

STRATEGIC PLANNING PROGRAMME 2014

Growth and innovation

BASED ON QUANTITATIVE AND QUALITATIVE MARKET
ANALYSIS FROM MULTINATIONAL ORGANISATIONS

5



Contents

Methodology	3
Survey	3
The role of this report in our series	3
Introduction: The struggle for the soul of consulting	4
Section 1: How big is the market for growth-related consulting work, and will it grow?	5
Developing new products and services for existing markets	7
Likelihood of future growth	7
Expanding into new geographies	10
Likelihood of future growth	10
Mergers and acquisitions	13
Likelihood of future growth	13
The impact on consulting expenditure	15
In summary: the key opportunities for growth	17
Section 2: What can consulting firms do to leverage the opportunities?	20
What do clients mean when they talk about innovation?	22
Section 3: Winners and losers	26
Which types of firms will do best?	26
Three perspectives on what clients are looking for	28
Helping clients globalise	28
Being able to tap into a consulting firm's knowledge base	30
The role that new ideas play in selecting a consulting firm	32
Performance by segment	34
Performance by firm	36
About Source	44

Methodology

This report is based on quantitative and qualitative research. We conducted an extensive survey in December 2013 and again in February 2014 alongside telephone interviews (between October 2013 to April 2014) with senior users and buyers of consulting services.

Survey

We surveyed 771 senior users and buyers of consulting services from Europe, the Middle East and the US. 73% of respondents work in organisations with more than 1,000 employees and over 47% of respondents work in organisations with more than 5,000 employees. Respondents are distributed across operations, general management, sales, marketing, IT, finance, HR and procurement. They represent nine sectors: retail; pharma and biotech; financial services; energy and resources; technology, media and telecoms; manufacturing; healthcare; services and public sector.¹

Interviews

We interviewed 93 senior users and buyers of consulting services from Europe, the Middle East and the US.

The role of this report in our series

This is the fifth in a series of six reports we will be publishing during the course of 2014 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.

Publication schedule 2014*

January	Part 1	Forecasts for 2014
March	Part 2	Simplification, productivity and cost-cutting
April	Part 3	Digitisation
June	Part 4	Views on the consulting industry: the perspective from procurement
October	Part 5	Growth and innovation
November	Part 6	Planning for growth in 2015

* For more information. please go to pages 42-43.

¹This includes state-owned organisations and education.

Introduction: The struggle for the soul of consulting

This business has a reputation for thinking that reorganisation is the answer to every problem or opportunity. I've been here less than four years and am on my third organisational structure. The motivation behind our desire for change is to improve service while reducing costs. Until recently, every country (and there are more than 100 in our network) organised its own supply chain; we now recognise that we need to look at this centrally if we're to do those two things – improve efficiency and service. Up to this point, there's been no one team responsible for driving a consistent level of service: if we can raise awareness about what we can achieve and be more transparent about our performance, then we'll unlock a lot of potential value in our contracts with existing customers. So what role are consultants playing in this? They've helped us benchmark our performance in the initial stages of the project, gathering data on 100s of people, contracts, etc. We're also using them as a source of market knowledge. If I want to know what we can do in the Netherlands, I'll use the expertise of consultants to tell me about the market and leverage their databanks to tell me what our benchmarks should be and to provide me with a blueprint for future change. This can all be done very quickly – they give us advice and we implement ourselves. However, the issue we face is that we've relied on help from consultants too much in the past – and, when they've gone, they've taken all the knowledge with them. We want our investment this time to be more sustainable: we want consulting firms to leave us with data and analytical techniques which we can use – and we won't use a consulting firm that isn't prepared to commit to that.

Finance director, pharmaceuticals sector, UK

We've used consultants on business strategy issues, such as figuring out how to compete in the affluent customer market, as well as for more operational tasks.

Sales director, financial services sector, USA

Two dynamics are driving our overall use of consulting services: the overall economy means that we've constantly got to pay attention to keeping costs down and even reduce our headcount, but our appetite for growth hasn't diminished.

CEO, manufacturing sector, Nordics

These three comments neatly encapsulate the different ways in which clients use – and don't use – consultants to help them grow their businesses. Again and again, when interviewing senior executives about the issues and opportunities they face, it becomes clear that the constant struggle to grow has become frenetic since the end of the global financial crisis (if it can really be said to have ended). Old assumptions about where growth will come from have been challenged; markets thought to be emerging have disappointed; new technology promises so much yet often delivers so little.

In this environment, we might have expected senior executives to turn to consultants for help – two years ago, all the talk from consulting firms was around how their role was, indeed, changing. But further investigation suggested that the actual volume of work genuinely focused on clients' growth agenda was relatively slight. Yes, consultants were being asked to help prepare the ground for growth, build the infrastructure that enables companies to increase volumes without upping their costs; yes, they were being asked to review grand operational and corporate strategies; but it was rare that they found themselves on the truly cutting edge of growth. Having spent the previous two years using consultants to take out swathes of expense from their organisation and still being forced to rely on them to respond to new regulation, the idea that consultants might also take a more creative role was alien to most clients. Instead, they turned to creative agencies and academics. More often than not, they relied on their own, internal devices.

