MEGATREND #1: MAKING CONSULTING AND IT SERVICES PROPOSITIONS WORK



A global perspective on the consulting market, drawing heavily on extensive client-side research

SOURCE GLOBAL RESEARCH

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METHODOLOGY

This report is based on quantitative research. We conducted an extensive survey in December 2015 with senior users and buyers of consulting services.

Survey

We surveyed just over 2,700 senior users and buyers of consulting services in 15 major consulting markets in North America, Europe, the Middle East and Asia Pacific. 42% of respondents work in organisations with more than 1,000 employees (the percentage is higher in mature markets where large corporations are more numerous). Respondents are distributed across operations, general management, sales & marketing, IT, finance and HR. They represent nine industries: energy & resources; financial services; healthcare; manufacturing; pharma & biotech; the public sector; retail; the services sector (including transportation and construction); and technology, media & telecoms.

The increased scale and scope of our survey creates potential problems in comparing this year's data with last year's. Our experience is that there's not a lot of variation in the way relatively large organisations use consultants, but there are some cases where our sample has had an impact and we highlight these.

The role of this report in our series

This is the first in a series of six reports we will be publishing during the course of 2016 which will use a combination of feedback from clients and consulting firms to analyse the underlying trends shaping the consulting industry over the next 12 months.

The existing publication in this series is:

Forecasts for 2016

Based on our largest-ever survey of senior users of consulting services around the globe, this report looks at the prospects for growth in the consulting industry in 2016. Clients are as busy as ever, but 2016's data doesn't show the jump in "busy-ness" that we've seen in each of the last three years, suggesting that the overall rate of growth in consulting will start to slow this year. Inevitably, though, different industries and services are likely to grow at different rates…

The future publications will be:

Megatrend #2: Premium and commodity consulting: Is the string getting longer?

One of the most important trends our 2015 research highlighted was the extent to which clients are increasingly using consultants in two ways, in more familiar areas as a commodity, but also in more innovative fields (e.g., digital transformation) where the characteristics of traditional, high-value management consulting come to the fore. Crucially, our research suggested that this division cut across conventional consulting boundaries, and is increasingly seen as two different business models, making it hard for firms to do both at once.

This report will explore this theme in greater detail, looking at how this division is taking even more concrete shape in clients' minds, and how consulting firms are responding to the challenge it creates to their business model.

Megatrend #3: M&A: Is it adding value?

The consulting industry has experienced unprecedented levels of consolidation over the last two years, but it's still far from clear how clients benefit from the trend. This report will analyse clients' views around this issue and explore how they'd construct such deals, if they had a say.

Megatrend #4: Talent: Will the world run out of consultants?

With worldwide growth in consulting expected to be strong throughout 2016, the perennial war for talent is reaching new levels of ferocity, especially when it comes to senior people. Moreover, consulting firms are facing new competition from high tech companies and start-ups, making it hard for them to recruit a new generation of consultants, too. This report will look at how consulting firms are responding to the challenge this poses, and asks what the winning strategy is likely to be.

Planning for growth in 2017

Our fourth annual market attractiveness index, which assesses each geographical market for the next 12 months in terms of things like: the rate of growth in the market, how easy it is to find and retain talent, how much revenue the average consultant can expect to generate, and the propensity amongst clients to use consultants.

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Definitions of industries and services

Industries

Energy & resources

Energy
Includes the exploration and production of energy, including oil, gas, coal, and renewables.

Utilities
Includes the delivery of electricity, gas, water, sanitation, and other related services.

Primary resources
Includes agriculture, chemicals and chemical products, commodities, forestry, fishing, metals, mining, and plastics.

Financial services

Banking
Includes retail banking, commercial banking, and lending.

Insurance
Includes general insurance (e.g., motor, home, pets, health—anything on an annual contract), life insurance, pension products, retirement planning.

Private equity
Includes both consulting work for private equity firms and consulting work with private equity portfolio businesses.

