

August 2019

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# The Make-Buy Decision

Emerging Trends

# Contents

Executive summary	3
Methodology	6

<b>1. How has conceptual thinking about make-buy adapted to a changing technology context?</b>	<b>8</b>
Defining “core” business functions	9
Automation and its consequences	22
Make-buy considerations at the process level	30
The 21st century supply chain	36

<b>2. How has contracting and buying changed?</b>	<b>49</b>
Supplier diversification	40
The platform model	49
Contracting and the role of procurement	53
The politics of offshoring and outsourcing	58

<b>3. What are clients looking for from their suppliers and vendors?</b>	<b>63</b>
What buyers want	64
Why relationships break down	73
Data and trust	89
Coping with the war for talent	83

<b>4. What challenges and opportunities do changing attitudes towards make-buy create for consultants?</b>	<b>94</b>
The questions clients want answered	96
The managed services model	101
Helping clients automate	109
Adapting to new resourcing models	117

Further reading	125
Contributors	126
About the authors	127
Programme schedule for 2019	128
Our custom work	129
About us	130

## Executive summary

We've been here before. In almost every industry, clients are in the middle of a paradigm shift in terms of how they approach make-buy decisions—but it is not the first such shift, and it is unlikely to be the last. In this report, we will look at the changes currently taking place in how clients think about what their business does and their relation to their suppliers, and what that means for professional services firms. And we will put those changes into their proper historical context.

The term “make-buy” is sometimes used specifically in relation to outsourcing decisions, or just to refer to cases where organisations have to decide between buying an off-the-shelf technology solution or developing one in-house. Here, we will be using an expansive definition of make-buy that encompasses both of those scenarios—and any situation in which a client is having to decide whether or not third party suppliers (be they technology vendors, BPO providers, consulting firms, or other types of service providers) would help them to achieve a given objective. Using the term in this way allows us to look at a much broader range of client perspectives. But it also reflects the reality that clients are increasingly being put into situations where they have to choose not just between different products or different service providers, but between accomplishing a task with a technology product plus some internal resources, or a technology product plus the resources of a service provider, or just giving the whole thing to a third party.

Indeed, the term is a bit of a misnomer in that sense. “Make-buy” implies a binary distinction between two choices. But in reality, it is rare that a client will have only those two choices available to them. It would be more accurate to talk about a spectrum of options that bridge the gap between making and buying a product or service: Clients can make and they can buy, but they can also rent, or they can buy and then customise, or they can buy multiple products and stitch them into a single solution, or any number of other permutations. Later in the report, we will dive more deeply into some of the nuances hiding beneath the surface of the simple “make-buy” label. But for now, we will treat the term as shorthand for that whole continuum of options.

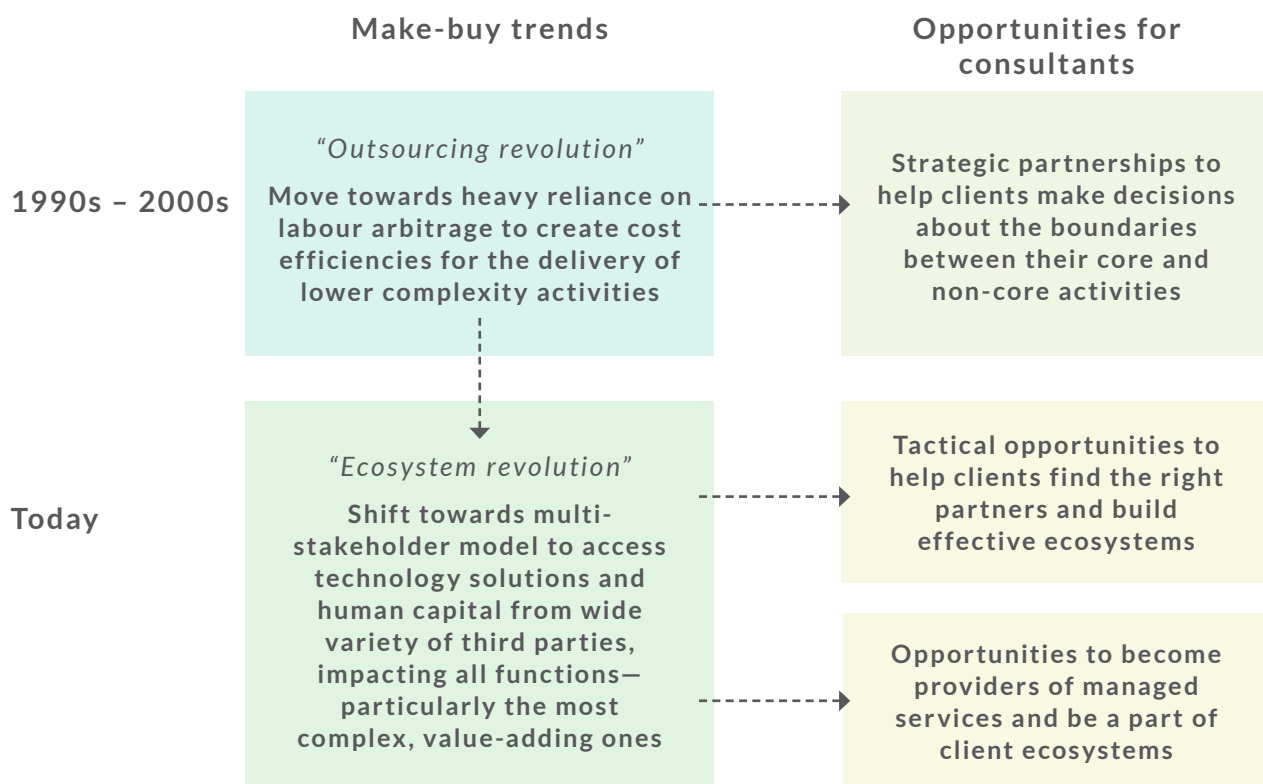
Make-buy decisions were the subject of much debate back in the 90s and early 2000s. Back then, an increasingly globalised economy combined with the constant pressures of cost reduction caused many large organisations to outsource a wide range of key functions, often to low-wage economies like India and later to Mexico, Vietnam, and the Philippines, among others. By doing so, companies could cut costs through labour arbitrage, and could streamline their in-house operations to focus on what they saw as their core competencies.

