

Report
September 2023

EXTRACT



EMERGING

The Rise of the
Technology Challenger



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Introduction

“Digital technology is enabling us to do things we’ve never done before. That’s both exciting and terrifying: It’s uncharted territory.”

Senior Director, pharma sector

At the heart of this report is the balance between the business and technology expertise clients need, and the implications this has for the types of firms that clients choose to work with.

The report is framed around four important questions about what the competitive landscape of professional services will look like in the future:

- Why are clients investing so much in technology?
- How is increasing technology investment driving up demand for consulting services?
- Which management consulting firms do clients currently turn to for technology work, and why?
- What impact will technology companies have on consulting firms’ competitive positioning?

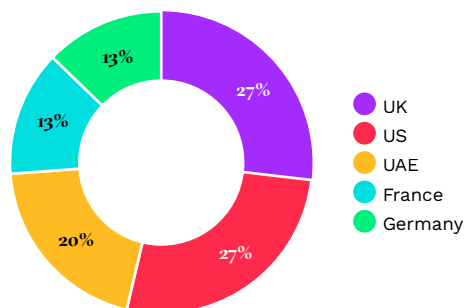
As the data in this report shows, the increasing dependency of business on technology, which accelerated so markedly during the pandemic, has its roots in deep concerns, at a strategic level, about the ability of organisations to achieve their corporate goals and, from the humdrum, everyday perspective, to simply get stuff done. Inevitably, demand for consulting services is gravitating towards technology work.

Clients know that technology projects are never just about technology. As a result, they’re working with consulting firms that are strong in other areas, too—innovation, sector knowledge, and the familiarity with client organisations that can only come from having worked with them before. But clients are also buying support from technology software and services companies. (We’ve focused on Microsoft, Google, and Amazon Web Services (AWS) for the purposes of this report.) On the face of it, the ability of these firms to extend their reach beyond technology and into business consulting has been limited. But clients’ exposure to these companies’ expertise, through traditional consulting firms’ ecosystems, threatens the status quo. And clients’ interest in AI could compound that challenge.

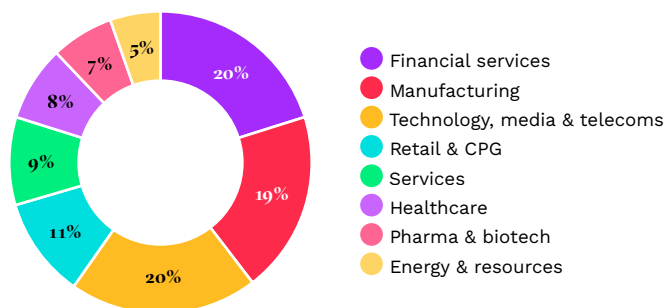
Methodology

We surveyed almost 150 senior executives in August 2023, all of whom are responsible for buying consulting services. Our sample was designed to reflect the consulting market: Respondents came from five geographies, all of which are important in terms of scale and/or growth potential—the US, the UK, Germany, France, and the UAE. They were also drawn from a representative mix of sectors. Roughly 40% came from the technology function, with a further 10% from the closely allied area of data & analytics. Three quarters came from organisations with more than 5,000 people. A third were CxOs, with the remainder split equally between direct reports to CxOs (typically those with cross-organisational responsibilities, such as directors of transformation) and heads of function (e.g., a supply chain director reporting into a COO).

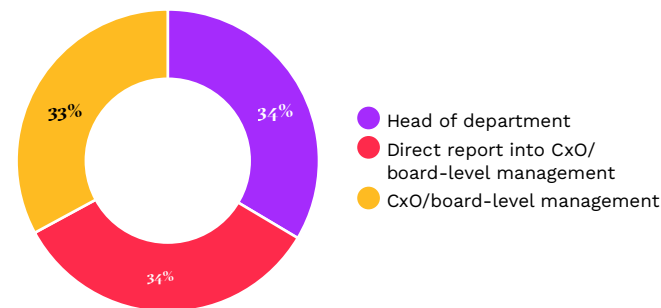
Respondents by country



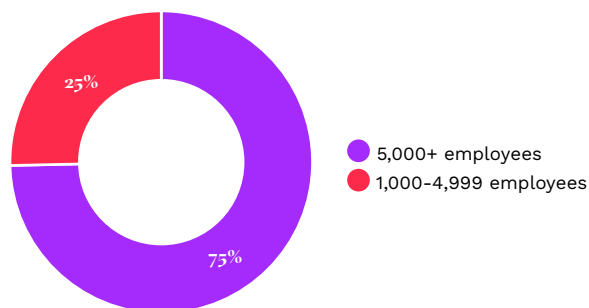
Respondents by sector



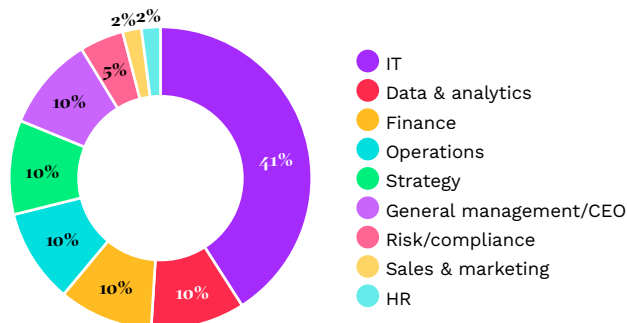
Respondents by responsibility level



Respondents by headcount



Respondents by function



Why are clients investing so much in technology?



