EXTRACT

SOURCE GLOBAL RESEARCH

May 2020

Emerging Trends in Consulting: A Snapshot View

Emerging Trends



Introduction

Suppose you were a time-travelling management consultant who'd just flown in from the year 2010. Step out of your time machine, and there's a lot you'd recognise; certainly, you'd be familiar with most of the major players in the industry. But peek below the surface, and you'd rapidly find the familiarity running dry. The way that firms price their work, the way that they deliver projects, the way that they communicate with their clients; all of these have changed a great deal over the last ten years, and are continuing to change as consultants grapple with the question of what the firm of the future will look like.

Every year, we publish four reports under the auspices of our "Emerging Trends" series. This research programme explores the big themes that are shaping consulting today—drawing on extensive client surveys as well as interviews with many of the industry's leading lights. This report presents the key findings from a year's worth of our Emerging Trends reports in summary form. Additionally, it explores how the COVID-19 crisis has shifted consultants' thinking about these issues.

In many cases, these questions—how to update your pricing model to reflect the new realities of the industry, how to make sure your clients fully appreciate the value you're creating for them, and so on—have only been made more pertinent by the pandemic. Times of rapid, far-reaching disruption have a way of focusing one's mind on the topics that really matter; firms that previously may have felt they had plenty of runway when it came to reacting to the latest trends in the industry are now finding themselves thrust into "adapt or die" situations. And the firms that had already engaged head-on with some of these issues have found themselves much better placed to weather the storm we are all currently living through.

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Section 1:
The Future of Pricing

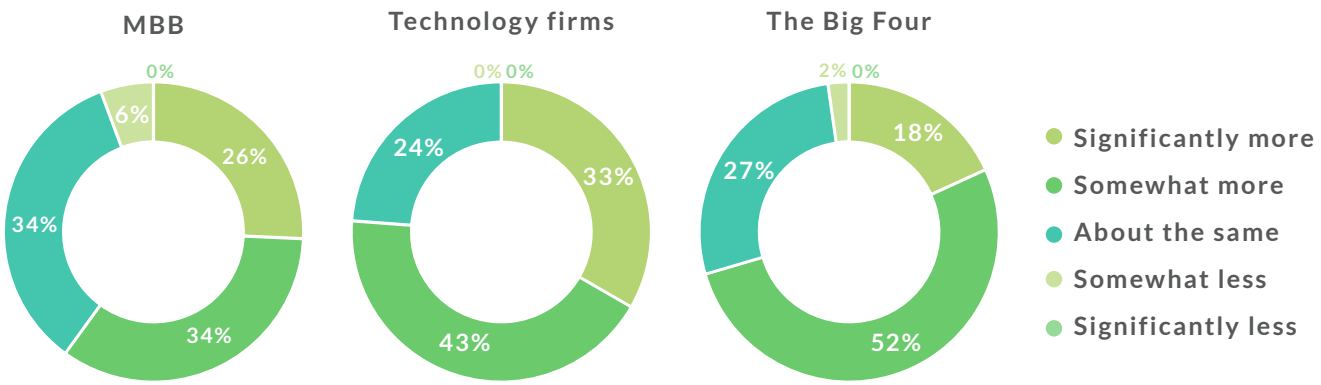
Consultants have not always been early adopters of new pricing methodologies. Today's firms are, by and large, pricing up their projects using the same basic principles that they've been deploying for decades. There may have been a marked shift away from time and materials contracts in favour of fixed price deals in recent years—but this is more a cosmetic change than anything else. The basic assumption that the price of a client engagement ought to be determined by some sort of rate card calculation remains unchallenged.

However, that may be starting to change. Even before the current pandemic, there seemed to be a growing willingness on the part of both consultants and their clients to countenance alternative pricing models. In large part, this was driven by an acknowledgement of the realities of today's industry: The value that a firm can create is now determined as much by the quality of its intellectual property and asset base as it is by the talent and brainpower of its consultants. And in that world, the billable hour starts to seem like an increasingly antiquated concept.

