for the CAPS project – to tap into BSPs that are sustainable – while seeking ways to help the industry broaden its clientele.

The range of company-wide profit, as a percentage of gross revenue	**Frequency**
1-10 percent	7
11-20 percent	9
21-50 percent	6
51-75 percent	1
Total	**23**

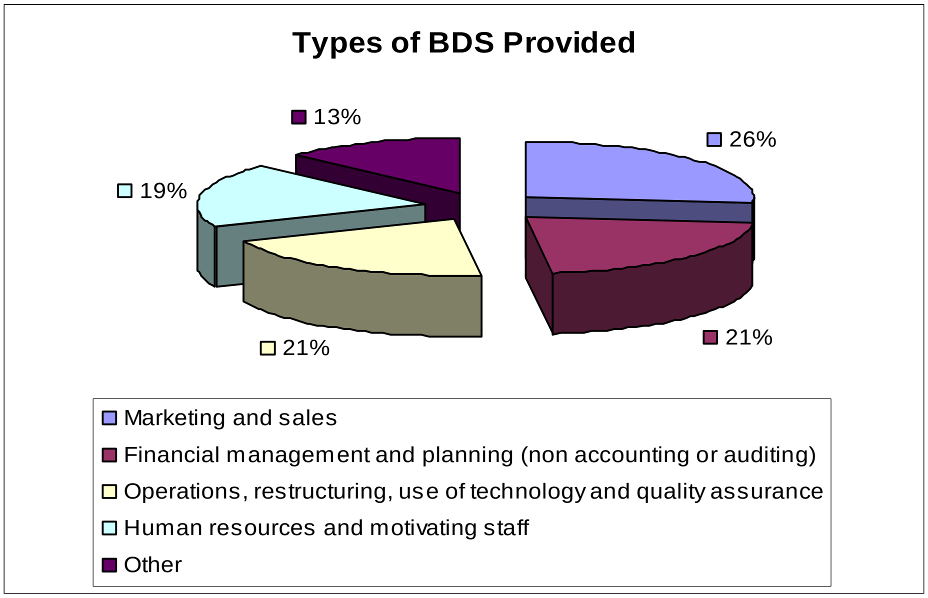
2. BSP Operations

2.1 Geographic coverage. The survey included BSPs in all marzes of Armenia. Of the respondents, 10 BSPs or 20 percent are operating only in Yerevan. The remaining companies are active not only in Yerevan but also in other marzes. After Yerevan, the most active marzes are Syunik, Lori and Shirak, the latter two containing the second and third largest cities.



2.2. BSP by specialization. The survey sample included only 10 percent highly specialized companies providing consulting in one area, mainly ISO consulting and media services, whereas the remaining 90 percent offer services in two and more areas. Many indicate a wide variety of so-called specializations. Local consultants will explain the market demand is not stable enough for specialization, and in response, BSPs are forced to remain highly diverse in their services mix. This is somewhat understandable but international experience tells us the more a consultant specializes the more likely they will be able to carve out a market niche and improve their revenue potential. This in turn will involve developing expertise in sector specific issues and bottom line profit generating services such as niche marketing, sales linkages, cost reduction, international standards that enable new sales and the like.

2.3. Service lines. The survey excluded companies which are specialized in accounting, audit, tax and legal services in order to focus on management consulting firms. The most dominant service lines among management consulting firms were:



Note: BDS refers to Business Development Services, which include a variety of consulting and other types of services to assist companies to grow and develop

Perhaps more telling than the types of services provided, which again were many and varied without much attempt at specialization, was the difficulty some firms had categorizing their services. This further reinforces a need to help BSPs to develop niche markets and focus on services specifically designed for them. The largest single category of services was marketing from which 13 firms generated from 50 to 100 percent of total revenues.

In each area, the following services have been mentioned as priority number one and two in terms of services they are offering now.

