

**GLOBAL BUSINESS
CONSULTING ECOSYSTEM**



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GLOSSARY

Executive Summary

The professional and business services supersector has over the years evolved to be a major employer and a source of competitive advantage for the companies that choose to receive its services; illustrative is the fact that in 2018, the UK consulting market has grown to a size of GBP 8.2 billion, following annual revenue growth of 5.6% in 2018, whereas the sector is consistently ranking among the top positions in enterprise awards. At the same time, we witness more coordinated efforts towards building the industry's capacities and taking advantage of emerging opportunities. The US consulting industry is the globe's largest and most mature market of its kind, accounting for nearly half of the world's consulting economy, according to an examination by Source Global Research analysis. The US advisory industry has seen sustained expansion over the past five years particularly, with 2016 yet again a strong year for the segment, which saw growth of 7.1%, as it reached a value of USD 58.72 billion. The global consulting market, on the other hand, grew 9.0% in constant currency in 2018, reaching USD 188 billion, with digital business acquisitions are a primary driver of growth among the largest providers.

Additionally, the scope of the word consulting has over the years expanded: by now, there are not only big firms that dominate the game and charge extraordinary amounts in exchange for their expertise.¹ Rather, the market now also includes niche firms that provide short-term assistance and highly skilled consultants specializing in specific areas. The shift is driven by the consultants' own needs, the firms' abilities, and, of course, the clients' new demands.² The latter often requires professionals who are not going to simply provide reports and elaborate success plans, but, instead, experts who will take the company's specific needs into account, come up with custom-made, agile solutions, and will then train and familiarise the staff with the new processes.

Even if augmentation distributes the sector's revenue to multiple players, today's economic landscape is likely to benefit the sector, as diverse industries increasingly decide to outsource and restructure

activities, disruptive technologies create the need to update traditional procedures, and increased income levels result to a demand for more sophisticated products and services. At the same time, the potential of an eventual Brexit makes consulting an inevitable choice for many UK firms, regardless of their size.

Both demand and the current disruptive environment present not only opportunities, but, also, challenges: financial services firms, financial management firms, private equity firms, hedge funds, and management consultants have all seen a turn in their clients' requests and in the wider market in which they operate. Especially, firms that serve both the accounting and the management consulting market are set to face more complex situations when it comes to handling their customers: regulations related to the segregation

1. Overview of the Consulting Industry Trends in 2019. (2019, February 20).

2. Oza, K. (2017, November 20). The rise of third category consulting.

of advisory duties require them to comply and implement proper practices and will, occasionally, create the need for partners to walk away from opportunities that risk infringing. At the same time, requests regarding digital transformation are gaining ground and create the necessity for firms to update their staff and their offerings.

UK managers identify efficiency, Brexit, and digitalization as the main reasons they will seek to collaborate with consultants in the following months, as suggested by the Management Consultancies Association,³ whereas transformational support and external strategic advice come second. These two broad areas indicate the key issues currently faced by UK clients: the uncertainty Brexit has brought along and the challenges created by a digitally savvy competition. In the US meanwhile, digital has subsequently grown to be a big portion of the industry, with a seismic shift in attitudes toward digital transformation playing a big role in wider consulting market growth. As the US walks on forefront of economic changes in the globe, American consultants are generally the most exposed to the winds of change blowing through the market. In the case of digital transformation, it

remains a key force in the US professional services market, with value-driven clients taking increasing interest in front-office and back-office improvements that could be delivered through leveraging new technologies. Data and analytics also remained a central issue, helping companies understand where resources might be better placed to address essential priorities, while robotics became increasingly attractive to businesses looking to cut operational costs and maximize output. AI is meanwhile projected by researchers to become of increasing interest to companies looking to do the same for repetitive jobs that are less based upon manual labor too, echoing predictions from PwC's Strategy & Division that administrative roles could also be in line for automation in coming years.

