

May 2019

The Value Problem

Emerging Trends



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Executive summary

The consulting industry has a lot of complexities and nuance to it that mark it out as a uniquely complex business environment. However, in one important respect consulting is the same as any other product or service: No buyer is going to spend money investing into a relationship that they do not think is going to create value for them.

But this statement, which seems like a straightforward tautology, proves surprisingly tricky to unpack. If you ask clients to articulate exactly what value means in the context of a project delivered by consultants, you will find that there is scant agreement among them as to what it is they are actually buying. If you picked two clients at random, you would probably find that they agree that they ultimately want to be able to measure the value-add of their consulting partners in financial terms, but that would be where the similarities would end. When it comes to the underlying value-add that is expected to generate those financial returns, you are unlikely to find much consensus even between two different stakeholders in the same company—let alone two different clients in different markets or sectors.

Partly, this is a consequence of the enormous diversity of sub-services that fall under the rubric of “consulting”: How can one make a fair comparison of the value generated by a three-month piece of strategic analysis and that created by a multi-year, complex transformation project?

Because of this inherent complexity, value is a subject that has historically not been the focus of much attention by consultants—at least, not explicitly. Projects have traditionally been oriented around the delivery of well-defined objectives within a precise scope, with the assumption that the creation of value for the client would be a natural consequence, provided that the objectives have been well-chosen.

Over the last few years, however, this has started to change. There is now general acceptance amongst consultants that the old way of doing things was not good enough; that value needs to be made an explicit topic of conversation with the client; and that projects should not be simple box-ticking exercises, but should instead be an opportunity for both parties to work together to create value in a way that can be sustained after the relationship ends.

Motivating this shift in thinking has been a growing recognition that many clients are sceptical about whether they are really getting value for money from their consulting partners. We have explored this scepticism in previous reports, but to summarise: No matter which market or sector we look at, we find that clients are generally reluctant to say that they make a substantial return on fees paid to their consulting partners, even though those same clients typically give consultants they have worked with top marks when it comes to assessing the quality of their work and deliverables. Fig. 0.1 shows the global trendline for these two metrics over a four-year period.

Figure 0.1

Comparison of client perceptions of quality and of value at a global level



This is the essence of “The Value Problem” in consulting: Firms can work hard on a project and meet or exceed all of a client’s expectations, and yet fail to convert that into a sense among their buyers that they are actually getting value for money. This would be a tough problem for practitioners in any industry to have to deal with, but it is particularly worrying in one that is notorious for high prices. Will there come a point, one has to wonder, where clients are no longer willing to pay top dollar for a service that they do not believe is going to provide much of a return on investment?

We have touched on this problem in previous reports, but have never before tried to look at it from all possible angles in order to understand what really lies at the root of it—and whether there’s a way for firms to break the mould and smash through the “value ceiling” that currently seems to be in place. This report is our attempt to change that.

As we explore the topic from every possible angle, we will find that the value problem is not indicative of a genuine failure on the part of firms to create value for their clients. Generally speaking, clients do appear to feel, on some gut level at least, that consultants deliver value for money—hence their continued appetite for such services. But most clients find themselves unable to articulate that gut feel in more nuanced terms; they struggle to put a precise number on the financial return generated by their projects, and therefore lack the confidence to state that they have definitively made money from them.

This does not mean, however, that firms should not invest time and energy into solving the value problem—and as we move through the sections of this report, we will provide numerous suggestions for actions that they could take that would go some way towards doing so. It does mean that their approach to solving it has to start with a willingness to solve the measurement problem that gives rise to everything else. If value can be measured—if the nebulous can be made concrete—then the task of changing client perceptions becomes exponentially easier.

Methodology

The bulk of the data in this report comes from a study conducted in April 2019 of 150 US-based senior executives, all of whom had personal experience using consulting services within the last two years. 80.7% of respondents had personally made the decision to bring in consultants; 67.3% had sat on project steering groups; and 60.0% had been part of project delivery teams working alongside consultants on a day-to-day basis. While none of our respondents worked in the consulting industry themselves at the time of the study, 22.7% of them had previous consulting experience prior to taking up their current industry positions.