Right now, this conversation may be more theoretical than anything else, but one can at least see the groundwork being laid for a transition to an era in which firms regularly deploy a much greater variety of pricing models. And COVID-19 may serve to accelerate that transition. As clients around the world are forced to slash their operating budgets, consultants may be able to stand out from the crowd by embracing new approaches to pricing that redistribute project risk away from the client and onto the shoulders of the service provider.

Figure 1.1

How final agreed project prices compared to clients' earlier estimates



One of the big challenges for consulting firms is that there is often a staggering disconnect between what the firm thinks a given piece of work ought to cost and what the client expects to pay. Fig. 1.1 shows the degree to which clients systemically underestimate the prices of consulting projects. Overall, in a study of consulting

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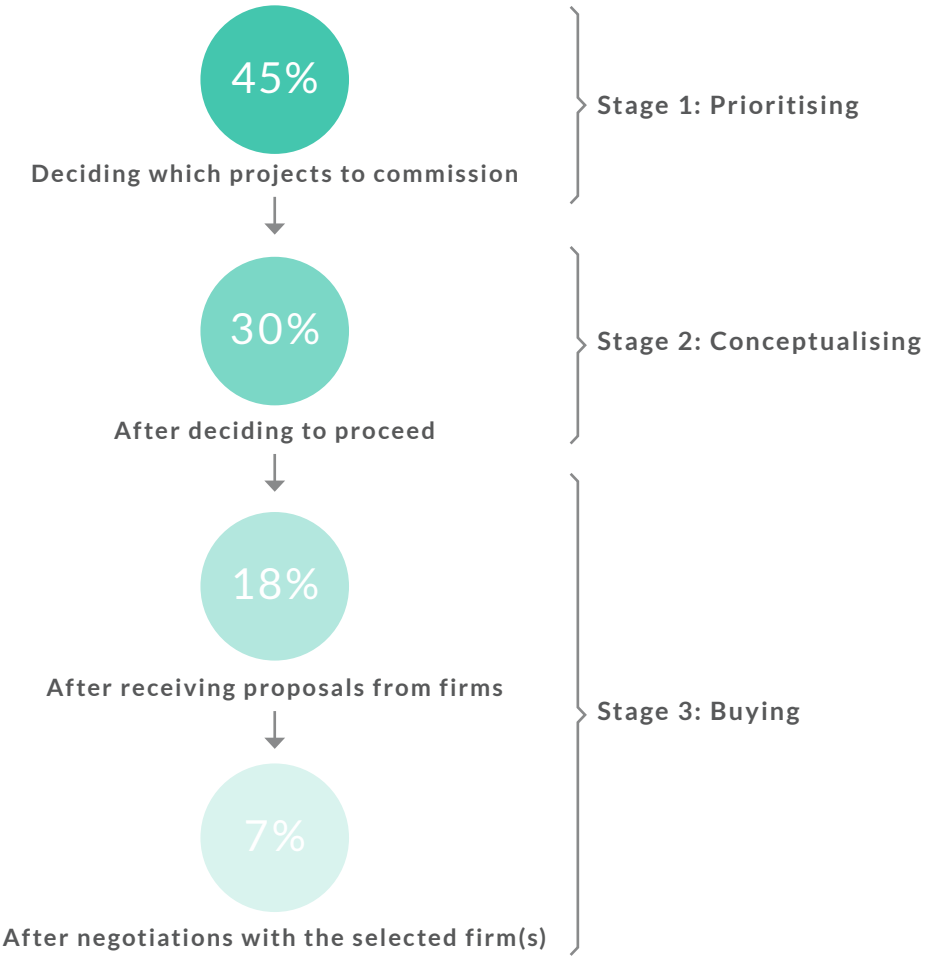
projects in the US, we found that 68% of them ended up costing more than the client initially expected, compared to only 3% that cost less.

A major reason for that degree of underestimation is that clients generally make their estimations of price at a very early stage of the project buying cycle—meaning that firms are forced to try to match those estimations, rather than having the leeway to influence and calibrate client expectations.