Although the circumstances create the impression that consulting is on the verge of disruption, in reality, the industry performs well and does not appear to face significant threats. Yet again, numerous new firms are now entering the market and set new standards that challenge conventional providers and their ways of working. As such, firms do need to continue- and emphasize on- building a reputable name, developing customer touchpoints, and attracting talent. Especially the latter is of crucial importance, as customers' needs get all the more complex and an adequate, well-trained pool of consultants can make or break a company. Within these lines, firms that fail to recruit the best, often as a result of their poor HR practices, will face significant disruptions and will very likely see their clients emigrating to other consultancies.

Additionally, the shift towards more versatile, commitment-free consulting models bring along independent consultants, often alumni of large firms, who can provide cost-effective expertise and, eventually, a very attractive alternative to traditional options.

3. MCA Member Survey 2019. (2019).

Evolvements in technology also have come to change the sector; by now, it is not only the services provided that have shifted to more digitally savvy models, but, additionally the firms themselves are looking to update their ways of working, by launching platforms and incorporating the digital transformation plans they consult others to adopt.

Key Findings

The series of key findings presented below offer a more thorough understanding of the sector:

- » In 2018, the top five consultancies grew overall IT services revenue at 9.2% in constant currency (CC), much faster than total IT services market growth of 5.8%. The largest consultancies continue to take advantage of synergies between consulting and other IT services.
- » Those large consultancies among the top 30 that pursued growth via acquisitions saw above market growth. Those whose growth was primarily organic grew below the market rate.
- » Many of the acquisitions of the top 10 consulting providers were made to gain digital business consulting capabilities. Digital design and innovation capabilities were most prevalent, although there was a year-over-year rise in transactions aimed at acquiring digital tools.
- » Providers with traditional technology consulting (versus business consulting) expertise performed better in 2018 than in 2017, driven via cloud and technical architecture consulting.
- » The UK consulting market has grown to a size of GBP 8.2 billion, following annual revenue growth of 5.6% in 2018;
- » Brexit has created a higher demand for consultants; the Big Four have benefited the most by the unstable post-referendum environment, with 82% of clients stating that they would turn to these firms to address their Brexit concerns;
- » 66% of the industry's professionals are working on business transformation, whereas a 54% on change management. Technology consulting, on the other hand, accounts for 46% of the total workforce activity;
- » Globally, digital transformation consulting has doubled in size since 2016 and now counts for USD 44 billion;
- » 9 out of 10 professionals in the sector believe that their client base will become wider within 2020;
- » Consulting is considered to be broader than before, with SMEs and freelancers entering the market;
- » Buyers increasingly prefer SMEs over big firms, as they offer lower costs, a customer-centric culture, and high value;
- » Innovation is primarily driven by the need to 'differentiate from the competition', a factor identified as important by 64% of respondents;
- » Only 21% of respondents have a 'formal innovation process'.
- » Innovations are most commonly initiated through 'working with clients', a practice highlighted by 26% of respondents;
- » 69% of all respondents believe innovation has increased in the last five years.

In the sections that follow, we will elaborate on the above and break down the main challenges and changes the industry faces, in order to draw a clear and holistic picture of the sector's direction and current state of being.

STRUCTURE OF THE REPORT

This report is a comprehensive overlook of the consulting sector; in this framework, it provides a thorough analysis of the industry and elaborates on the key challenges and the emerging trends that shape its landscape.

In further detail, Section 1 provides an introduction to the industry: as such, it breaks down its key activities, identifies adjacent markets, and highlights significant industry developments. In addition, the section offers forecasts and insights regarding the financial performance of the sector, as well as its dynamics.

Section 2 breaks down the industry in its respective sub-segments, identifies its products and services, and maps out the international environment within which consultancies operate; it also focuses on the key trends and challenges that shape the sector and determine its future.

Section 3 deals with the sector's finances in a more elaborate fashion: as such, it presents the industry's profit scales and purchase levels, distinguishes among distinct business models in the field, and provides a glance at new technologies and conventional processes.

Section 4, on the other hand, concerns the sector's surrounding environment: in this wavelength, concepts related to the industry's competitive landscape are brought into context and become the focal point of analysis.

Section 5 sheds light on the employment patterns of the sector. In this framework, the section brings up issues related to recruitment, retention, and turnovers, and, as such, attempts to draw a full picture of the sector's workforce and its characteristics.

