

OUT OF A BOX:

Is there an opportunity to repackage some consulting work as a managed service or integrated solution?



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INTRODUCTION

Around five years ago we interviewed a senior executive in a Swiss bank as part of our ongoing research programme. Although he made extensive use of consulting services, he was deeply frustrated. He wanted, he said, something more tangible and longer-lasting when he used consultants. He wanted his staff to gain the skills necessary for doing the work in the long term, but in the short to medium term he wanted consultants to help improve the performance of specific areas by bringing new tools, and delivering some of the work alongside his own staff. He didn't want advice by itself, but linked to delivery and outcomes. He wanted something packaged (in a box), but capable of leveraging innovation to effect change (out of a box). The problem was he didn't have a term for this, so he struggled to articulate his vision to his suppliers. Looking for something between traditional consulting and outsourcing, he was only ever offered one or the other.

He's not alone. Since then, if we look at the interviews we carry out, clients' frustration appears to have grown. "I can't buy in the way I want to buy," said one recent interviewee. "I have to buy in the way that big consulting firms want to sell to me." We see a market that's splitting in two, with a growing gap between low-cost and high-value consulting, and hear daily about the stresses and strains the consulting business model is under as it tries to accommodate both ways of working. Digital transformation, which is driving the vast majority of growth in the industry, exacerbates the situation: Every large-scale transformation project depends on a mixture of low-cost and high-value work, but how can consultants deliver this if clients don't believe it's possible for one firm to do everything?

The aim of this report is to look at the space between consulting and outsourcing, a space we're terming "managed services" and for which we have a very specific definition, but the consulting firms we speak to, many of which have finally started to explore and invest in this area, often use different words. Much of the report is based on a survey of senior executives in the US. To our best knowledge, it's the first time anyone has tried to understand clients' views in depth, and to use this data to estimate the size of the market and to look at what will drive success in the future.

Our conclusion is that "managed services", as we've defined it is far more than the passing whim of a Swiss executive. It could hold the key to how the most successful consulting firms of the future reinvent their business model. The tennis player, Serena Williams, once said, "There's one thing I'm really good at, and that's hitting the ball over a net, in a box. I'm excellent." Consulting firms, we suggest, will need to be excellent, too, in a box and out of it.

Section 01:

WHAT DO WE MEAN BY A “MANAGED SERVICE”?

What's in a name?

Quite a lot, as it turns out.

Protiviti has been providing managed services around aspects of the finance function for almost 20 years. “One of the biggest challenges is that some clients are not used to leveraging the managed services model,” says Jay Thompson, who’s responsible for the development of managed services at the firm. “They may only understand ‘increasing headcount’ and ‘using consulting firms’ as two extremes on the same scale, rather than acknowledging managed services as the middle ground. I think this is a maturity issue and will change in the future.” Efficio, a specialist in procurement and sourcing, also offers clients what it terms a “managed service”: “Clients don’t understand managed services: The majority tend to think of it in terms of low-value outsourcing. The underlying appetite is there, but the market still needs to be educated on what it really is,” says Efficio’s Toby Munyard.

“Managed services” smacks to everyone, clients and suppliers alike, of the 10-year IT and business processing outsourcing deals that were all the rage 20 years ago, and have spent the intervening decade trying and largely failing to live up to their early promise. Then, a managed service was a variant of outsourcing and offered organisations an opportunity to offload non-core and often under-performing internal functions to a third party, transferring people as well as processes to the latter. In return for long-term deals, the outsourcing / managed service provider offered to deliver back to the organisation a better quality service at a lower price—“your mess for less” is how most people sum it up. In practice, the outsourcers found it hard to improve performance without imposing an unacceptable degree of rigidity. Supposedly specialists in the outsourced function, they struggled to bring innovation to their clients, partly because, with their prices consistently under pressure, they never had enough money to invest.

All of that has left a bad taste in clients’ minds. Although the pace of withdrawal is necessarily slow (many existing deals still have years to run), we haven’t interviewed a single client in the last two years who would like to carry on working in this way.

So why talk about “managed services” now?

01

Section 02: **CURRENT MARKET**

02

Back to basics: Why do organisations use consultants?

If we're to gauge the extent to which consulting work is already being delivered on a managed service basis, as we've defined it here, in this report, we first need to understand what's driving consulting usage at the moment.

