

March 2019

The Future of Pricing

Emerging Trends

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Executive summary

Pricing is not a sexy topic.

Historically it has been seen as more of an afterthought than anything else: Society venerates and reveres the Thomas Edisons and Alexander Graham-Bells of the world but quickly forgets who wrote the price tags for the first light bulbs or figured out how a phone call should be paid for.

And yet, some of the biggest success stories of the last few decades have been cases where people landed upon new business models not because they had some great technological innovation, but because they saw that consumers wanted new ways to pay for goods and services. Netflix wasn't the first to put video content on the internet, but it figured out that consumers would pay a subscription fee for ad-free access to television-quality content. Spotify didn't invent streaming music, but it did figure out that people no longer wanted to buy individual tracks and albums.

While there are undeniably changes taking place to how consulting firms price their services, many of these changes have been driven by technological and organisational shifts in the way that projects are being delivered. In this report, we will look at the effect that the automation of consulting services will have on firms' price points; at the bifurcation of the market into high-priced and low-priced elements; and at how firms are struggling to figure out how best to put a price tag on their ecosystems of partners and their intellectual property.

All of these stories are important in their own way and will have a key part to play in defining what the industry will look like five years down the line. And we will look at some of the creative ways that different firms have found to respond to these shifting market dynamics. As the type of work that clients want to buy and the way that firms can deliver that work changes, there will of course be changes to how firms price their services.

But firms should not just be playing catch-up all of the time. Over the course of this report, it will become clear that there are opportunities for firms to proactively change the landscape of the industry by giving their clients new ways to pay for their services. As a rule, consulting firms are more beholden to the "traditional" way of doing business than their clients are. There has never been more incentive for service providers to shift away from their narrow focus on billable hours; but the obstacles to doing so are all on the side of the firms, not their clients.

And all of this means that a "one-size-fits-all" approach to pricing is no longer fit for purpose, if it ever was. Over the last few years, large firms have been aggressive in diversifying their project portfolios; strategy houses have happily started taking digital work, technology providers have developed true end-to-end capabilities, and both have sought to build new service lines around technologies like AI and blockchain that

have featured prominently in clients' thinking. But they have been less bullish when it comes to diversifying their pricing methodologies. If firms want to maximise the revenues that they can bring in from their new capabilities, they need to be as innovative when it comes to pricing projects as they are at delivering them.

Key recommendations

Figure 0.1

Pricing recommendations for consulting firms



Methodology

The bulk of the data in this report comes from a study conducted in February 2019 of 100 US-based senior executives. All of our respondents worked in private-sector organisations with 1,000 or more employees; all held a “head of department” or more senior position; and all had been directly involved in buying and managing consulting projects—92% had personally taken the decision to bring in consultants, and the remaining 8% had sat on project steering groups.

To help us understand not just how these respondents think about the pricing of professional services in general, but also how they put these thoughts into practice in real cases, we asked them a number of questions specifically referring to the most recent mid-sized or larger (US\$100,000 or more) project which they had been involved in commissioning. Where this report mentions a sample of consulting projects, these are the ones that are being referred to.