All of the clients in our study worked for private sector organisations with at least 1,000 employees. 34.0% of respondents held CXO level positions, and a further 17.3% were direct reports of CXOs. The remainder were a mix of department heads, senior managers and VPs.

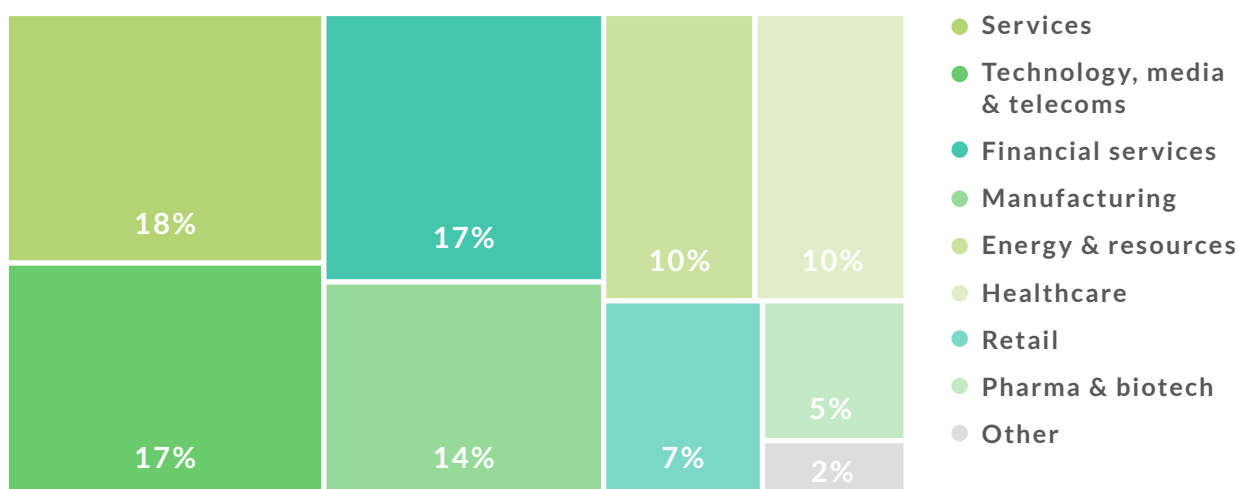
We have also drawn on data from our global data model, a bottom-up model of the professional services industry covering 84 countries, 29 industries, and six major service lines and containing about 9.7 million data points, and our annual global Client Perception Study, the latest version of which had 9,567 responses. Unless otherwise specified, all data mentioned in this report refers specifically to the US market.

To enrich our understanding of this topic—and to provide a qualitative perspective to supplement the data from our study—we spoke to a number of consulting leaders who have invested time and energy into thinking about how their firms can maximise the value they create for their clients. To ensure a full representation of the industry, we spoke to Big Four firms such as PwC and KPMG, digital and technology specialists including Capgemini Invent and Cognizant, and small boutique firms such as 11:FS. Furthermore, to broaden our perspective we spoke to senior leaders at agencies, to private equity firms, and to economists who have done work analysing the value-add of consultants. We were also able to speak at length with a number of clients to understand precisely what value they want their consulting partners to generate.

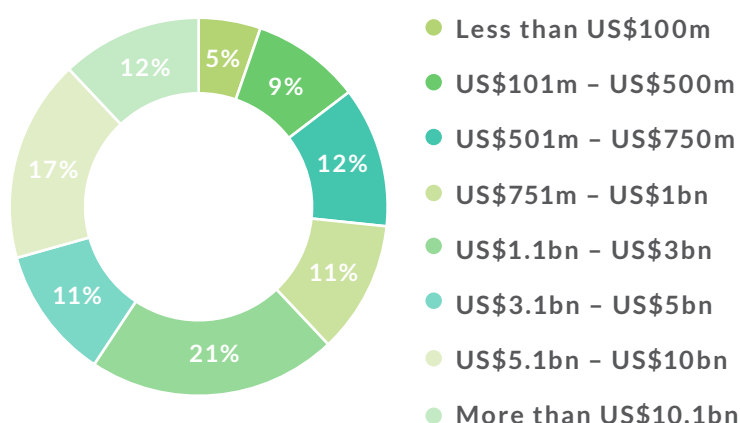
A selection of these conversations with consulting leaders have been made available to subscribers of our Emerging Trends programme as an accompanying interview series. These interviews can be accessed through our Emerging Trends platform on the Source Global Research website. This includes a video interview with Paul Alexander—BP's Head of GBS Procurement for EMEA—in which he shares his company's perspective on the value-add of consultants. This platform can also be used to explore in more detail some of the underlying data in this report. If you are a subscriber to this programme and do not already have access, please contact your account manager.

