METRICS FOR NEW BUSINESS MODELS:

How should consulting firms measure their own performance in the future?

Our research suggests that consulting services are splitting into two distinct camps. High-value work is often associated with transformation and digital technologies, in which innovation and the ability to deliver tangible results are critical, while low-cost consulting focuses on providing services or products that clients would provide themselves if they had the capacity. Larger firms face significant challenges around fees, organisational structure, and operational flexibility as they try to manage both models simultaneously, but even niche firms aren't immune to these new pressures.

As firms struggle to understand how to best to straddle the high-value and low-cost worlds, the implications for the metrics they need to gather and analyse are significant.

This short report explores the role of metrics and how pressures on the traditional consulting business model are forcing firms to rethink their collection and use of metrics more holistically.

> *The consulting business is a really simple business model, and understanding performance is really pretty straightforward. The more challenging piece is getting the predictions right.*
>
> Mark Campbell, RGP

Metrics matter

Regardless of a firm's size and scope, metrics can paint a picture of its economic health; highlight where there may be underlying financial, operational, or cultural issues; and provide a critical tool to support planning activities. Simply put, as one partner we spoke with said: "Business metrics are the one of the most important things we have to deal with."

In consulting, success hinges not only on holding traditional competitive advantages—dominant market position, geographical penetration, or proprietary technology—but also on a consulting firm's ability to improve its core performance and adapt as the market requires. Doing this depends on making effective, high-quality decisions based on timely, relevant, and accurate information. Metrics underpin that information and provide the foundation upon which decisions can be made. "Operating metrics help us determine what courses of action to take," says Mike Koehneman at PwC. "We assess the impact of decisions on KPIs and use internal benchmarks to decide if something is a good idea."

Taken in isolation, however, metrics are not a panacea for organisational success. Firms need to be sure that they are measuring the right things, and that they're applying a layer of analysis and contextualisation around their metrics if they want to really understand the implications of their data and derive true value from it. Otherwise they risk simply looking at historic, discrete activities. Having the right metrics and, crucially, being able to analyse them to drive real business decisions, is vital.

The gap between aspiration and reality

In the course of writing this short report, we spoke to 12 firms—large and small, and with different areas of specialism and focus. All the firms collected very similar metrics, regardless of their size and scope. Likewise, everyone agreed that business metrics ought to align to corporate strategy, be used to assess progress against those strategies, and steer decision making.

But there was significant variation in the extent to which this is being put into practice. Some consulting firms are looking at predominately historic, lagging metrics, and on a relatively infrequent basis. As one partner resignedly told us, "The links between metrics and strategy aren't good enough. There is a disconnect—metrics should be used to track the progress of strategies, but we don't have reliable or actionable metrics around managing our portfolio consistently and comprehensively. This is mostly done on an ad hoc basis." On top of problems like this, some firms struggle to apply the critical layer of analysis to their metrics, limiting their ability to extract real value for the business. "We have qualitative data but lack comprehensive quantitative data and analysis," the same partner continued—and without adequate analysis, the ability to make informed decisions is severely compromised. Take an example around attrition rates: It's all very well knowing how many people have left a firm in the last year, but quite another to take that data, segment it further by demographic group, geography, and function and then overlay analysis to really understand what is driving people to leave. Metrics alone don't get you very far: Value accrues only when they are used to underpin decision making, course-correct in real time, and drive insight into business progress and performance.

Some firms are more sophisticated in their approach to, and use of, metrics. Their infrastructure allows them to collect metrics in real time and ensures they're easily accessible to relevant groups, offering managers and leaders a snapshot of what is happening in their business at a glance, and on the go. Phil Moccio explains the mechanism that KPMG LLP has in place: "We now have a platform where there are set KPIs at firm level, that cascade down to all our practice areas. Those are the KPIs we use consistently to measure progress against our strategy. The platform has role-based security so that the right people have access to the KPIs that are appropriate and relevant to them." These firms put into practice what the partners we interviewed upheld as best practice—looking at metrics not only from the perspective of tracking performance, but strategically to inform dynamic decision making. "Over the course of the past few years we've wanted to focus on more strategic matters than purely operational ones," says Holly Kay at West Monroe. "We want to know how we're doing against our strategic plan, and we use metrics to help us understand that."