“We can’t afford not to respond to new technology trends, but **the challenge is deciding what we should focus on. Especially in the current environment, everything involves difficult trade-offs.”**

CEO, manufacturing sector

Turning to tech in challenging times

Cast your mind back to the summer of 2020. Unable to do the things we normally did, we had to work, shop, talk to friends and family, learn, and entertain ourselves through technology. For many businesses, this was a period of forced, rapid innovation, of technology investment at a level and pace most hadn't imagined possible. And, while our lives may have largely returned to normal, the significance of the lessons learned by businesses during COVID shouldn't be underestimated. Not least, when Russia's invasion of Ukraine in February 2022 triggered another, more multi-faceted, global crisis, business leaders had a playbook to follow—our report on crisis fatigue demonstrates how much that was the case.

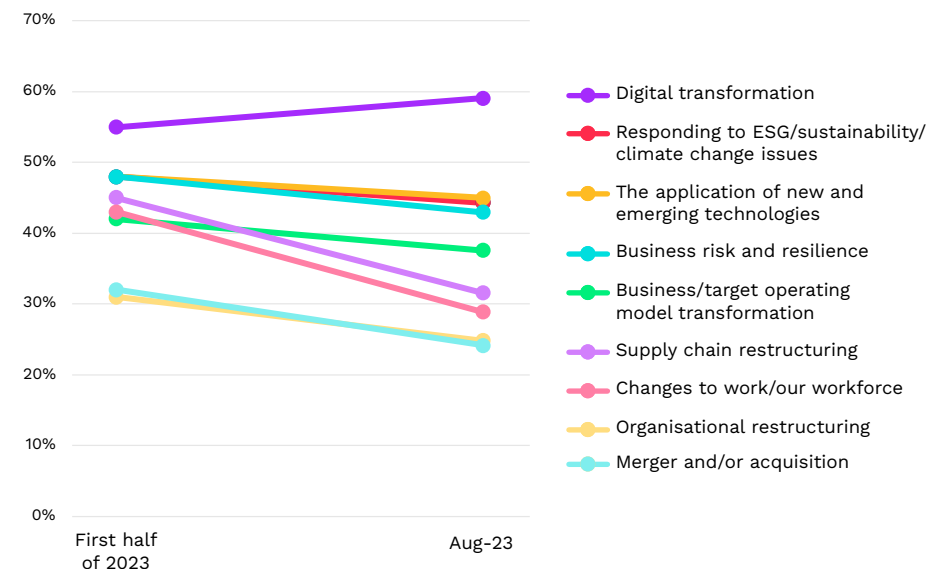
Throughout all our research this year, we've observed how clients turn to technology at times of difficulty. And these are, indeed, hard times. After the post-pandemic high of economic activity, the last 18 months have seen clients' confidence plummet. The situation is improving, with 40% of respondents in our survey saying their confidence hasn't been dented, compared with the 25% who said this in our last quarterly survey of client sentiment in June. But glimmers of hope can't disguise the 59% of clients who still say their confidence is reduced, pointing to falling sales as customers economise, rising costs, and lower profits as the reasons why. With an eye towards an uncertain future, clients remain cautious: Seventy-four percent say their ability to invest over the next one to two years has been impaired by the economic situation.

At the same time, digital transformation has consistently topped clients' investment agendas. In this most recent research, it's moved even further ahead of clients' other priorities for investment in the next one to two years, with 59% of organisations saying they are investing in digital transformation, or are planning to do so, compared to 55% in the first half of 2023. The intention to invest in sustainability, business risk and resilience, and the application of new technologies remains strong, but the gap between this intention and the willingness to invest in digital transformation has more than doubled, from seven percentage points to 15.

But crisis response isn't the only thing pushing technology investment to the top of the list. Our analysis suggests that three other factors are at play here.

Figure 1

Where is your organisation already making significant investment, or planning to, in the next two years?



Which consulting firms do clients currently turn to for technology work, and why?



“The difference between buying technology strategy and implementation support is that the former requires a good understanding of our sector and our goals as an organisation. When we’re looking at implementation, it’s all about specific competencies and how suppliers can demonstrate where they’ve applied those in practice.”