Finally, Section 6 identifies best practices, indicates optimal ways to achieve sustainable growth, and concludes with key guiding points; as such, the section provides a comprehensive action plan and a guide for future ventures.



SUMMARY

INDUSTRY
OVERVIEW

MARKET
LANDSCAPE

OPERATING
ENVIRONMENT

COMPETITIVE
LANDSCAPE

EVOLVING
THEMES

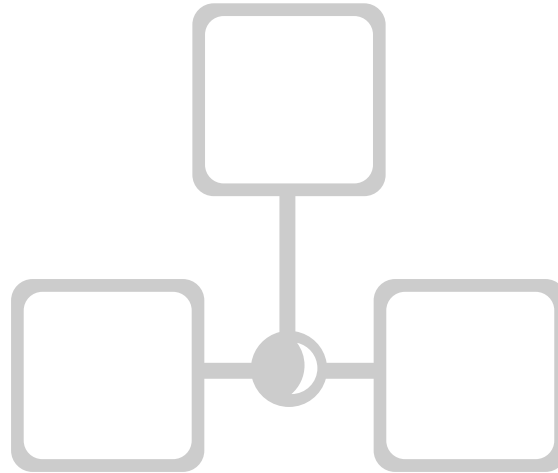
SHAPING
THE FUTURE

OBJECTIVES AND STUDY SCOPE

This study has assimilated knowledge and insight from business and subject-matter experts, and from a broad spectrum of market initiatives. Building on it, the objectives of this market research report is to provide actionable intelligence on opportunities alongside the market size of various segments, as well as fact-based information on key factors influencing the market's growth drivers, industry-specific challenges, and other critical issues in terms of detailed analysis and impact.

The report in its entirety provides a comprehensive overview of the current global condition, as well as notable opportunities and challenges.

The analysis reflects market size, latest trends, growth drivers, threats, opportunities, as well as key market segments. The study addresses market dynamics in several geographic segments along with market analysis for the current market environment and future scenario over the forecast period. The report also segments the market into various categories based on the product, end user, application, type, and region. The report also studies various growth drivers and restraints impacting the market.



The report also contains a comprehensive market and vendor landscape in addition to a SWOT analysis of the key players.

This analysis also examines the competitive landscape within each market. Market factors are assessed by examining barriers to entry and market opportunities. Strategies adopted by key players including recent developments, new product launches, merger and acquisitions, and other insightful updates are provided.

NOTE ON RESEARCH PROCESS AND METHODOLOGY

Our clients use insights, critical analysis, statistics and forecasts to help make strategic business decisions and grow their organizations.

Our research collection offers a unique industry perspective, with a qualitative and quantitative focus. The quantitative analysis is strengthened by a qualitative assessment, based on a literature review, stakeholder contributions, and case studies, as a means of exploring and illustrating the present scenario and the growth prospects of the market. By changing key assumptions driving the results, a sensitivity analysis can assess a range of potential alternative economic outcomes.

We leverage extensive primary research, contact database, knowledge of companies and industry relationships, patent and academic journal searches, and Institutes and University associate links to frame a strong visibility in the markets and technologies we cover.

We draw on available data sources and methods to profile developments. We use computerised data mining methods and analytical techniques, including cluster and regression modelling, to identify patterns from publicly available online information on enterprise web sites.

Historical, qualitative and quantitative information is obtained principally from confidential and proprietary sources, professional network, annual reports, investor relationship presentations, and expert interviews, about key factors, such as recent trends in industry performance and identify factors underlying those trends - drivers, restraints, opportunities, and challenges influencing the growth of the market, for both, the supply and demand sides.

