

March 2019

People Services and Consulting:

Where should you place your bets?



Why are we thinking about people services and consulting?

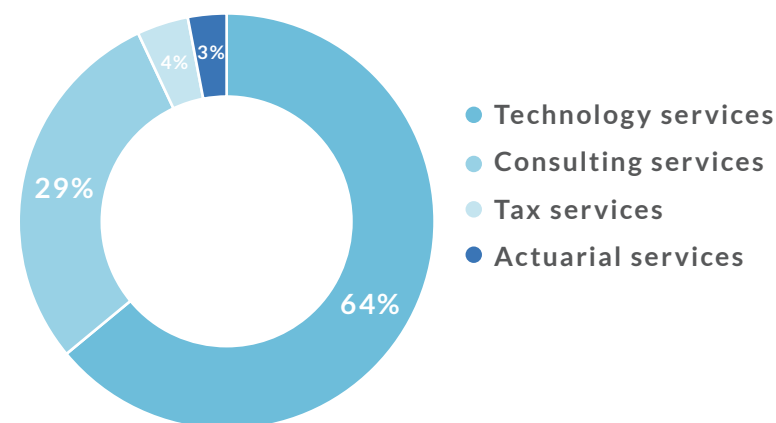
Traditional HR work is big business for consulting firms. It could be much bigger, but we fear that traditional HR consulting firms won't benefit.

We estimate that the market for traditional HR consulting was worth just over US\$8bn in 2018. This is, however, only a small part of the total market for people-related services, which we estimate to have been worth US\$28.2bn last year, up 6% on 2017.

Almost two-thirds of the market (US\$18bn) came from technology services, and systems development and integration, with consulting services accounting for a further 29%. Within the technology market, Workday was the biggest single market, ahead of SAP and Oracle: It accounted for 27% of all technology services. The largest market within consulting services was change management, which was worth US\$2.3bn in 2018 (but this excludes change management directly in support of technology projects—please see our methodology note at the end).

The US accounted for 44% of the global people services market, with the UK and DACH accounting for 11% and 9%, respectively. Asia-Pacific accounted for 13% of the worldwide total. We estimate that growth was highest in North America (and in the much smaller Middle East market), at around 7% in 2017-18, with Europe lagging very slightly behind at 6%.

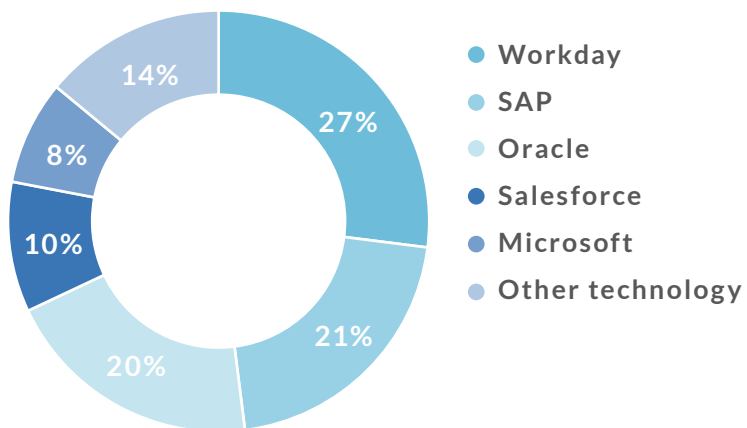
Breakdown of the people services market by service in 2018 (%)



Breakdown of consulting services in 2018 (%)



Breakdown of technology services in 2018 (%)



Demand for people services grew by 7% in 2018-19, but...