CTO, energy & resources sector

A firm's position on the technology strategy-to-implementation spectrum is determined more by its technology expertise than the services it offers

We noted earlier in this report the importance of technology expertise to clients, and this emerges very clearly when we explicitly ask clients what they're looking for, in broad terms, from a consulting firm. Asked to choose the two most important things they consider in their buying decisions, 42% said depth of technology expertise, even though the question wasn't specifically about technology consulting services. This preference was highest (51%) among respondents from the technology function, but even when we excluded this group of clients, 35% of people in other functional areas said this was one of the two most important things they considered.

What many clients are saying, therefore, is that they want to work with consultants—people—who have deep technology knowledge, irrespective of the type of project they're working on. If technology is indeed part of everything, then it follows that every consultant needs to be a technology consultant.

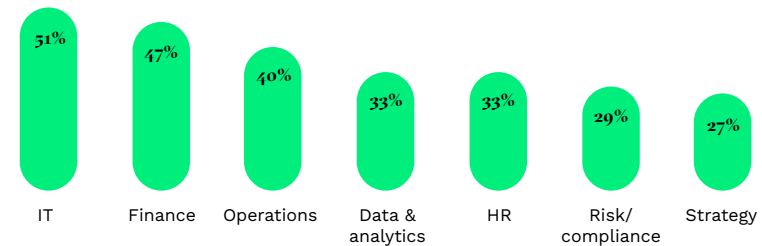
Figure 17

The most important things clients are looking for from a consulting firm (respondents were asked to select two)



Figure 18

Proportion of clients who say that depth of technology expertise is one of the two most important specific capabilities they're looking for from consulting firms, by functional role



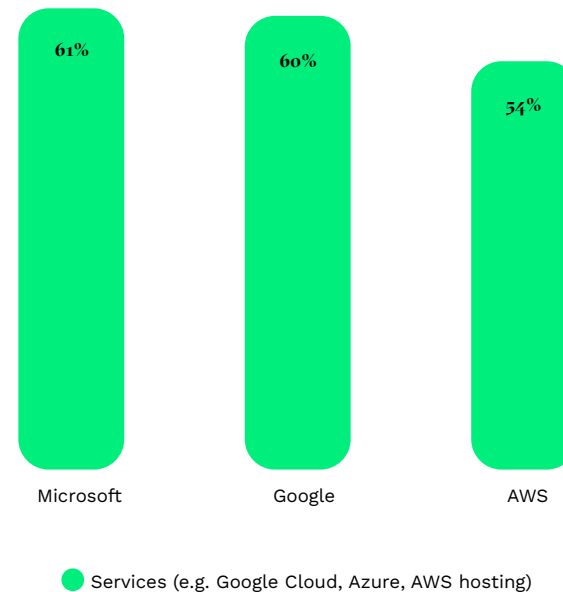
The picture we've painted so far is probably one that will resonate with most people reading this report: Although most firms offer a mix of technology strategy and implementation support, strategy firms focus more on the strategy side, technology firms focus more on the technology side, with a handful of firms bridging the gap between the two. This section explores how technology companies, specifically Amazon, Google, and Microsoft, may upset this status quo.

Clients are already turning to other companies for technology help

Almost two thirds of respondents said that they were already buying services—we distinguished these from software—from the three technology companies we chose to focus on in the survey, Microsoft, Google, and AWS. Migration to the cloud has been the big door-opener, with two thirds of clients saying they'd used at least one of these firms to help. However, 55% said they used them for data & analytics and/or for technology strategy work, which may send a slight shiver of concern down the spines of established consulting firms in the technology space.

Figure 21

To the best of your knowledge, does your organisation buy products or services directly from technology companies?



Meet the experts

Fiona Czerniawska

Fiona is the founder and CEO of Source. She's one of the world's foremost commentators on the global professional services and consulting industry.

Before starting Source, she had almost 20 years' experience as a management consultant, primarily working in the areas of marketing and strategy, initially with PwC, before moving on to be head of strategy and business planning for EY in the UK.

She's the author of a dozen books including *Business Consulting: A Guide to How it Works and How to Make it Work* and *Buying Professional Services*, both of which were published by The Economist.

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About us

We help professional services firms **understand what really matters** when facing decisions of vital importance.

The best decisions are based on evidence, objectivity, and a willingness to change. That's why, at Source, we tell you what you need to hear, rather than what you want to hear.

We draw upon our deep roots within the professional services sector to provide firms with a clear picture of their clients' worlds. Through comprehensive research and meticulous analysis, we pinpoint what truly matters and deliver actionable insights that help firms map out the right way forward.

We believe in thriving individually and succeeding together. And we would love to help your firm crack its latest conundrum.

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