Now, those same organisations are having to rethink what they're willing to outsource. The price differential between a worker in New Delhi and one in New York is no longer nearly as large as it once was. And there are a whole host of new technologies on the market that did not exist during the previous waves of outsourcing that change the cost-benefit calculus of make-buy decisions. Most notably, many of the high-volume and low-complexity processes that were often outsourced in the past can now be automated. At the same time, the pace of supplier innovation has never been greater, and clients need to create partner relationships that will enable them to rapidly respond to market trends and to new technology, lest they fall behind the innovation curve.

In response to these challenges, clients have rapidly shifted their thinking about make-buy decisions. No longer do they talk in terms of isolated contractual relationships; instead, their focus is on creating a holistic ecosystem of suppliers and partners that can, collectively, give them access to the technology and to the human capital that they need to be able to continue to grow their businesses. The ecosystem mindset is something that we have touched on before in several of our reports, but here we will explore in detail what it means for clients, their vendors, and their consulting partners.

**Figure 0.1**

### *A historical view of make-buy thinking*



However, if there is one key takeaway to be found, it is that the ecosystem revolution will create opportunities for consulting firms—but they will not be the same as the opportunities created by the prior revolution in outsourcing (as illustrated by Fig. 0.1). When clients had to decide what functions to hand over wholesale to third parties, they turned to consultants to help them design their target operating models and to develop coherent strategies to govern their use of BPO providers.

But now, clients are asking their consultants different types of questions. The value of strategic advice is limited when new technology reshapes the supplier landscape on a regular basis; instead, clients want to work with consultants who can help them tackle the lower level challenges of finding the right ecosystem partners and structuring their supplier relationships in the right way.

The other key difference that will define the ecosystem revolution is that consulting firms will not only be competing to advise an organisation on its long-term supplier relationships. Increasingly, they will be competing to become those suppliers. While there were examples of firms in the past—IBM and Accenture, for example—that competed with BPO providers, those were cases where a single organisation housed both a consulting firm and an outsourcing arm. In the future, it will be the consultants themselves who are going head to head with other categories of suppliers. The rise of the managed services model will mean that the boundaries between BPO companies, consulting firms, and other types of suppliers will become increasingly hazy.

In the first section of this report, we will provide a top-down view of how clients are changing the way that they think about their organisation—and we will explore some of the technology trends behind those changes. Then we will look at the practical effects those changes have had on the way that clients set up their supplier relationships. In the third section, we will examine how the needs of clients—what they want from their suppliers and what sort of suppliers they want to work with—are evolving in response to the ecosystem way of thinking. And then finally, we will assess all of these changes through the lens of what they mean for consulting firms.

The ecosystem revolution is not some far-fetched possibility or an empty buzzword thrown around by consultants. It has already had a profound impact on the types of products and services clients are buying and who they want to buy them from. In response, consulting firms have started to adapt the way they position their services—but there is still more that can be done to ensure that consultants have an important role to play in the client ecosystems of tomorrow.

## Methodology

The bulk of this data comes from two studies conducted in July and August 2019. For the first study, we surveyed 101 US-based senior executives. This study was intended to give us an understanding of how clients of consulting firms think about conceptual issues related to make-buy decisions and how they use third party support in making those decisions. All of those clients worked in organisations with 1,000 or more employees, and all of them held head of department or more senior positions. None of them worked for consulting firms at the time of being surveyed, but 8% had prior experience as consultants.