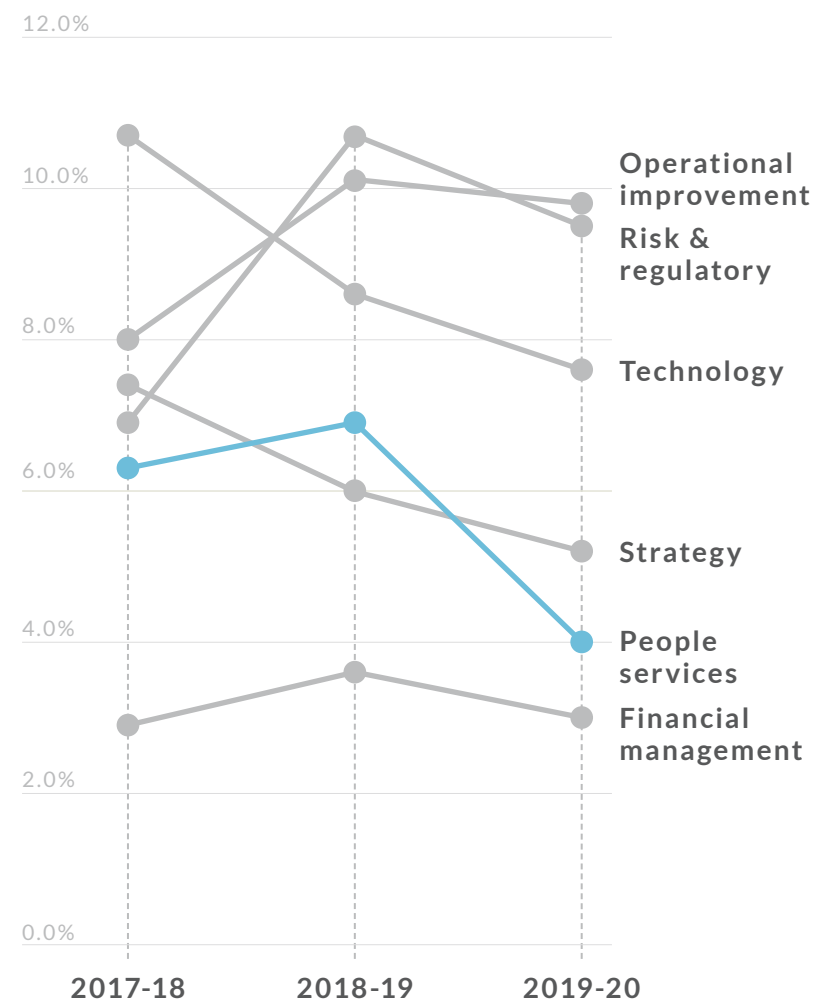
The market for people services recovered only slowly from the global financial crisis. While demand for many other consulting and advisory services picked up relatively quickly, performance in the people services market remained sluggish until 2016. Then, finally, we saw growth rates start to pick up, reaching—we estimate—just over 6% in 2017-18, compared to average growth across all consulting of just over 8%.

We're still in the process of analysing the numbers for 2018-19, but if last year continues earlier trends, then digital transformation will have continued to drive growth right across the consulting market.

However, its impact will have been unevenly spread. At the start of its boom, most digital transformation work was a combination of strategy and technology work, but the fastest growth is now in operational improvement and risk work, a trend we think will continue through this year and next. It's a sign, not only of the growing maturity of digital transformation work (more doing, less thinking), but also of greater economic consulting, which is driving up demand for work around productivity and risk.

The improving fortunes of people services can be attributed to the same cause: 2015-16 and 2016-17 were both years in which the proportion of HR & change management work that could be termed digital transformation rose, and we expect to see a similar picture in 2018-19.

The future, though, may be different: We think the rate of growth in people services in 2019 will fall to 4%, for reasons explained on the following page.



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— Clients are concerned about “people transformation”

We’ve written extensively about what we see as the bifurcation of professional services into two distinct markets: low-cost services, which are defined by their reliance on standardised expertise and are focused on areas clients are comparatively familiar with and where cost-efficiency is king; and high-value services, which are focused on areas clients are much less comfortable with and where delivery depends on innovation.

Looking at the people services market through this bifocal lens suggests that it’s no exception to this pattern.

The big opportunity for consulting firms in the people services space is digital transformation. While digital transformation has stimulated growth in demand for the consulting industry it’s also cannibalised existing services. This means that, in 2018, while the global consulting market as a whole grew by 8%, demand for digital transformation grew by 34%. Most of that cannibalisation has been of technology and strategy services, to a point where 63% and 56% of the work in these services, respectively, could be labelled digital transformation. However, the impact on the HR & change management market has been significantly less: Just 30% of this work related to digital transformation in 2018.

That’s about to change. Many of the clients we speak to are frustrated by the lack of attention being paid to the people aspects of transformation. “Consulting firms only want to talk to us about changing our systems and processes,” complained one typical executive. “They’re reluctant to engage around behavioural change.” Yet business cases for transformation are based on cost savings as much as revenue generation, and if those aren’t realised, the whole promise driving transformation starts to evaporate. Suddenly, the ability to deal with people issues as part of a wider transformative programme takes centre stage in the consulting market.

This will, we think, produce a spike in demand for people-related services firms. But it’s not without a cost—and that cost will come in the form of contracting demand for other, more traditional people-related services—reward, benefits, and compensation; organisational design, etc. Our prediction, of 4% growth in 2019-20, is based on increasing concern that firms working in the people-related services market haven’t sufficiently engaged with this problem and are consequently likely to miss out on the opportunity it brings.

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