Capital markets
Includes investment banking, trading of stocks and financial products, corporate finance, and broking.

Investment and wealth management
Includes private banking, high net-worth banking, investment management, trust funds, the management of pension funds, and asset management.

Manufacturing

Aerospace
Includes space research and technology, the manufacture of aircraft, aircraft parts, rockets and other space equipment, and tanks and ammunition.

Automotive
Includes the manufacture of motor vehicles, industrial vehicles, and vehicle supplies and parts.

Construction
Includes surveying, architectural, and engineering services, heavy construction, house building, and the building of infrastructure.

Consumer packaged goods
Includes the manufacture of clothes, foods, alcohol, tobacco, furniture, home furnishings, cleaning products, small arms, children's toys, and sports equipment.

Consumer and industrial electronics
Includes electrical components, household and industrial appliances, commercial and professional equipment.

Industrial products
Includes industrial machinery, steel and metal products, and plastic products.

Pharma & biotech

Includes research into and the production of drugs, biological products, medicinal chemicals, and life sciences.

Healthcare

Includes private- and publicly-funded healthcare, hospitals, laboratories, and medical equipment.

Public sector

Government
Includes federal/national, state/regional, local government, emergency services, justice, social services, public transport, and conservation.

Education
Includes public and private schools, universities, and libraries.

Defence
Includes national security and consulting around defence issues.

Retail

Includes the selling of clothes, food, consumer goods, and automobiles.

Services

Logistics
Includes warehousing, storage, packing and crating, and distribution including cargo, freight, and haulage.

Business services
Includes services relating to law, accountancy, IT maintenance, security systems, advertising, employment agencies, and vehicle leasing.

Leisure
Includes museums, art galleries, theatre, golf courses, hotels, hospitality, travel agencies, restaurants, and bars.

Real estate
Includes estate agencies and operators of residential and commercial buildings.

Transportation
Includes private and people-related transportation, including airlines, airport management, train operators, rail infrastructure management, water transportation, courier services, and private bus services.

Technology, media & telecoms

Telecoms
Includes telephone, mobile, digital, and other communication services.

High-tech
Includes IT related devices, computer and computer related devices, audio and video equipment, broadcasting and communication equipment.

Media
Includes radio, television and digital broadcasting stations and services as well as printing and the publishing of newspapers, periodicals, and books.

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Services



Financial management
Includes finance function and budgeting/financial planning process.



Risk & regulatory
Includes responding to regulation, technology and security risk services, operational risk, financial risk, programme risk.



HR & change management
Includes HR strategy and effectiveness, benefits, compensation and pensions, change management, internal communications, organisational design and culture, stakeholder management, team effectiveness and collaboration, leadership and governance, performance management, talent management/training and development.



Operational improvement
Includes business continuity and recovery, knowledge management, Lean and Six Sigma, property and estate management, quality and performance management, supply chain management, cost-cutting, innovation, M&A integration, managing quality, post-M&A integration, process design and re-engineering, procurement/purchasing, research and development, benchmarking, distribution strategy, environmental, sustainability and CSR, and operational review.



Strategy
Includes business and financial modelling, corporate re-structuring, corporate recovery and turnaround, corporate strategy, market analysis and strategy, market research, policy formulation, strategic sourcing/offshoring strategy, due diligence and valuation, infrastructure/asset financing and management, PFI, mergers and acquisitions, customer service, new product development, branding, marketing and channel management, customer relationship management, pricing, sales force effectiveness, category management, sales and distribution planning.



Technology
Includes ERP consulting, IT training, application of new technology, hardware/software selection, IT design and build, IT strategy, planning and review, IT testing and integration, management information and business intelligence, requirements definition, web and internet consulting, project and programme management (e.g., where consulting firm has been engaged to run a specific project that it is otherwise not involved in).

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INTRODUCTION: THE NEXT BIG PROBLEM

Clients' evolving needs are reshaping the relationship between technology and management consulting, and between both of these and the technology and managed services industry. What has, for the last 10-15 years, been a fairly stable and predictable set of relationships is becoming more complex and confusing.