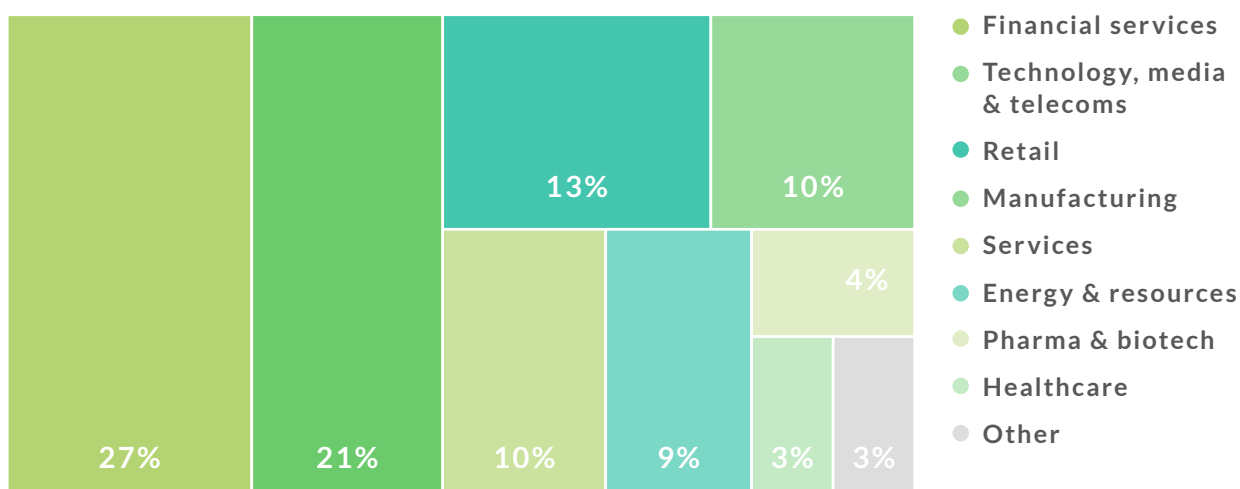
We have also drawn on data from our global data model, a bottom-up model of the professional services industry covering 84 countries, 29 industries, and six major service lines and containing about 9.7 million data points, and our annual global Client Perception Study, the latest version of which had 9,567 responses.

To deepen our understanding of the trends that emerged from this data, we spoke to consulting leaders with experience in setting prices and negotiating contracts, from firms including KPMG, Synechron, Deloitte, Arup, PwC and more. We also had the chance to interview a number of independent pricing specialists—from Atenga Insights Group, Wiglaf Pricing, Ignition Consulting Group and Simon-Kucher & Partners—and professionals in other industries working in setting prices, from fine art galleries, high-end auction houses and second-hand automotive dealerships.

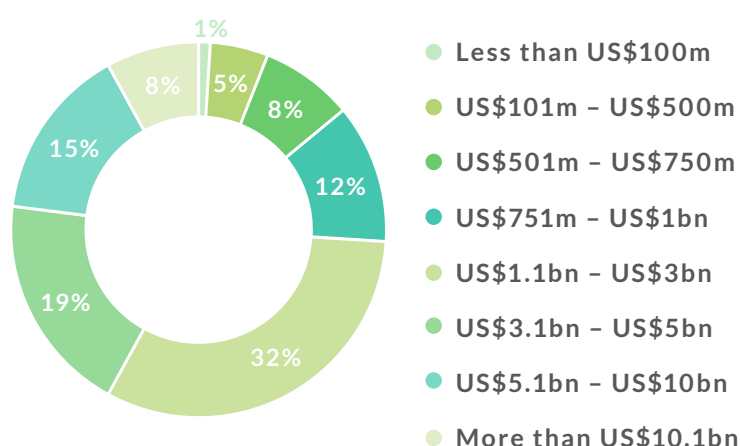
A selection of these conversations have been collected in PDF and video format and presented as an interview series that is intended to provide a deeper look at some of the themes highlighted in this report. This interview series is provided as a complement to the report; if you do not already have access to it, you can find it through our website or by contacting your account manager.

Figure 0.2

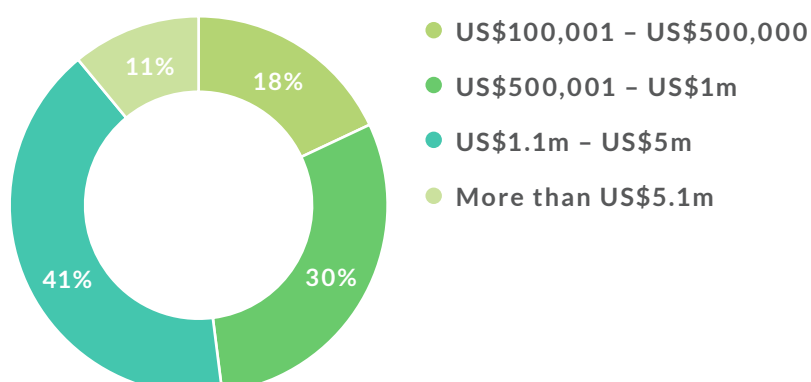
Sectors represented in our sample


Figure 0.3

Size of clients' organisations in our sample by revenue


Figure 0.4

Size of projects in our sample by total cost



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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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 2008, 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.

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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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