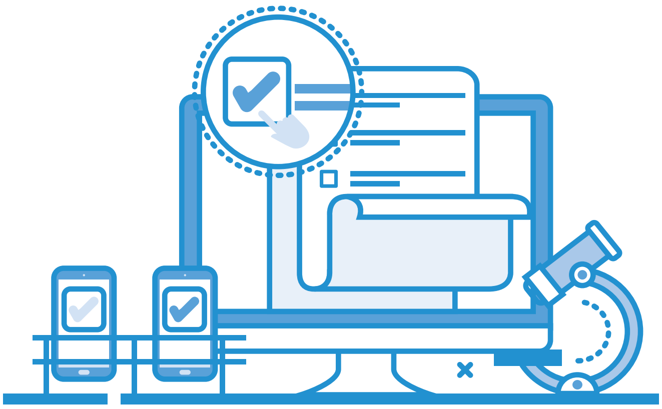
Most consulting firms view metrics in hierarchical terms, identifying a progression in value from single data points, to aggregate KPIs that align to, and inform corporate strategy. At the apex of the pyramid are leading metrics—ones that provide a forecast of the future, allowing firms to make predictions with a quantified degree of certainty. We plotted a trajectory of maturity in the approach to, and use of business metrics, and while none of the firms we interviewed sat at the very bottom of the curve—all of them had in place well-considered metrics, and a method of collecting and reporting—there was a wide distribution between those at the bottom and those at the top.

Interestingly, there was no clear relationship between the size of a firm and the sophistication of its use of metrics. Some of the smaller firms we interviewed were far progressed along the maturity curve, seeking leading metrics to plan strategically for different scenarios and using them on a daily basis to course-correct. At some of the larger global consulting firms, metrics are still being collected in functional silos, and there's a lack of joined-up, strategic analysis—despite these firms benefiting from much larger amounts of data from which to draw insight.

> *I can look at my operating metrics, but they are all historical. I don't really know if something is due to our actions or if it's because of an economic trend. Strategic metrics allow us to be a little more predictive in our analysis, but still not enough. We have only become fully focused on strategic metrics in the last two years. We're definitely still evolving in this respect.*
>
> Holly Kay, West Monroe

> *We have really evolved and enhanced our approach around standardised metrics in the last 18 months focusing on both leading and lagging indicators.*
>
> Phil Moccio, KPMG LLP

> *We are very clear in cascading key targets down through the organisation, and we're also clear on the metrics that sit below those targets. For example, our headline growth target is 20 – 25% per annum, and sitting below that are metrics around recruitment, monitoring of attrition (and its causes), training, promotions etc. The teams responsible for those metrics are very tightly organised around delivering these metrics.*
>
> James Frost, Newton Europe



What's holding firms back?

It may seem obvious enough that consulting firms should establish a systematic and robust approach to collecting and using metrics to best effect. So what prevents them getting to the stage where they are really benefiting from, and harnessing the value of metrics to achieve strategic advantage?

Timing

A significant challenge that consultants face is that most of the metrics they collect are historical—they provide insight around what has happened in the past but are of limited value in helping inform dynamic decision making in real time. "We have a few issues with the metrics we use," said one consultant. "It's not easy to access the metrics due to timing variances. Recording is done at month end so there is always a lag of around two weeks to see historical numbers. Forecasting is done manually due to this variance, which is a bit of an issue."

"I think in an advisory consulting business when projects are so short, a lot of the time metrics are delayed," agrees Kyle Robichaud at Cognizant. "By the time you receive them, the project is ending. This means that they have limited use in helping you make decisions. I can only use those metrics retrospectively, to help inform future projects." By the time metrics are recorded, collated, and pulled together into a report, they can be weeks out of date. Using outdated metrics to build a picture of performance, and drive decision making, is highly problematic. Very few things in life are entirely predictable based on past indicators—and managing a business based on lagging metrics would be akin to driving down winding lanes using only your rear-view mirror. "The biggest challenge we face when it comes to metrics is that they are not collated and reported in a timely manner. Timeliness really is critical," commented one senior partner we spoke to.