Marketing and sales: Ø Market research & strategic marketing Ø Export development
Financial management and planning (non accounting or auditing) Ø Financial forecasting and reporting Ø Cost reduction
Operations, restructuring, use of technology and quality assurance Ø New production or operating technology Ø Use of information technology
Human resources and motivating staff Ø Staff development through training Ø HR management
Other Ø Development projects

2.4. BDS demand among tourism and ICT companies. Our surveys among the IT and tourism industries largely mirror the above; that is, they indicate needing the same types of services being offered by BSPs – with marketing as number one and human resources at a lower priority. One could surmise BSPs have precisely adapted their services to market needs; however, a more likely scenario is they are relying on what they have been able to sell in the past without much view to innovation and new service offerings. The availability of human resources assistance, for instance, is quite limited and client companies are likely not aware of HR services that might help them grow.

Nevertheless, the services offered by BSPs, and in demand by tourism and IT companies, are correlated in a number of functional areas. The table below illustrates the first and second priority demands for BDS (consulting services in this case) by the tourism and IT sectors (as buyers) vis-à-vis the first and second most commonly offered services.

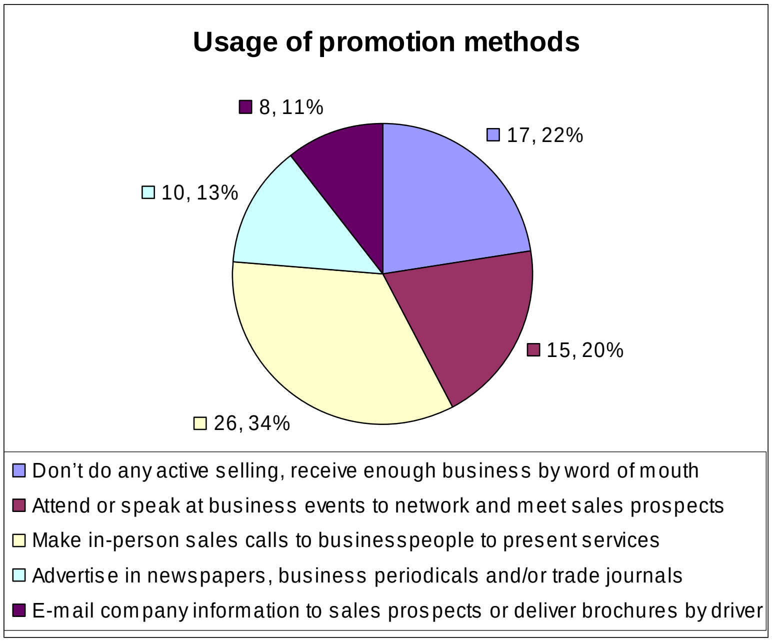
BDS Supply by order of priority	BDS demand IT	BDS demand Tourism
1) Market research & strategic marketing **2) Export development**	**1) Export development** **2) Market research and strategic marketing**	**1) Market research & strategic marketing** **2) Export development**
1) Financial forecasting and reporting **2) Cost reduction**	1) Access to finance **2) Financial forecasting and reporting / Cost reduction**	1) Access to finance **2) Cost reduction**
1) Staff development through training **2) HR management**	**1) HR management** **2) Training and developing staff** / Incentive systems	**1) Training and developing staff** **2) HR management**
1) New production or operating technology **2) Use of information technology**	1) International quality standards **2) New production or operating technology**	**1) Use of information technology** **2) New production or operating technology**

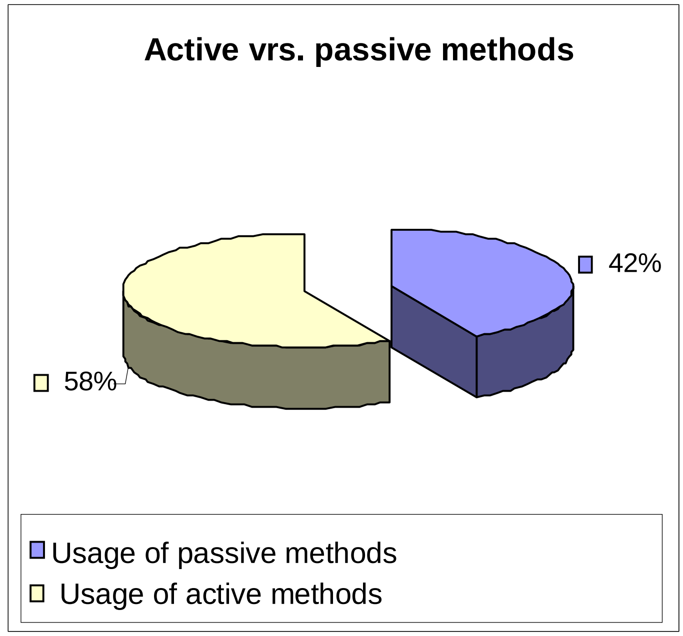
In the area of finance, BSPs appear to be missing a market need in not focusing more on access to finance. Even though in the HR area the services of providers and needs of companies in IT and tourism seems to be closely aligned, there anecdotal evidence suggests very little staff training going on at the company level.