To help us understand how organisations run their procurement processes and how they structure their contractual relationships, we conducted a second study of procurement specialists. All 51 respondents worked for US-based organisations with 1,000 or more employees and held senior manager or more senior positions.

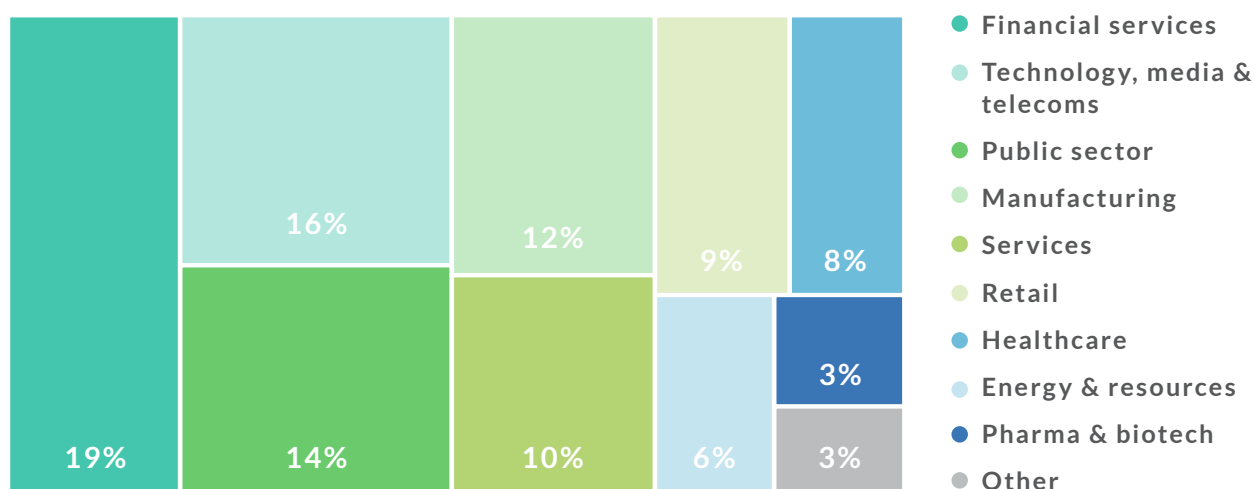
We have also drawn on data from our global data model, a bottom-up model of the professional services industry covering 84 countries, 29 industries, and six major service lines and containing about 9.7 million data points, and our annual global Client Perception Study, the latest version of which had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

To provide a qualitative perspective on this topic, we conducted interviews with a range of professionals with relevant expertise. As well as speaking to partners at the Big Four and other large consulting firms, we also interviewed a number of leaders at smaller firms who have been leading the way in developing new resourcing models and new ways to respond to changing client demands. We also spoke to academics who have published research on the topic of make-buy decisions.

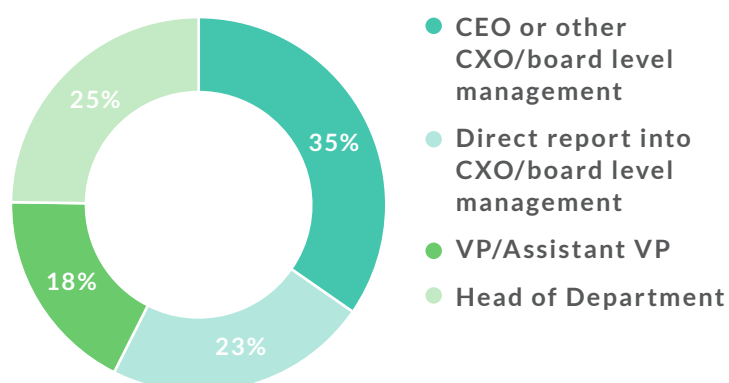
A selection of the interviews conducted for this report can be read in full on our [Emerging Trends platform](#)—your online source for reports and data on the big trends shaping the future of the professional services industry. If you are a subscriber to this programme and do not currently have access, please contact your account manager.