In addition to our own desk research, various secondary sources, such as Hoovers, Dun & Bradstreet, Bloomberg BusinessWeek, Statista, are referred to identify key players in the industry,

supply chain and market size, percentage shares, splits, and breakdowns into segments and subsegments with respect to individual growth trends, prospects, and contribution to the total market. Forecasts, Data modelling and indicator normalisation

Review of independent forecasts for the main macroeconomic variables by the following organizations:

- **Cambridge Econometrics (CE)**
- **The Centre for Economic and Business Research (CEBR)**
- **Experian Economics (EE)**
- **Oxford Economics (OE)**

provide a holistic overview of the range of alternative opinions. As a result, the reported forecasts derive from different forecasters and may not represent the view of any one forecaster over the whole of the forecast period. These projections provide an indication of what is, in view most likely to happen, not what it will definitely happen.

Short- and medium-term forecasts are based on a “demand-side” forecasting framework, under the assumption that supply adjusts to meet demand either directly through changes in output or through the depletion of inventories. Long-term projections rely on a supply-side framework, in which output is determined by the availability of labour and capital equipment and the growth in productivity.

Long-term growth prospects, are impacted by factors including the workforce capabilities, the openness of the economy to trade, the legal framework, fiscal policy, the degree of government regulation.

Direct contribution to GDP

The method for calculating the direct contribution of an industry to GDP, is to measure its **‘gross value added’ (GVA)**; that is, to calculate the difference between the industry’s total pre-tax revenue and its total bought-in costs (costs excluding wages and salaries).

SECTION 1 INDUSTRY OVERVIEW

Industry Structure

INDUSTRY DEFINITION

Consulting emerged as one of the first services to be outsourced, due to the market's need of expert advice on matters like taxation and development. Yet again, and despite the fact that consulting over the years has been established as a key sector, we are still lacking a comprehensive, all-encompassing definition of the field. A variety of reasons have contributed to that: **the industry is comprised of multiple players, which range from small firms and freelancers to distinguished consultancies;** the sector, furthermore, is not regulated and there are no professional bodies in place; last but not least, the services offered are hard to be defined, as firms either specialize in niche areas or get involved in wider, overlapping activities. Taking the above into consideration, a comprehensive definition that attends to every aspect of the industry's activity is that consulting is

“the business of providing expert advice to people working in a specific field”⁴

KEY ACTIVITIES | PRODUCTS & SERVICES

As consulting is hard to define due to its breadth and overlapping fields of expertise, it is useful to gauge the key activities of the industry's professionals. In this light, consultants are required to:

1. Conduct research through attitude surveys, cost studies, feasibility studies, and other means to eventually provide information and guidance to their clients on specific topics;
2. Address problems as those are indicated by clients, but they also attempt to redefine and recontextualise the problems;
3. Collaborate with the company's staff to ensure alignment and proper implementation.

4. What is Consulting? Learn The Definition & Meaning of Consulting. (n.d.). Retrieved July 3, 2019

SUMMARY

INDUSTRY
OVERVIEWMARKET
LANDSCAPEOPERATING
ENVIRONMENTCOMPETITIVE
LANDSCAPEEVOLVING
THEMESSHAPING
THE FUTURE

The diagram below illustrates the basic and secondary requirements of a consultant:

The traditional approaches are common in every consultancy, as professionals are typically expected to stay with the client until the proposed changes have been implemented and embedded in the company's culture. On the other hand, focusing on the hiring company's behavioral and morale-related matters, dealing with the staff's learning curve, and improving the overall collaboration between the involved departments are additional aims that are not always a part of the deal.

As far as it concerns the consultants' approach, this can be either didactic or facilitative. In the first case, the experts gather data related to the problem the client has indicated; they proceed on analyzing the information offered, and they then suggest solutions. In the facilitative approach, consultants work along the company members to investigate and design solutions to given problems—the difference between the didactic and the facilitative approach is that in the latter the professionals not only work with the client, but they look into the issues with a critical stance. However, both have their cons: in facilitative consulting practices, the tendency towards being