3. BSP promotional activities

3.1. Promotional material. Over three-quarters (78 percent) of respondents use printed materials to promote their company. Of those who are using printed promotional materials, roughly half are using multiple page glossy, four color printed materials and half are using simple folded, two or three color, inexpensive paper materials. This comes down to only 35 percent of all respondents regularly using high quality, professional promotional materials to promote their consulting services. This is one of several indications the industry as a whole is not especially sophisticated in use of promotional tools.

3.2. Promotional methods. We asked BSPs how they promote their services. Fifteen of 49 respondents listed “don’t do any active selling, rely on word of mouth” as their first or second choice. Another 14 indicated attending exhibitions as their first or second promotional priority. In this sense, 59 percent use what could be termed as highly passive marketing methods to promote their services. Most of the firms answering this way have been in business for at least several years and rely mainly on existing clients. This was further reinforced by the revelation that personal selling (important but not efficient to reach a broader audience) came out as another preferred means of promoting their businesses (26 of 49 in the sample). These strategies will suffice if growth is not the objective and as long as current clients can maintain sufficient sales volume, which is questionable at best.





Taking into consideration limited BDS market demand, especially in the regions, the application of passive promotional methods will not speed up the process of BDS market development.

3.2 Sources of industry and competitive information. In a further attempt to assess the level of sophistication in the way BSPs make marketing decisions and promote themselves, we asked respondents how they obtain information about the market. The number one response was their "own managerial experience." Roughly half of the respondents listed passive, non systematic methods for information gathering, which included their own managerial experience and word of mouth referrals. This might be understandable id the industry was flush with business; however, as few of the consultants we spoke with were at 100 percent capacity, the lack of systematic marketing and information gathering by half of the industry is illogical. This also raises the issue of competence to advise others in marketing matters if good marketing practices are not in use for their own businesses.

Sources of getting market info	**Ppriority one and two**	**Total**
Word of mouth from friends or associates	17	36
Your own managerial experience	29	38
Market research (including internet searches)	25	36
Association or government data	7	28
Other	7	7
Total	43	

4. Industry Sectors

BSPs were asked to identify their involvement in specific industry sectors, in part to determine where the most revenue is being generated and to further assess the level of specialization that exists among BSPs. Respondent perceptions concerning the anticipated future performance of sectors is also of note for the industry itself, and for CAPS consideration in selection of future clusters.

BSP clients' industry sectors	Sectors in which they have at least 3 years experience (# of respondents)	Sectors of greatest interest to work with (# of respondents)	Future perception: Flat but stable / Growing (# of respondents)
Tourism	**33**	**14**	**5 / 42**
Information technology	**32**	**16**	**4 / 41**
Crafts, carpets and hand made jewelry	12	1	24 / 21
Stone quarrying and processing	14	0	17 / 28
Food processing (not agriculture)	**37**	**6**	**4 / 40**
Gems processing	7	3	25 / 18
Leather goods and textiles	13	2	29 / 12
Construction	27	2	8 / 38
Financial services and insurance	27	16	3 / 43

The most important segments for BSP involvement are food processing, tourism and IT, which are also listed (with financial services / insurance) as the sectors with the greatest growth potential. Typically, financial services / insurance is the sector most prone to sustain large consulting firms. The fact this sector comes in fourth place is an indication of the relatively small size of the typical Armenian consulting firm. Also of note, the gems sector – responsible for such a high percentage of Armenia's exports – has not been penetrated by BSPs.