Gaps

When asked whether there were any gaps in their metrics the answer was predominantly no—there was more of a problem with there being gaps in the way existing metrics were used, or with the way in which they were rolled up. A few consultants did mention specific sets of metrics that they couldn't access—granular-level, project-related ones being the most common. Mark Campbell at RGP says: "One gap in the metrics that I have is around revenues being managed by our manager-level resources. It would be good to see a roll-up of the revenues they manage as this would help me to balance workloads and ensure that people are being deployed appropriately."

> *We focus on delivery excellence and have extended peer reviews of our client engagements on a regular basis, but we are keen to develop this further in terms of collecting metrics on live delivery projects. This would help us in assurance and risk management.*
>
> James Frost, Newton Europe

Silos

Others spoke of having metrics that didn't link up across the organisation; of different business units using their own taxonomies when talking about the same KPIs; and of having people doing analysis on metrics using very basic tools. Having a joined-up approach across the organisation is key to unlocking the full potential of metrics to drive insights. A coherent approach requires effective governance and ongoing effort to build a culture in which using metrics is second nature. As one consultant put it, "We need connectedness across business units and between consultants, IT resources, and BPO. We all use different taxonomies for our offerings, which means that every time any analysis is done, we have to convert that into our own taxonomy. We should all be speaking the same language." "Operational and finance metrics, like utilisation and intermediate costs, are looked at on a business unit level and tend to be quite siloed," agreed another.

Lack of analysis

Some firms struggle to bridge the gap between collecting metrics and rolling them up into insightful KPIs. Without those KPIs, firms are left without a sound basis on which to base any analysis. "We have good strategic thinking," one partner told us, "but when we plan our budget, we go back to using the day-to-day metrics, which don't link up." The real value of metrics can only be realised when extrapolations are made and context is added to the equation. By their very nature, metrics are reductionist: they are symptoms of what has happened in an organisation either financially, operationally, or behaviourally. They don't indicate cause. And without understanding cause, organisations are limited in how to mitigate against risk and improve on planning activities.

A plethora of metrics

Another challenge consultants face when analysing their metrics is purely based on the growing number and type of metrics that they have access to. Indeed, some of the leaders we spoke with complained they simply had too many of them, and the time taken to decipher the plethora of data at their fingertips was simply too much. "Our consultants simply don't have the bandwidth to look at metrics," complained one executive. This is hardly surprising given the increasing complexity of programmes that consulting firms deliver, as these programmes often combine elements of pure consulting, outsourcing, and software provision. Bundled services can make it very hard to calculate margins and profit as there are so many metrics that need to be considered as part of the equation.

> *We do perhaps have too many metrics. I need to be sure that everyone is looking at the right ones. We can sometimes get lost in the data. When you have all these metrics you need people to manage them, and that takes people away from the market. We really need to simplify the business and limit the key indicators that the firm looks at.*
>
> Srikanth Reddy, EY

Bifurcating business models will have a big impact on metrics

But the biggest challenge consulting firms face around metrics comes from changes to their underlying business model—changes that we see as evidence of a bifurcating market, with consulting work increasingly split between low-value, subscription-based, or commoditised assets; and high-value advisory services.

There is an acknowledgement among consulting firms that the metrics currently being used only really shed light on the higher-value, traditional consulting services that firms historically provided. For those services, it was sufficient for firms to measure utilisation, day rates, and time and materials to build a picture of profitability. Now the market is shifting, and those stalwart metrics of the consulting industry provide an increasingly diminished picture of a firm's wider performance.