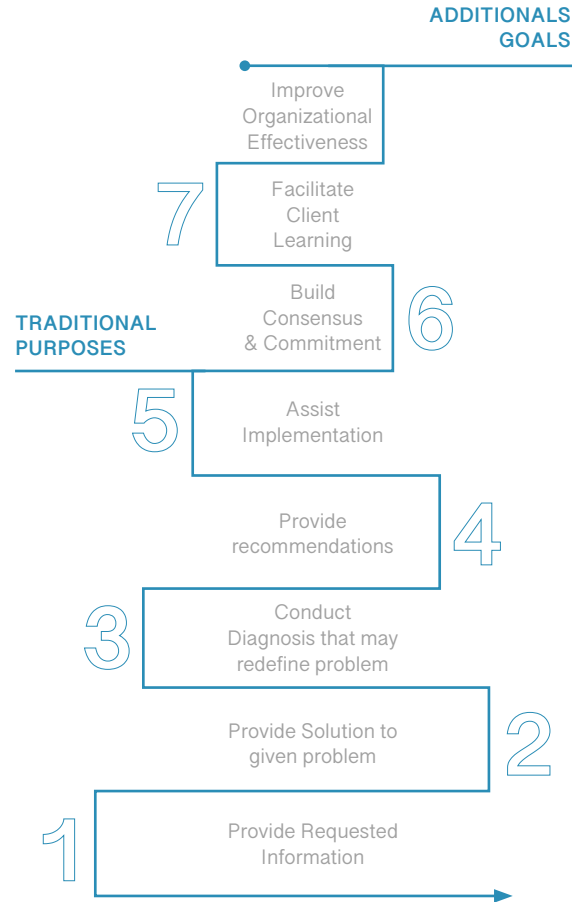


EXHIBIT |

A hierarchy of consulting purpose

Figure 1 | Hierarchy of purposes for consultants. Adapted from *Consulting Is More Than Giving Advice*, by Turner, A. N, 2014, Harvard Business Review. Retrieved July 3, 2019, from <https://hbr.org/1982/09/consulting-is-more-than-giving-advice>.

data-light often creates criticism regarding the deliverables of the service; when it comes to didactic consulting, this proves to be inadequate in terms of relationship-building. As a result, most consulting in today's market is didactic, taking the form either of intensive data gathering and analysis (among strategy firms) or of outsourcing (among it and operational firms). "Experts" provide a small number of people with the information they require to make a decision or effect a change. They have a direct but comparatively limited impact. They are excellent at marshalling large volumes of data and identifying courses of action (move into this new market, withdraw that product, ignore this threat but react to that one), but not necessarily so good at letting clients think for themselves or engaging with a wide audience throughout the client's organization. By contrast, "facilitators" have an indirect impact. Their role is

to help clients help themselves, and their attention is largely directed to individual client managers, as executive coaches or mentors. This type of consulting is now almost exclusively done by small, specialist firms, often by independent consultants who have themselves held senior positions in industry and can, therefore, identify with the issues their clients face on a daily basis. Large firms find it much harder to replicate the skills profile required to do this kind of work on the quasi-industrial scale. Rather than trying to act through a team of senior executives, “managers” have a direct impact on an organization by taking over part of its operations – running a particular business process, or a specific business unit. Again, there are consulting firms that excel at this type of work; rather than offering to work in partnership, they provide an opportunity to offload a particular problem.

The didactic and facilitative models are at opposite ends of the same spectrum, and most consulting involves elements of each. However, consulting firms position themselves quite consistently at points on the continuum – strategy firms usually operate at the didactic end, but smaller, specialist firms often adopt a more facilitative approach.