At the start of this year, we surveyed just over 100 very senior executives in large US corporations. Coming from a range of different sectors, they were all people who'd spent significantly on consulting services in the last two years. Three reasons for using consultants came up again and again:

- **Capacity:** For special projects over and above an organisation's ongoing workload, for which there simply aren't the people needed to carry out the work.
- **Capability:** The need to access highly-specialised skills on a short-term basis.
- **A fresh pair of eyes:** The ability to offer independent and objective support.

This picture was fairly consistent when we compared the feedback from people in large organisations (between 1,000 and 4,999 employees) with that from executives in very large organisations (more than 5,000 employees). Both lack capacity and capabilities to a similar degree, but the latter tended to be more concerned about independence and the former are more interested in partnering with third parties—an important point we'll come back to later in this section.

In a relatively small sample we have to be cautious about breaking the data down too much. Nonetheless, our data suggests that the picture is broadly similar in sector terms. However, capacity appears to be more of a driver of consulting work in the financial services and healthcare sectors (the impact of regulation?), and independence seems to be a bigger issue for public sector organisations than for private sector ones.

02

Section 03: **FUTURE POTENTIAL**

Section 04: **CRITICAL SUCCESS FACTORS**

04

04

Over the next 10 years, I see a fundamental transformation in the way we manage resources in our profession and also in the way we supply our services, which will be in line with the digital revolution and tech cognitive transformation we are going through as well.

Jose-Luis Garcia, EY

Managed services offer clients a formula with all of the pros and none of the cons, apart from the challenges of reconfiguring the staff losing their jobs and the question of pricing our services. Clients used to be experts in pricing consulting, but they're not experts doing the same for managed services. We're not in a fee-per-hour scenario any longer.

Fabio Troiani, Business Integration Partners

Managed services are not about reducing low-value activities through automation or labour arbitrage. We see managed services as a way of becoming a trusted partner helping clients to deliver more increased savings and adding value to day-to-day activities over time.

Toby Munyard, Efficio

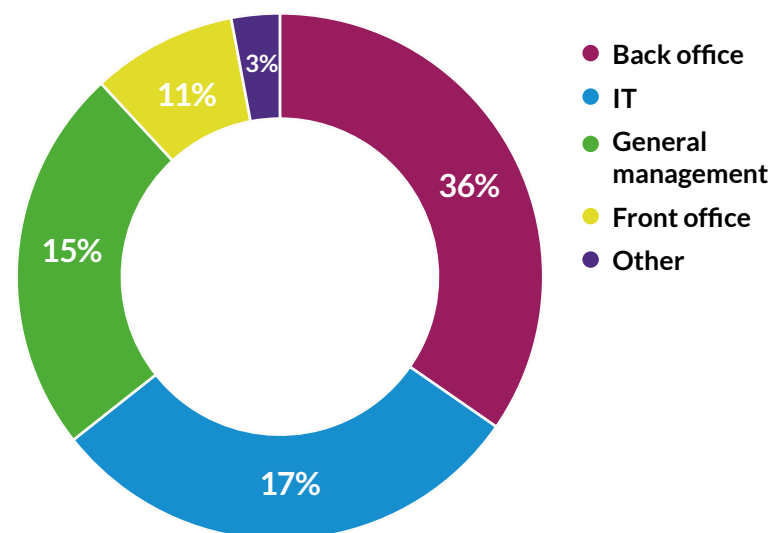
ABOUT OUR RESEARCH

About our research

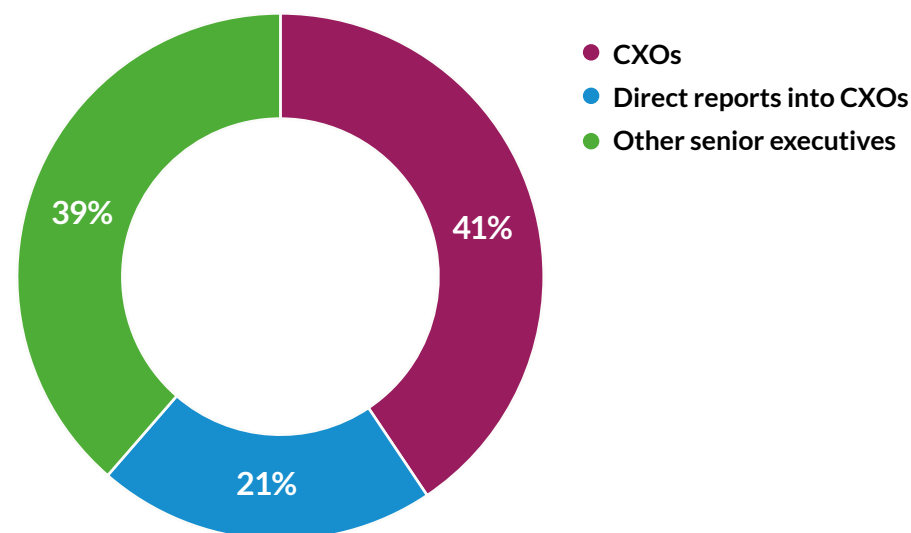
In the spring of 2018 we surveyed 100 senior executives in large American corporations, covering a range of different sectors, in an attempt to gauge opinions about managed services, as we've defined it. All of these people were buyers of significant volumes of consulting and other professional services. We also interviewed consulting leaders, many of whom are quoted in this report.