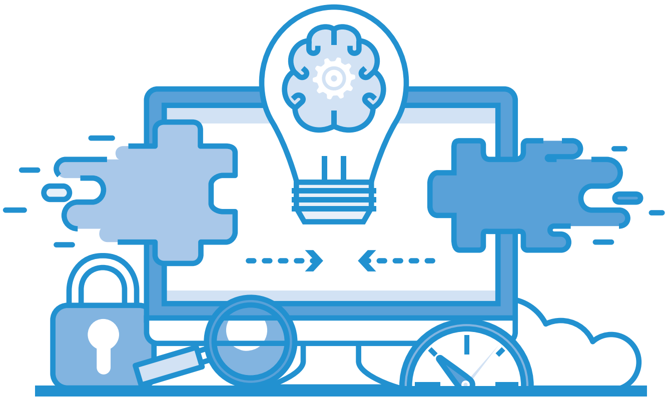
This has huge implications for the types of metrics needed to measure the health of an organisation as a whole. Some consulting firms are quick to embrace change: "We are not shy at changing what we track and are very agile with this thinking," comments James Frost at Newton Europe. "We do this as our service evolves, as we scale, or as we enter new sectors. We are always learning." However, others are feeling the strain: "As we deliver more and more multi-competency, multi-solution programmes, measuring metrics—like margins—is increasingly difficult," said another interviewee. "The growth in managed and shared services will have a big impact on the metrics we need to look at. We do have some platform businesses, which means that new metrics around platform utilisation, rather than people, are entering our vernacular. This is a growing subset of our business and so is a really important area."

In the traditional consulting model, it was easy to estimate the number of man-hours needed to deliver a project and charge clients on a relatively simple time and materials basis. This is becoming increasingly problematic in the lower-cost part of the market as we are seeing more and more assets, tools, and platforms sold on a subscription basis, and there is a less simple equation balancing cost of input, price, and margin. Holly Kay at West Monroe explains: "Our managed services business now accounts for around 6 – 7% of our revenues. This is typically a much lower margin than our traditional consulting business, and is annuity-based, often on three-year terms. As we grow this part of the business we have to look at different metrics and understand the difference between them, and our traditional consulting business when looking at them in totality." The shift to buying subscription-based products or services has lessened the effectiveness of measuring utilisation. Products and services are increasingly procured on the basis of their output, not on the basis of the input required to create it. This is a fundamental shift in the way that services are valued, and consulting firms need to ensure that they are recouping through fees the development costs of a particular product, as well as a share of the outcomes. As we start to see the demise of time and materials as the de facto basis of consulting contracts and a shift towards outcome-based pricing, firms need to be sure that they can measure the balance between their inputs, and the value of the outcomes that they achieve for their clients. "We need to be more innovative in how we look at charging our time," says Mike Koehneman. But this is not without its challenges: "Time and materials is so ingrained in our culture it can be difficult to move away from this way of thinking."

> *The increasing use of products and assets means that we will need to look at metrics around R&D more closely.*
>
> Mike Koehneman, PwC

> *As we delve into new service offerings—asset-based, people-based managed services and so on, we will need to understand the different drivers impacting performance. The metrics are pretty much the same, but the drivers will be different. For example, margin: We define this as controllable profit, but as we get more into technology-enabled services, building the technology expenses into that margin is going to take quite a bit of time to work though."*
>
> Srikanth Reddy, EY

While consulting firms need to figure out the best way to measure success and improve performance in the low-cost part of the market, the way that higher-value services are measured also needs rethinking. Project metrics are gaining a new prominence, or more precisely, they are under greater levels of scrutiny as prices are squeezed at the lower-cost end of the market, and consulting firms look to strike a balance between costs, outcomes, and fees across their entire portfolios. As the consulting market remains crowded, clients are expecting more for less, and firms are under immense pressure to provide outcomes at lower and lower cost while retaining solid margins.



What metrics will consulting firms need in the future?

As the sands shift in the consulting industry, firms are looking for help in understanding whether they are striking the right balance between their inputs and their outputs at both ends of the market. One way to ascertain if the right balance is being struck is by benchmarking, but we found mixed views on this subject.