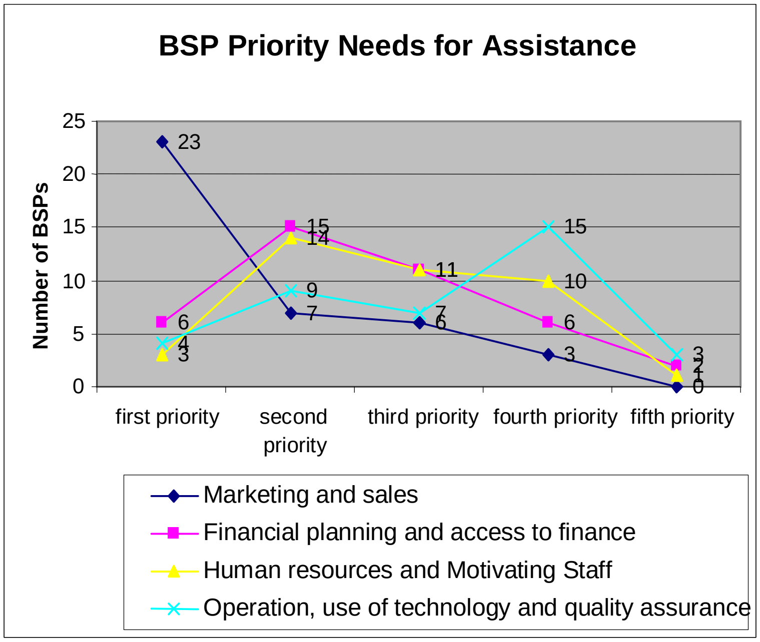
Note: The involvement of a BSP in a particular sector is influenced, among other factors, by donor funded projects active in that sector. The USAID ASME project, for instance, was involved with strengthening food processing companies utilizing local business service providers.

5. BSP Capacity Building Needs

5.1. Prioritization of a functional area. This section of the questionnaire was intended to determine the capacity development needs for BSPs, and in turn, CAPS intervention possibilities. The scattering data in the figure (below left) indicates difficulties the companies had in prioritizing needs for assistance in specific functional areas (marketing, etc.). One would expect the priorities to follow a declining or ascending curve, as are the case with both marketing and finance. However, the two lines indicating human resources and operations demonstrate this is not agreement on these two in terms of their importance to the industry. It may be these BSPs understand the importance of these two functional areas as a niche for training and consulting projects but are not ready at this point to focus on such services.

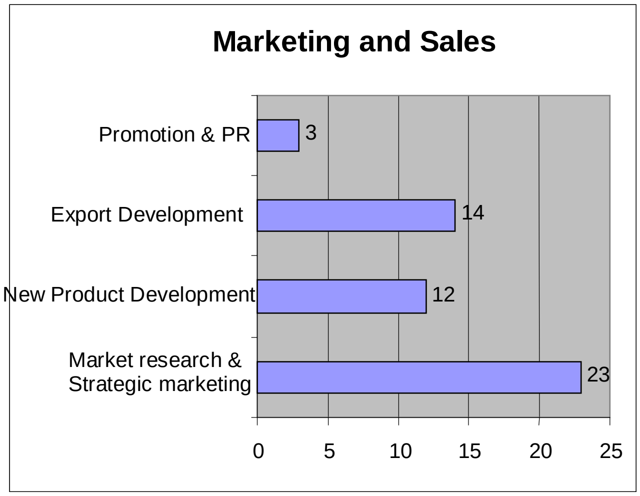
Nevertheless, the first two functional priorities are quite clear, as indicated in the graphic (below left). Most BSPs (77 percent) stated they would like assistance with *marketing and sales* as priority number one or two, even though most of them provide services in this particular area already. The second priority functional area was clearly *financial planning and access to finance*, selected by 53 percent of respondents.