Our report also draws on data from our global data model, which quantifies the size of the consulting market across 84 countries, 29 sectors, and six major service lines, and our annual client perception survey, the latest version of which had 3,000 responses from major consulting markets around the world.

Breakdown by function



Breakdown by seniority



CONTRIBUTORS

We're immensely grateful to the following, all of whom contributed their time to our research. These details are correct as of the time of interview in 2018.

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A Co-Founder and Director of Source, Fiona is one of the world's leading commentators on the management consulting industry. Since founding Source in 2007, she has been bringing this expertise to bear on our clients' most pressing strategic projects and business issues.

Fiona has more than 20 years' experience as a management consultant, working primarily in the areas of marketing and strategy. She was previously in charge of strategic planning for EY in the UK and has worked in the consulting practice of PwC. Fiona also has a PhD in seventeenth-century French art and lives in hope that it will be of practical use in business someday.



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A series of detailed reports that contain the most accurate view available about the consulting market in an extensive list of countries and regions. These explore key themes, provide market sizing data, growth forecasts, and deep analysis, all backed up by extensive quantitative and qualitative research amongst consulting firms and clients.

As well as our country reports, we also produce a global view of four different sectors. These reports contain sector analysis, market sizing data, and growth forecasts at a global level, as well as breakdowns by sub-sector, service, and geography. Snapshots of content from these reports will be published earlier in the year and made available to subscribers, as tranches become available.

● STRATEGIC PLANNING PROGRAMME

A series of reports that take a detailed look at the big trends in the global consulting industry, interpreting them in terms of what they mean for consulting firms and who is best placed to exploit them.

● CLIENT PERCEPTION PROGRAMME

A series of reports based on our huge client survey, that reveal what clients think about the leading consulting firms in a number of regions and sectors. We rank the leading consulting firms in terms of clients' perceptions of things like quality and value. Data and analysis for these reports are made available to subscribers throughout the year.

As part of this programme we also publish global brand perceptions. Leveraging all the data we have about each of the world's leading consulting firms, we're able to offer insights that go far beyond traditional brand impact surveys. Choose the firms you want to benchmark yourself against, and we'll analyse how clients see your firm relative to your competitors, writing a custom report that puts you at the heart of it. Available on request.

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2018	MARKET TRENDS PROGRAMME	STRATEGIC PLANNING PROGRAMME	CLIENT PERCEPTION PROGRAMME**	WHITE SPACE
JANUARY				Hot topics in thought leadership
FEBRUARY	Forecasts for 2018 UK		In each report, we will publish the top-ranked firms for: Mindshare Quality of work Value added Quality of work by different consulting services	Quality ratings of thought leadership for the second half of 2017
MARCH	GCC DACH Benelux	Mega trend #1: Intelligent analytics	Germany part 1 US part 1 GCC part 1	
APRIL	Spain France Nordics		Germany part 2 UK part 1 US part 2	Analysis of recent thought leadership
MAY	Eastern Europe US Russia	Mega trend #2: Discover	Financial services part 1 Nordics part 1 Energy & resources part 1	Analysis of recent thought leadership
JUNE	Italy Canada	Mega trend #3: Strategy	France part 1 UK part 2 Financial services part 2	
JULY	South America Australia	Mega trend #4: Run	Healthcare part 1 France part 2	Analysis of recent thought leadership
AUGUST	Africa		Nordics part 2 TMT part 1 Energy & resources part 2	
SEPTEMBER	Planning for growth in 2019 India Energy & Resources*		Healthcare part 2 TMT part 2 GCC part 2	Quality ratings of thought leadership for the first half of 2018
OCTOBER	South East Asia Financial Services* China			
NOVEMBER	TMT* Healthcare*	Mega trend #5: How technology will shape the consulting business model of the future		
DECEMBER	*Snapshots of content from these reports will be published earlier in the year and made available to subscribers, as tranches become available.	Mega trend #6: Digital transformation	**Part 1: What our data tells us about the market. Part 2: Firm-by-firm analysis.	