We can break up the buying cycle for a typical project into three broad stages. First, there is a period of "prioritisation", in which clients weigh up many different competing needs within their business to decide which are worthy of investment. Embryonic projects that are deemed high enough priority are then moved into a "conceptualisation" period, in which clients start to flesh out the objectives of the project and decide whether it can be delivered in-house or requires bringing in a consulting firm. Only a relatively small fraction of projects ever make it to the third phase—the "buying" phase—in which the client then puts out an RFP or, through some other mechanisms, starts engaging potential suppliers. And, as Fig. 1.2 shows, by this stage of the process, the vast majority of clients already have a reasonably firm idea in their head of what they're prepared to pay.

Figure 1.2

The stage of the buying cycle when clients reach their "first reasonable estimate" of project costs



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Methodology

The data in this report comes from three primary sources:

- Our global data model: a bottom-up model of the professional services industry that covers over 80 countries and includes detailed data on almost 1,600 firms, as well as higher-level estimates for a further 400,000 firms.
- Our annual Client Perception Study, in which we ask thousands of clients around the world about their views on firms that they have worked with or have considered working with.
- Smaller "single-issue" surveys conducted to explore client attitudes about the four topics discussed here. These surveys are conducted in the US, with a sample size of between 100 and 150 buyers of consulting services.

Unless otherwise noted, data presented in this report refers specifically to the US market.

Additionally, this report draws on findings from over 80 interviews with senior leaders in the consulting sector. Transcripts from a selection of these conversations have been made available to subscribers of our Emerging Trends programme through our online portal, available here.

About the authors

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Fergus is the Producer of our thought leadership at Source. In this capacity, he oversees our Emerging Trends research programme, hosts our fortnightly podcast, and creates content for our blog and social channels. He has contributed to a number of leading management and professional services publications, and regularly speaks at our own events and those of our clients.

Prior to joining Source, Fergus was a management consultant at Capgemini Invent, where he helped develop customer loyalty strategies for leading retailers and consumer products companies. He holds a degree in philosophy from Gonville & Caius College, Cambridge.

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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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Programme schedule for 2020

Reports 2020	Market Data & Analysis	Client & Brand Insights	Emerging Trends
January			
February	Forecasts for 2020 UK	UK	
March	GCC Benelux	GCC Nordics	The Future of Account Management
April	Nordics	Germany	
May	DACH France Southern Europe Australia Eastern Europe & Russia Canada US	US France	
June	India South America Mexico Japan South East Asia China	Financial Services Technology, Media & Telecoms	Sustainable Futures: Building Resilient Businesses
July	Africa Global Risk Services	Energy & Resources Healthcare	
August	Global Tax Advisory	Perceptions of Audit Firms Perceptions of Tax Firms	
September	Energy & Resources Planning for Growth in 2021	Perceptions of Risk Firms	Sustainable Futures: A Climate Transformed
October	Financial Services		
November	Healthcare Technology, Media & Telecoms		The Consultant of Tomorrow
December			

Please note that with the purchase of all country Market Data & Analysis reports in 2020, you will also gain access to monthly updates regarding the impact COVID-19 is having on the consulting industry more widely.

White Space

A powerful research tool that allows subscribers to keep up to date with the latest content being produced and maximise their return on investment. A series of reports that analyse the quality and effectiveness of thought leadership are published throughout the year.

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SOURCE GLOBAL RESEARCH

Our custom work

We provide advice and custom research services to the world's most successful professional services firms, helping them to identify, and develop strategic responses to, their most pressing opportunities and challenges.

Among other things, our work includes:

- Deep market and competitor analysis
- Acquisition strategy
- Proposition strategy and development
- Brand and client sentiment analysis
- Thought leadership and content strategy, development, and review

For more information about any of these, please visit our website or get in touch.

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About us

Source Global Research is a leading provider of information about the market for professional services.

Set up in 2007, Source serves the professional services industry with expert analysis, research, and reporting. We draw not only on our extensive in-house experience but also on the breadth of our relationships with both suppliers and buyers. All of our work is underpinned by our core values of intelligence, integrity, efficiency, and transparency.

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