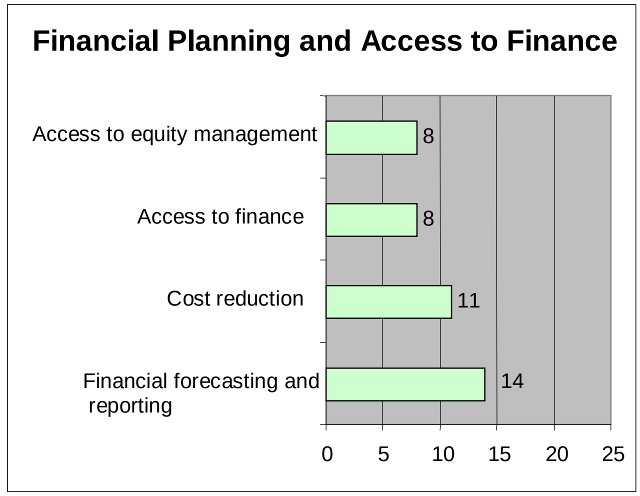
BSPs mainly indicated needing assistance in the areas they already provide services in. This could be interpreted as an attempt toward further specialization in these areas, which is a positive sign for the industry at large. CAPS should support this trend and augment it further with sector specialization.

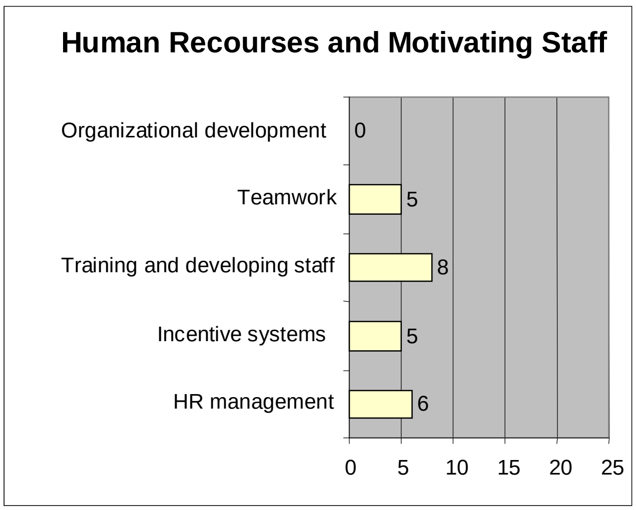


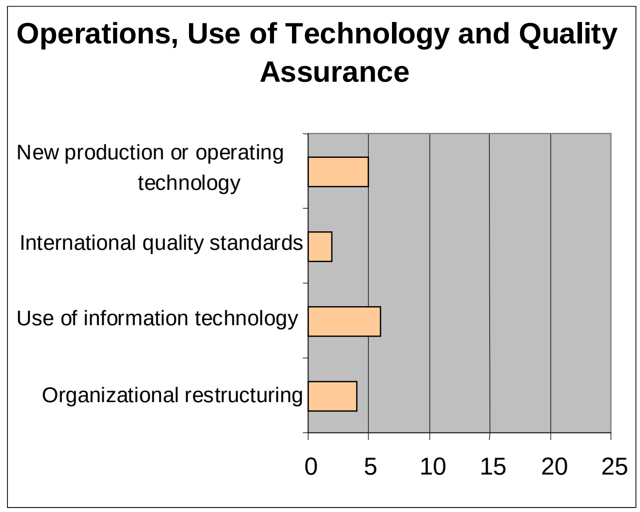
5.2. Need selection within each functional area. The main purposes of our research were twofold: 1) clearly assess the specific types of assistance the BSP industry requires from CAPS and 2) develop benchmark data to monitor impact. The former (precise industry needs) are best illuminated by the questions we asked to clarify which training and consulting methodologies they would most like to learn.

In marketing and sales, BSPs were most interested in deepening their knowledge and skills in market research, strategic marketing and export development. Within the financial area, the interest was for mainly in financial forecasting / reporting and cost reduction. For human resources management; while not listed as a high priority by many, the primary interest was in training and developing staff. Finally, in operations – furthest down the priority scale – the interest was in the adoption of new technology (including information technology). Within other areas, BSPs identified ISO consulting, training to provide sector assessment analysis methods and project management instruments.









Within each functional area CAPS is able to contribute to BDS market development from both sides – supply and demand. As assistance in marketing was clearly the number one priority, from the standpoints of both BSPs and industry (IT and tourism), CAPS will initially develop ***sector specific*** consulting materials in strategic marketing, marketing research and export development.