Now, though, the pendulum appears to be swinging back in the opposite direction. Mounting excitement around digitisation, certainly in North America but increasingly also in Europe, has allowed even the more traditional back-office of consulting firms to argue that they can help their clients grow, not just make them more efficient. Moreover, the need to design and develop the infrastructure that digitisation requires has created a glass ceiling that creative agencies will struggle to penetrate. But all this begs some important questions – questions that this report is intended to answer:

- How big is the size of the market for growth-related consulting work (as we've defined it here), and will it grow?
- What can consulting firms do to leverage the opportunities, especially in the light of competition from other sectors?
- Which types of consulting firms are best-positioned to exploit this opportunity?



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 2014 it splits into six parts, honing in – in parts 2, 3 and 5 – on the themes we're hearing most firms and most clients talking about at the moment.

1

Forecasts for 2014

Publication date: January 2014

This report analyses the prospects for growth in the global consulting market as a whole. The first section looks at the conditions for growth for the **energy and resources, financial services, manufacturing, healthcare, services, technology/media/telecoms and public sectors**. Section 2 considers how clients' needs are impacting demand for **strategy, operational improvement, HR, technology and financial management/risk consulting**. Our concluding section provides forecasts for global consulting demand by sector and service, and analyses the implications for consulting firms.

2

Simplification, productivity and cost cutting

Publication date: March 2014

The global economy may be in recovery but most of the clients we speak to remain concerned about keeping costs under control. Attention is, however, shifting from cost cutting to exploring ways to increase productivity. Key among these – and a word we hear again and again from clients – is simplification: how can they reduce the complexity of their operations? This report explores clients' attitudes to this issue. The first part of the report concentrates on the client perspective: what are they looking for? To what extent do their views vary by sector and geography? The implications of this for consulting firms are analysed in the second part; in particular, we look at how the services consulting firms currently provide in this area may need to change in the future. In the third and final part, we examine the critical success factors for consulting firms operating in this market and assess which types of firms are likely to do best.

3

Digitisation

Publication date: April 2014

Digitisation – the extent to which organisations can change their process, relationships and even underlying business models by converting a wide range of information into digital formats – is already a major source of growth for consulting firms in North America and is likely to become equally important in the rest of the world. Our report on this subject explores how client needs in this area, and in related areas around big data and analytics, are likely to evolve in the course of the next two years and the implications this has for consulting firms. We also analyse clients' perceptions about firms' capabilities in this field.

4

Views on the consulting industry: the perspective from procurement

Publication date: June 2014

Procurement teams have a unique perspective on the consulting industry which, while important, also requires careful interpretation. Our past research has, for example, found that procurement managers are now able to give a reasonably accurate view of expenditure on consulting services in their organisation but are poor at predicting future trends (they're predisposed to say that expenditure will fall). This report examines procurement people's views in four key areas: where money is being spent (by type of firm, consulting services versus contingent labour, etc); what influences their decisions to short-list consulting firms; their views on using consultants in three areas (keeping costs under control, leveraging new technology and finding new avenues of growth); and average fee rates.

5

Growth and innovation

Publication date: October 2014

There's growth in growth – or there has been for consulting firms in the last two years. However, a rapid increase in demand hasn't always translated into large-scale projects as the consulting industry struggles to overcome a widespread perception that it's better at back-office than front-office work. This report explores how this market is likely to evolve in the next two years, focusing particularly on client views on the role of consultants in new market entry and new product development.

6

Planning for growth in 2015

Publication date: November 2014

This report revisits our market attractiveness index, looking at how major consulting markets compare in terms of growth potential, the ease with which talent can be attracted and retained, and how conditions are suited to building a profitable business. Drawing on our research both with clients and consulting firms during the whole course of 2014, we summarise the key attributes of each of the following markets: **the US, Germany, the UK, France, the Nordic region, Italy, Spain, Russia, Eastern Europe, Africa, the Gulf Co-operation Council, India, China, Australia and Brazil.**

How to subscribe

You can either subscribe to the programmes as a whole (the cheapest way of getting access to everything) or buy reports individually. All reports in both programmes come with a global licence, so once you've bought them you can use them anywhere in your firm.

A full price list is available on request.



For information about the products or services available from Source, please contact:

UK and Europe

Alice Noyelle

+44 (0)203 700 5462

alice.noyelle@sourceforconsulting.com

Middle East

Jodi Davies

+971 52 989 5224

jodi.davies@sourceforconsulting.com

USA

Alice Noyelle

+44 (0)203 700 5462

alice.noyelle@sourceforconsulting.com

About Source

Source Information Services Limited (Source) 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*.

For further information please visit www.sourceforconsulting.com



18 King William Street • London • EC4N 7BP
Tel: +44 (0)203 700 5462

PO Box 340505 • Dubai • United Arab Emirates
Tel: +971 (0)52 989 5224

Email: info@sourceforconsulting.com

www.sourceforconsulting.com

© Source Information Services Ltd 2014

Source Information Services Ltd and its agents have used their best efforts in collecting the information published in this report. Source Information Services Ltd does not assume, and hereby disclaims any liability for any loss or damage caused by errors or omissions in this report, whether such errors or omissions result from negligence, accident or other causes.