**Figure 0.2**

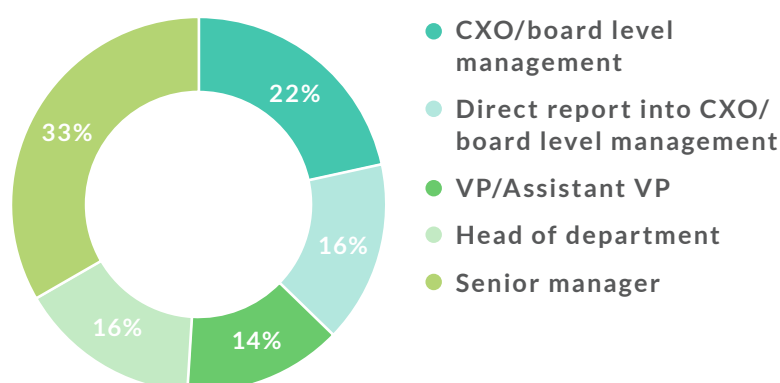
*Sectors represented in our survey of buyers of consulting services*


**Figure 0.3**

*Seniority of respondents in our survey of buyers of consulting services*


**Figure 0.4**

*Seniority of respondents in our survey of procurement specialists*



## Further reading

This report has explored a broad range of topics related to the question of how organisations today approach make-buy decisions. In researching this report, we interviewed a number of industry leaders. On our [Emerging Trends platform](#), you can find the full transcripts of a selection of these interviews.

Access to this platform is included as part of your subscription to the Emerging Trends programme. If you do not already have access, please speak to your account manager. Through this platform, you will have access to a wide range of content relating to the themes of each Emerging Trend report as they are published—including interviews with experts, video features, and interactive data visualisations.

### Complete Interviews

*Each of these full-length interviews tackles a specific topic covered in this report, presenting the perspective of an industry professional with relevant expertise.*



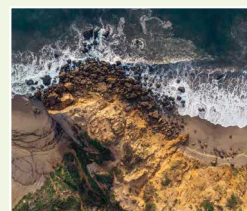
– Ecosystems in Financial Services with Deborah O'Neill



– UK Public Sector Make-Buy Decisions with Mark Brett



– Preparing for the Future of Work with Kate Duchene



– The Future of Managed Services with Paul Clark



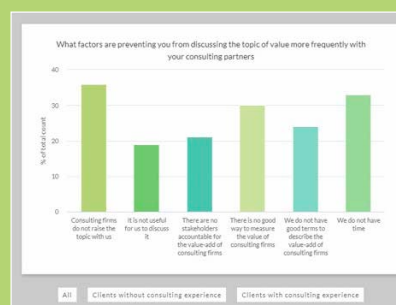
– The Evolution of Outsourcing and Shared Services with Bill Gilet



– Consulting and the Gig Economy with Richard Longstreet

### Data visualisations

The Emerging Trend platform also contains interactive data visualisations, allowing you to explore in more detail some of the underlying data that this report is based on. This data can be filtered to show what different groups of clients think about key issues.



## Contributors

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

Name	Job title	Organisation
Mark Brett	Head of Public Services Consulting	PA Consulting
Nick Brown	Managing Partner	Eden McCallum
Paul Clark	Global Managing Partner, Managed Services	EY
Pierre-Yves Commanay	Executive Director, UK Consulting & Continental Europe	Sopra Steria
Alistair Copeland	VP IT Services	Korn Ferry
Kate Duchene	Chief Executive Officer	RGP
Tom Forrest	Managing Director, Consulting Solutions	Sheffield Haworth
Bill Gilet	Partner and Global Shared Services & Outsourcing Network Leader	PwC
Chris Hallmark	Managing Director, Specialist Sectors	Gobeyond Partners
Robin Harrison	Marketing Director	Gobeyond Partners
Richard James	Category Director, Professional Services and HR	Proxima
Richard Longstreet	Strategy, Transformation & Change Manager	3Search
Toby Munyard	Vice President	Efficio
Shakil Nathoo	Vice President	A.T. Kearney
Patrick Nicolet	Group Chief Technology Officer	Capgemini Invent
Deborah O'Neill	Partner and Head of UK Digital	Oliver Wyman
Ben Richardson	Managing Director	Sheffield Haworth
Hilary Robertson	Strategy Director	Sopra Steria
Ilkka Sillanpää	Co-Founder and Chief Executive Officer	Hegemonia Consulting

## About the authors

### Fiona Czerniawska

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.

#### Fiona Czerniawska

✉ [fionacz@sourceglobalresearch.com](mailto:fionacz@sourceglobalresearch.com)

### Edward Haigh

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.

#### Edward Haigh

✉ [edward.haigh@sourceglobalresearch.com](mailto:edward.haigh@sourceglobalresearch.com)

### Fergus Blair

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.

#### Fergus Blair

✉ [fergus.blair@sourceglobalresearch.com](mailto:fergus.blair@sourceglobalresearch.com)





## 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		
July	South America Australia	Perceptions of Audit Firms Perceptions of Risk Firms Perceptions of Tax Firms	
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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Source Information Services Ltd  
20 Little Britain | London | EC1A 7DH  
UK +44 (0)20 3478 1207  
US +1 800 767 8058  
[info@sourceglobalresearch.com](mailto:info@sourceglobalresearch.com)  
[www.sourceglobalresearch.com](http://www.sourceglobalresearch.com)

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