5.3. BSP needs for capacity building in the area of consulting. Continuing on with the consulting needs of BSPs, we asked respondents a series of questions to determine their core competencies and skills in running their own businesses. The skills areas they most wanted assistance with are summarized in the following table:

Functional Area	**Priority one and two**	**Total**
Promoting and selling consulting services	17	35
Target marketing and specializing in consulting niche markets	22	39
Project management and planning for consulting companies	19	34
Consulting and presentation skills	7	34
Consulting analysis tools and restructuring methodologies	15	33

The highest priority among respondents was to develop their competencies in target marketing and specializing in consulting niche markets. This need is in tune with previously mentioned findings that the industry is not specialized enough either functionally or in terms of target customers. The fact this situation is recognized by industry members is encouraging and ties in with our intention to offer sector specific tools and methodologies. The second priority was to assist consulting firms in project management and planning – essentially managing an engagement from start to finish. Promoting and selling consulting services only achieved priority number three among respondents, which while disappointing is not surprising given the fact half the industry is rather passive in marketing their own services.

In short, Armenian BSPs need assistance in at least four of the five areas listed in the table above and to some extent this is recognized by the industry. This sends a clear signal to CAPS to provide assistance in building BSP consulting skills, including running a consulting firm as a business. Similar materials have been developed for use in like markets around the world and these may be modified for effective use among Armenian practitioners.

5.4. Availability of international certifications. This section was intended to gage the prevalence of internationally recognized certifications among BSP practitioners. The total number of responses was 15, 12 of which relate to the accounting and auditing field. The lack of internationally recognized certifications and quality standards hinders BDS market development. CAPS may consider launching a more systematic approach to BDS market development with a provision to establish industry standards for training and consulting services. This is most appropriately done in cooperation with a credible professional association for the BSP industry, through which an organization such as the ICMCI (International Council of Management Consulting Institutes) would approve certification of local consultants (to the Certified Management Consultant [CMC] standard).

6. Legal or regulatory problems BSPs face in Armenia

No fewer than 40 distinct regulatory issues were listed by respondents as problematic for the industry, with tax and administrative matters achieving the highest frequency (20). Bureaucracy and corruption, combined with complaints about unfair tendering rules by state agencies, were next most frequently cited. By and large, however, most responses were disparate, demonstrating (with the possible exception of taxation) a lack of agreement on key regulatory issues. CAPS sponsored capacity building with associations and think tanks, in legal and regulatory reform, will first require tapping the cluster working groups to identify and prioritize the most salient issues of concern to each industry, including BSPs.

7. Membership in Associations

Among the BSPs taking part in the assessment, 24 respondents were members of 28 different associations (some belong to several associations). Among listed associations 11 are professional organizations and the remaining 17 are of a general type – chambers of commerce and the like. The table below summarizes only those organizations, which occur more than once.

Assocs. belonged to	Main 1 or 2 services used	Services needed they do not offer
Amcham (9)	1)business meetings/networking 2)networking 3iInfo update 4)information 5)lobbying	1) to find partners in other countries through Amcham networks 2) advocacy 3) legal and accounting advising 4) clients attraction procedures
UMBA (6)	1) discussing the draft of the law 2) information 3) expertise exchange 4) symposia organizing 5) seminars organizing 6) networking 7) info updates on current legislation	1) info dissemination on implementation of ISO Quality management systems and its Input among Armenian enterprises 2) assistance to Armenian enterprises to enter the CIS markets

Among stated above associations Amcham is the most frequently cited. In general, members are quite satisfied with services received, though some specific suggestions for improvement have also been stated.

Among respondents not belonging to associations (24), 10 did not believe associations are useful, 9 stated that no association they are aware of can serve their needs, and one stated the high cost of membership as the reason for not belonging. Four BSPs said they are newly established and will consider membership in future.

In short, professional associations are not particularly popular among BSPs. This presents an opportunity for CAPS to bring together its association capacity building efforts with BSPs – both as potential service providers and members. Associations need to be able to offer professional services to membership and BSPs are greatly under-utilizing such associations as a means to generate new clients.