Some consulting firms see huge value in benchmarking their business metrics against others in the industry—actively looking to compare and assess their performance relative to others operating in the same markets. Benchmarking can alert a firm if they are missing key metrics, as well as identify areas for performance improvement. It also says something about the wider consulting environment—seeing what metrics firms choose to gather says something about how they are organising themselves internally, structuring their portfolios, and going to market. Looking at sets of metrics across organisations paints a picture of the wider economic climate—what clients are willing to pay for particular services illustrates where value accrues. For instance, levels of competition for a service or product could be gleaned from a comparison of bid-to-win ratios of various consulting firms. Looking beyond comparing single data points, there is value in benchmarking when it is used to understand how firms balance ratios of metrics to assess effectiveness of their operations, and how those ratios change in light of shifting priorities. As Kyle Robichaud explains, "One thing that would be interesting to understand is what the best balance of metrics is in any given environment. Everyone has metrics on revenue, profitability, and utilisation etc. What matters is understanding how those are prioritised. It would be great to see how other firms balance their metrics around different priorities."

Similarly, as new ways of contracting become more prevalent, some consultants would like to see how other firms are charging for work. "We would like to know whether our strategy around pricing is right compared to the rest of the market," said one consultant. "We would be really interested to see benchmarks around what a sensible, and acceptable share of benefits is when it comes to contracting," agreed another.

> *Value in benchmarking comes from understanding what firms are focusing on, and whether that correlates to success… There is no absolute formula for assessing performance, but it would be interesting to hear how other firms measure it. Value delivered is a key metric on our list but it is not the only one that leads to success.*
>
> Kyle Robichaud, Cognizant

> *It would be useful to know the percentage of revenues companies like ours spend on business development, marketing, and training—it would be interesting to see where the differences lie.*
>
> Mark Johnston, Arum

> *It would be useful to get an understanding around how we benchmark against the competition in terms of the proportion of fees earned from high-demand services and from new areas of specialism. This would help give us a view on our progress.*
>
> Andrew Morgan, Curzon & Company

For all these benefits, many of the people we spoke to were sceptical about the value of benchmarking, pointing out that there's no consistent way that all consulting firms collate their metrics, and that taxonomy around metrics differs even within firms, let alone between them. On top of that, every firm packages its products and services in slightly different ways. "There is limited competitive information and benchmarking available," says Mike Koehneman. "What is available is difficult to use as we don't know if we are comparing apples with apples." Then there is the question of transparency: Organisations are reticent to disclose details of rates, revenues, margins and the like—however keen they are to see those of their competitors. Even if benchmarking did provide entirely like-for-like points of comparison, understanding relative performance does not provide answers around how to improve on that position, or explain why a particular firm might be ahead of the game. "Benchmarking is a potential distraction," explains Mark Campbell. "You spend your time explaining why your business is similar to someone else's, or explaining why it is different."