Figure 0.2

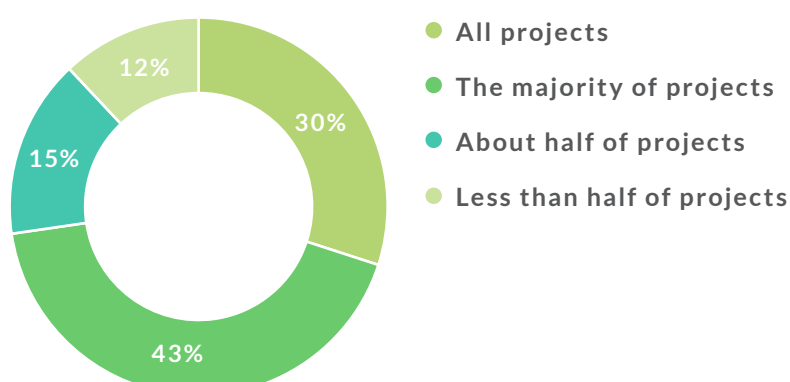
Sectors represented in our sample


Figure 0.3

Size of clients' organisations in our sample by revenue


Figure 0.4

How frequently clients in our sample use consulting firms for the delivery of major projects



Contributors

We are extremely grateful to all the people we spoke to for making this report possible. Below is a list of the individuals who have contributed (excluding those consultants and clients who wished to remain anonymous).

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Cyril Francois	COO	Capgemini Invent
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Sandy Gopalan	Head of Global Growth Markets	Cognizant
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A Co-founder and Managing 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 published a dozen books on consulting topics, including two for The Economist: *Business Consulting: A Guide to How it Works* and *How to Make it Work and Buying Professional Services*. She 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 17th century French art and lives in hope that it will be of practical use in business someday.

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Ed is a Managing Director of Source, and he is particularly focused on HR, strategic marketing, and new product development. He is a key member of the Source research team and spends much of his time interviewing consultants and their clients around the world in order to identify and explore major market trends.

Ed regularly speaks about the consulting market to leadership teams around the world, has lectured at Columbia University (New York), Imperial College (London), and Vrije Universiteit (Amsterdam), and he is regularly quoted by media including the Wall Street Journal, the Washington Post, the Financial Times, Bloomberg, and the trade press. Prior to joining Source in 2008, Ed spent seven years in various marketing roles for Sony Europe.

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Fergus is a Senior Analyst at Source, who works primarily on our Emerging Trends programme of reports. As well as interviewing consulting leaders on the pressing topics of the day, he also produces the supplementary content that accompanies those reports.

Prior to joining Source, Fergus was a management consultant specialising in customer loyalty strategies. He has spent time in both the UK and German offices of Capgemini Invent, and has worked for some of the world's highest-profile retailers and consumer products companies. He holds a degree in philosophy from Gonville & Caius College, Cambridge.

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Programme schedule for 2019

Reports 2019	Market Data and Analysis	Client and Brand Insights	Emerging Trends
January	Forecasts for 2019		
February	UK	UK Nordics GCC	
March	GCC Benelux Nordics	France Germany US	The Future of Pricing
April	France DACH Southern Europe	Energy & Resources Financial Services Healthcare Technology, Media & Telecoms	
May	US Eastern Europe & Russia		The Value Problem
June	Canada	Global Perceptions of Audit Firms Global Perceptions of Risk Firms Global Perceptions of Tax Firms	
July	South America Australia		
August	Africa Risk		The Make-Buy Decision
September	India Energy & Resources Planning for Growth in 2020	Talent Attractiveness in 2019	
October	Financial Services China South East Asia		
November	Japan Healthcare Technology, Media & Telecoms		The Future of Delivery
December	Tax		

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