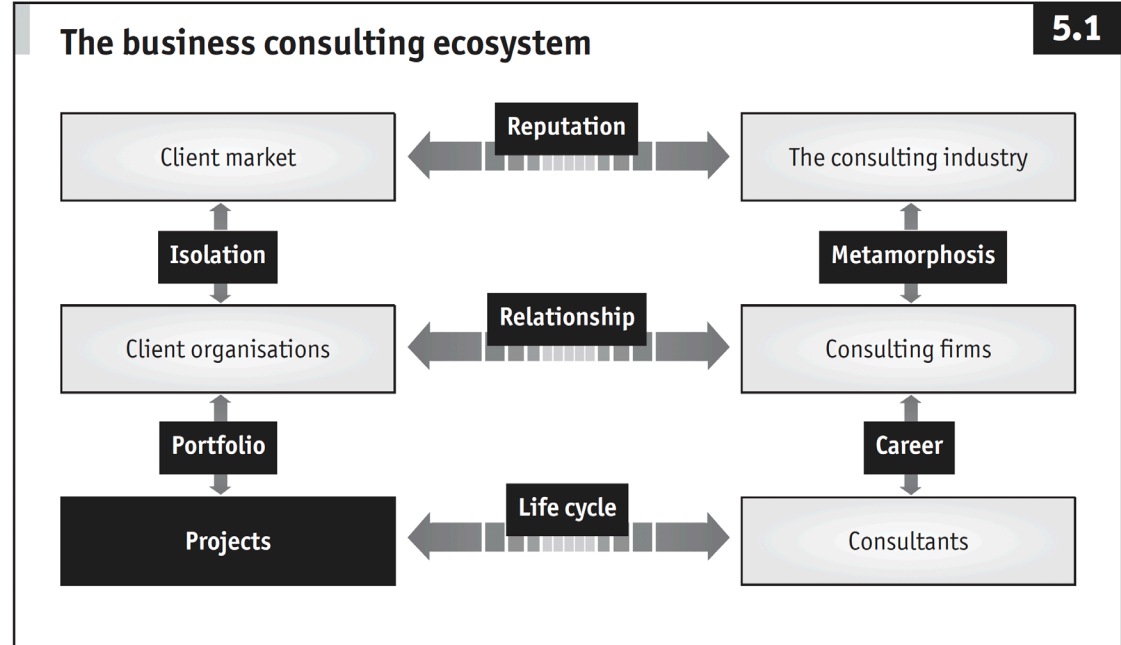
Figure 2 | Consultants and their impact



In the previous sub-section, we offered that consulting is “**the business of providing expert advice to people working in a specific field**”.⁵ However, in order to get deeper into the essence of consulting, the definition above proves to be rather generic; consulting does not simply consist of providing advice. Its value, instead, can be spotted in the interrelation the involved parties develop: the consulting firm, the client, the consultant, and the relationship those components develop are the factors that define the characteristics of the service provided. We already referred to the ways a consultant can contribute to a project; what is yet to be elaborated is the way that this contribution can foster a new working culture.

Clients need to look at how their actions, in procurement, project management and governance, change the way consultants behave. Consultants, on the other hand, must understand the way in which they do (or do not) transfer knowledge to their clients, deliver advice and implementation, and initiate cultural change. In other words, the collaboration that happens in the most successful consulting projects should not just be the standard for all projects, but should become the benchmark for the consulting industry

Figure 3 | The consulting ecosystem



5. What is Consulting? Learn the Definition & Meaning of Consulting. (n.d.). Retrieved July 3, 2019

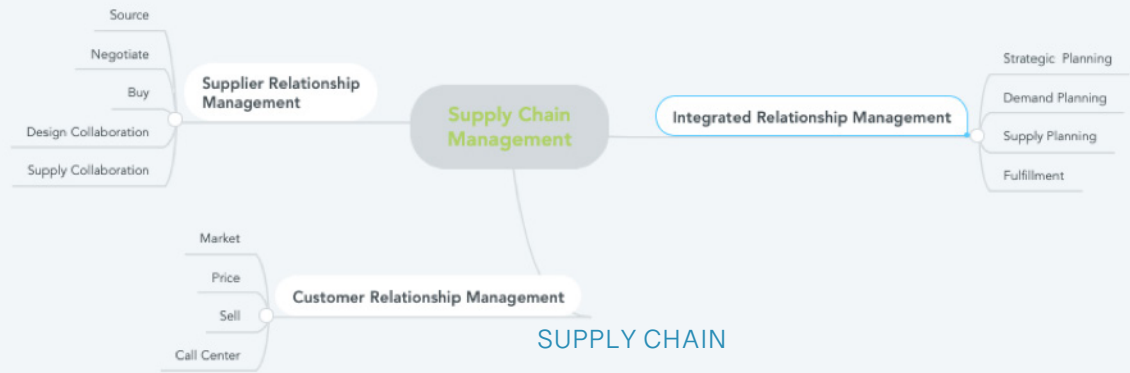
as a whole, dictating the behaviour of firms as well as people.