Would you like more information on any of the above? A more detailed view? Or to adjust any of it to suit your requirements?
The adjacent page offers more insights into how we can help you.

OUR CUSTOM RESEARCH SERVICES



Over the course of the last 10 years we've worked with leaders in many of the world's biggest professional services firms, to help them find solutions to some of their most important challenges. Here are some typical examples of the kind of work we do.

You need to know how big your market is

We have a global data model of the professional services industry that is the biggest and most sophisticated of its kind ever created. It provides data on market size, growth rates, and forecasts across 29 industrial sectors, 10 service lines, and 84 countries. It also breaks down the market by different types of firm.

We can provide you with a version of the model that's customised to fit your needs, giving you data on all the countries, sectors, and service lines that matter to you, and none that don't. But we won't stop there, unless you want us to: Our analysts will work alongside you to make the model yours, mapping our definitions to yours, so you can look at the market on your terms rather than ours.

You need to understand what the numbers mean for you

For many of the firms we work with, pure data isn't enough, and nor are standard reports able to offer a view that's sufficiently tailored to their needs. In these situations, our analysts start with a blank sheet of paper, put your firm in the middle of it, and draw on all our data and knowledge—including about clients' perceptions—to build a picture of the world around you. You get a story that's laser-focused on your challenges and your opportunities, and that helps you to translate data and insight into action.

You're new in your role and need to understand the market for which you're now responsible

For people who have just moved into a new role, we can create packs of information specific to a particular geography, sector, or service line. Our market sizing data can be used to quantify the market's potential, and our analysis of clients' perceptions and the competitive landscape will help you understand how best to seize the opportunities and respond to the threats.

You need to create clear propositions around your services

Our research tells us that having a big brand is no longer enough: Increasingly, clients expect professional firms to have a clearly articulated proposition for each service that differentiates them from their competitors. But the best propositions aren't built in a day: Our analysis, because it's grounded in facts about clients' perceptions and behaviour, helps firms quickly cut through internal disagreement and build a clear sense of direction.

You need help with your inorganic growth plans

We also work with firms that are supplementing their organic growth with acquisitions, helping buyers find and qualify suitable targets for acquisitions. Leveraging our deep knowledge of the professional services sector, we can scan the market, profile companies, and even effect introductions. Firms use our services because we're well connected in the industry, independent, and fast.

You need to understand how you measure up against your competitors in the minds of clients

Understanding what your clients think about your firm is critical in today's fast-changing and highly competitive market. New circumstances demand new, expert-led strategies to brand benchmarking, and that requires both independence—to get to the real story, not the one your clients think you want to hear—and deep knowledge and data about your market and your competitors.

We usually have a head start here, because of the data we already have, but we've got all the expertise and experience that's needed to conduct new research among your clients and those of your competitors, in order to understand where your strengths and weaknesses lie, and what you need to do to stand out. The focus might be on your firm alone, but it might also be on how you can create competitive advantage over specific, named competitors.

You need to create better, more effective, thought leadership

Thought leadership has come to dominate the marketing activities of professional services firms, and with good cause: Our research with clients finds consistent evidence that good thought leadership matters to them, too. It helps them to do their job, to identify where world-class capability exists in these firms, and even to shortlist firms for projects.

How well does your thought leadership measure up? We can conduct in-depth reviews to assess quality in a sample of material that's either random or defined by you, from single pieces to entire bodies of work, on an ad-hoc or routine basis. We can also help you shape your approach to topics and understand what your competitors are doing, and can provide guidance about how to approach a specific piece of high-profile thought leadership.

We also recognise that good thought leadership doesn't happen by accident, but because you've put in place the right processes and engaged the interests and enthusiasm of your key subject matter experts. We help professional services firms create the foundations, organisational structure and processes for high-quality content. We can also run workshops that inspire your people and help make them more effective at creating thought leadership.

About Source

Source Global Research is a leading provider of information about the market for professional services. Set up in 2007, Source serves the professional services industry 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.

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