The irony, our research suggests, is that it should be simple. Superficially at least, most clients are positive about firms' moves to diversify: they think that technology firms can provide reasonably high-quality management consulting, and that strategy and the Big Four firms can provide reasonably good technology consulting. While it's true that people in the very largest organisations are less likely to think this than those who work in mid-sized ones, today's most important clients– those who expect their expenditure on consultants to rise significantly—are most likely to think this.

But, as we delve deeper into the numbers, what we find is that there's also a strong correlation between the expectation that spending on consulting services will rise significantly and those who prefer to use different firms for planning/design and for implementation. The fact that clients think positively about the range of services firms provide doesn't, it appears, stop them from wanting to use different firms to provide those services. The reason is price: People who use multiple firms do so, not because they get access to different skill sets, but because they want to pay different fee rates for the design/planning and the implementation stage. While a single firm may provide the full range of expertise a client is looking for, it can't, we infer, convince clients that it will charge a reasonable (and different) price for each service.

While consulting firms have been putting a huge amount of time, effort, and money into building visibly diverse but integrated organisations, which are capable of offering the depth of services clients are looking for across a whole range of areas, they haven't yet cracked a business model that's based on having multiple price points and payment mechanisms.

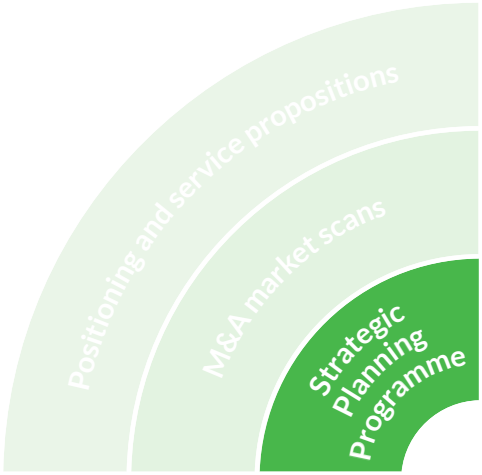
Every problem is, of course, an opportunity. One that's this big—and every large consulting firm is grappling with some aspect of this at the moment—is therefore also a massive opportunity for the firm that gets it right.

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How the *Strategic Planning Programme* can help you

- **Deepens your understanding of the major trends shaping the consulting industry**
- **Helps you to identify what clients want from consulting firms in relation to major trends**
- **Helps you in your business planning activities**
- **Helps you to identify opportunities and threats in the market, and to develop strategies in response to them**

Our *Strategic Planning Programme* helps you to develop your strategy. It looks at the consulting market from a global perspective, picking out the trends that matter wherever you are and drawing extensively on our research with clients. In 2016 it splits into six parts, honing in—in parts 2, 3, 4 and 6—on the themes we're hearing most firms and most clients talking about at the moment.

Reports covered in this programme:

- **Forecasts for 2016**
- **Megatrend #1: Making consulting and IT services propositions work**
- **Megatrend #2: Premium and commodity consulting: Is the string getting longer?**
- **Megatrend #3: M&A: Is it adding value?**
- **Megatrend #4: Talent: Will the world run out of consultants?**
- **Planning for growth in 2017 (Market Attractiveness Index)**

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About Source

Source Global Research is a leading provider of information about the market for management consulting. Set up in 2007 with offices in London and Dubai, Source serves both consulting firms and their clients with expert analysis, research, and reporting. We draw not only on our extensive in-house experience but also on the breadth of our relationships with both suppliers and buyers. All of our work is underpinned by our core values of intelligence, integrity, efficiency, and transparency.

Source was founded by Fiona Czerniawska and Joy Burnford. Fiona is one of the world's leading experts on the consulting industry. She has written numerous books on the industry including: *The Intelligent Client* and *The Economist* books, *Business Consulting: A Guide to How it Works and How to Make it Work* and *Buying Professional Services*.

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