Two trends are becoming increasingly clear:

Individual clients (especially in the public sector, but increasingly elsewhere) are adopting a more rational approach to consulting and exchanging information with each other.

Consulting firms are beginning to take on the characteristics of a maturing and responsible industry after a period of intense structural change. Clients, consultants and their respective industries are part of the same internally dependent system. At the simplest level, consultants exist because there is a demand for their services, driven by pressure in the external marketplace, regulation, the emergence of new technology and management ideas. However, the relationship is a symbiotic one: consultants help to create demand by promoting new technology and by helping to disseminate new ideas.

Figure 4 | Supply Chain Management in Consulting.



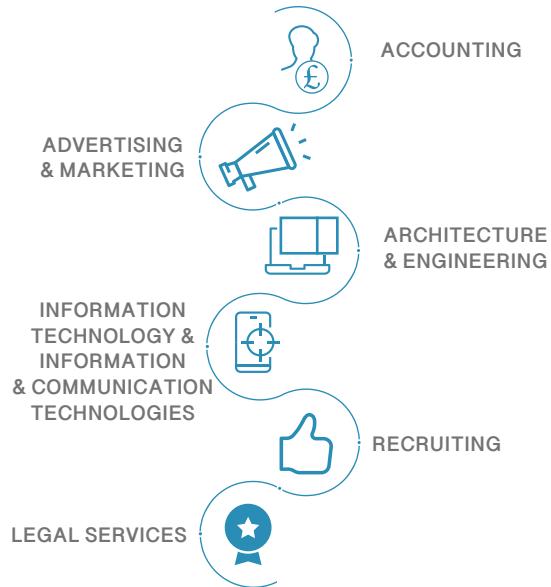
As supply chain management refers to those activities that are required to plan, control, and execute a service's or a product's flow, the sector's management chain concerns the management of the relationship with suppliers, the management of the project itself, and, eventually, it revolves around building relationships with the customer.

ADJACENT INDUSTRIES | MARKETS

Adjacent markets can get to be a great source of growth, if properly employed.

Some of the industries adjacent to consulting are the ones who lie under the Professional and Business Services umbrella.

Those are:



The official procurement of consulting follows a pre-ordained process for all the participating companies, and generally has two stages. The first stage is mechanical, complying with legal requirements as set by the European Procurement Directive, and is required for all projects over specific thresholds. Whilst these requirements apply only to public bodies, private sector companies also broadly follow the same process, with initial selection for preferred supplier list (PSL) based on criteria such as the fact that they had worked together successfully before, reputation or recommendation. Core business and procurement work closely together from inception in a process that is both mechanical and time-consuming. Thankfully, the Framework Agreement which results from the approach shown in Figure 2 is procured on a fixed planning cycle of 3-5 years. The preparation of a general requirement leads to a request for information (RFI) sent to consulting firms or advertised on designated sites. Those consulting firms who are not deterred by the time and expense respond with the requisite information, which is sifted through and those who are deemed potentially suitable are invited to submit a tender (ITT). From the full responses a preferred supplier list (PSL) is created, providing

a pool of pre-qualified suppliers with a broad set of skills available at an already agreed rate.

Of course, being a preferred supplier does not by itself guarantee fees, but being on the PSL does provide opportunities to bid for future projects. The second stage is the actual buying (Figure 3), which begins with an internal management discussion, is opened up to procurement for: “broader organizational knowledge rather than just issue-specific knowledge” (Participant 17). From this an initial document is sent to companies identified as being able to help in the particular area asking for suggested outline proposals. Typically, the information in these proposals is used to shape a more defined requirements document which is then sent to all or some of the original respondents, but usually no more than 3 or 4 consultancies. Procurement’s core role is seen predominantly as being to support the activity, to help source, negotiate, and contract.

There is little, if any, difference between the companies. The steps are briskly listed by one respondent:

From receipt of proposals to the decision being made, organizations use a scoring sheet which has a set number of scoring criteria, weighted dependant on the particular assignment.



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