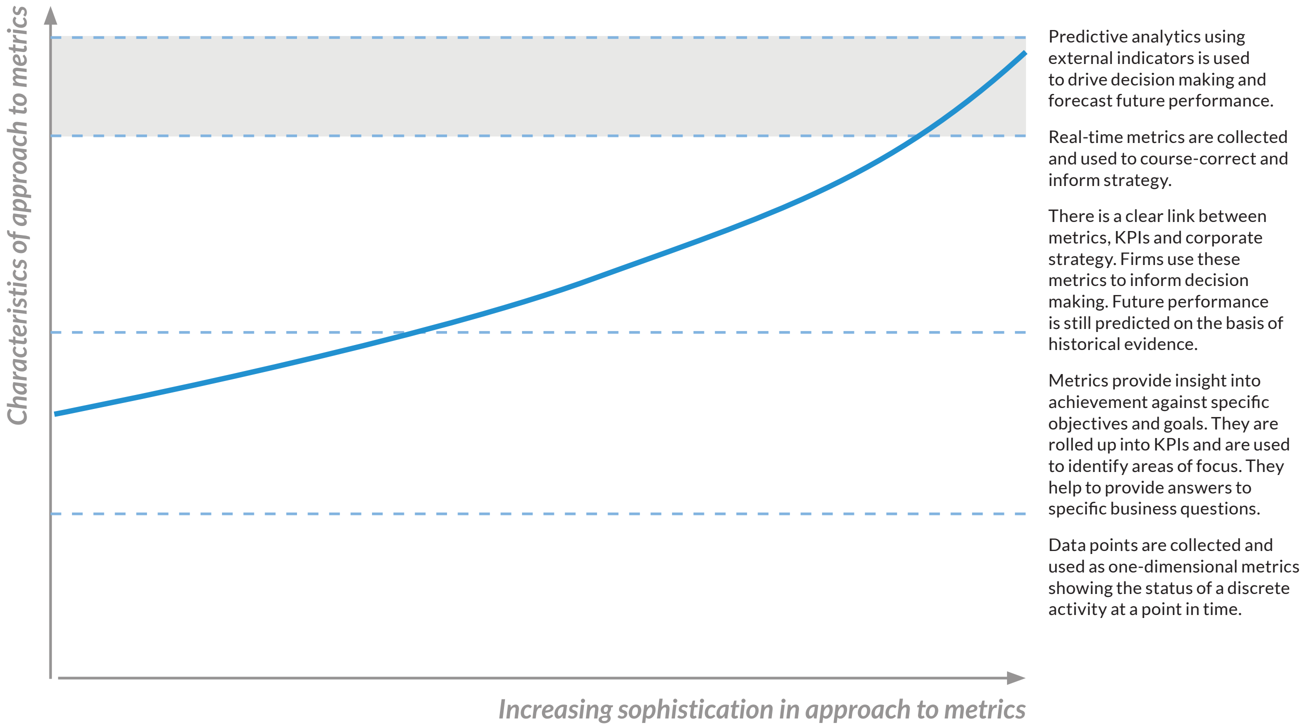
While benchmarking is not always high on the wish list for most consulting firms, there are plenty of things that are. Some are obvious: technology to enable automated collecting and reporting on metrics in as close to real time as possible, and visualisation tools to aid in analysis and dissemination to the right people, at the right time. "Our goal is to eliminate manual, bespoke reporting," says Phil Moccio, "allowing technology to provide the information at the same time, in the same way, across the organisation, allowing our teams to move up the value chain to convert the information into meaningful insights that drive better decisions." Collating and disseminating metrics isn't in itself enough. Analysing those metrics to drive decision-making capability is key. "We would like to invest in a tool that is driven by data and provides intelligent output, not just reporting," another executive told us.

Having a way to see interdependencies between metrics is also desirable. Knowing the impact of pulling different levers of metrics and KPIs allows a firm to scenario-plan more effectively. Phil Moccio explains how crucial this as part of strategic planning: "Our KPIs are an important part of the decision-making process. In many cases they identify areas of focus. We then develop action plans to improve the results. It's important to know which KPIs are interdependent because if you push too hard on one, there may be an unintended consequence in another area. Reviewing and monitoring all KPIs as a portfolio becomes important, versus looking at them in isolation."

In conclusion

The ability to make rapid, high-quality decisions based on the most timely, relevant and accurate metrics available is a common characteristic of the world's leading consulting firms. All the firms we interviewed had in place well-considered metrics, and a method of collecting and reporting, and sat comfortably towards the upper middle of the maturity curve. But the best firms don't just have robust and comprehensive strategies to collect, report on, and analyse metrics to help inform decision making, but rather also foster a culture that supports the day-to-day use of metrics, and they continuously reassess what it is that they're looking at in the context of change. These firms occupy the space at the apex of the curve—and are far fewer in number.

Figure 1 **Maturity curve showing characteristics of firms along metrics maturity curve**



As business models become increasingly pressured, and margins challenged, the necessity of having good-quality metrics and KPIs is critical if a firm is to keep a handle on its health and performance.

To meet the challenge this new operating environment creates, consulting firms will need to ensure that they:

- collect and collate metrics in as close to real time as possible;
- ensure rigorous analysis is applied to metrics to derive real value;
- map interdependences between metrics and KPIs;
- ensure that they have a sufficient balance of metrics to assess performance across entire portfolios of services and products; and
- continue to seek leading, future-focused metrics and invest in internal predictive analytics.

But to gain a genuine competitive advantage, consulting firms need to take things one step further and to consider how they can leverage predictive analytics to create their view of the future, rather than relying on picking apart the past. As James Frost from Newton Europe says, "Is there a limit to what you can do with metrics? Maybe. Have we reached the limit of what we can get from metrics? No."

Contributors

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Andrew Morgan	Managing Partner	Curzon & Company
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