2017 MANAGEMENT CONSULTING OUTLOOK

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Contents

Overview

In a time of economic and political uncertainty, the outlook for consulting services is bright. This report provides an overview of the state of the market and offers a snapshot of key growth areas and trends shaping the industry. The findings signal notable shifts driven by the proliferation of digital technologies, the emergence of niche boutique firms and independent consultants, and fierce competition for talent.

Key Trends and Implications

Despite slowdown in 2016, opportunities abundant amid government shakeup: Though 2016 was economically and politically volatile, as government intentions become clearer several markets will see significant disruption – driving demand for consulting services.

Outlook positive but growth not guaranteed: The coming year could either be a boon – with skyrocketing growth fueled by the upheaval of critical industries – or a bust if policy and legislative changes are stalled. Regardless, the traditional drivers of risks and opportunities will likely continue to support demand for consulting services.

Many markets slated for change: Despite uncertainty about any final outcomes, several critical industries are slated for regulatory and policy changes under the new administration. Most industries expect a more favorable environment, but several challenges are likely to arise. Consultants would be wise to keep an eye on industries most at risk of change – healthcare, financial services, energy, manufacturing, retail, technology and defense.

Big-name players dominate, but small players carving out strongholds: The bigwigs – including the Big Four and large firms like McKinsey – continue to command a significant market share, but small firms are shaking things up by carving out strongholds in niche markets with specialized services. The fastest-growing firms (both small and big) are seeing triple-digit growth.

Disruptors shaking up market dynamics: Freelance and network-based models are redrawing industry lines with the help of more knowledgeable buyers, pushing traditional consulting firms to explore new business models and forcing more collaboration in the market.

Proliferation of digital-driving new business models: Having finely tuned their tools, management consulting firms are moving away from an overreliance on experienced consultants to incorporate more technology-based solutions and business models. They are leveraging technologies that automate consulting capabilities and embracing digital for both front- and back-end operations.

Flow of industry's lifeblood slowing as talent pool dries up: The market is in a tight battle for talent with a shrinking (but diversifying) talent pool and the rise of independent consultants. Smaller firms are gaining traction in retaining talent but continue to face competition from the bigger stalwart firms. Firms are adjusting their recruitment processes and turning to more direct hiring.

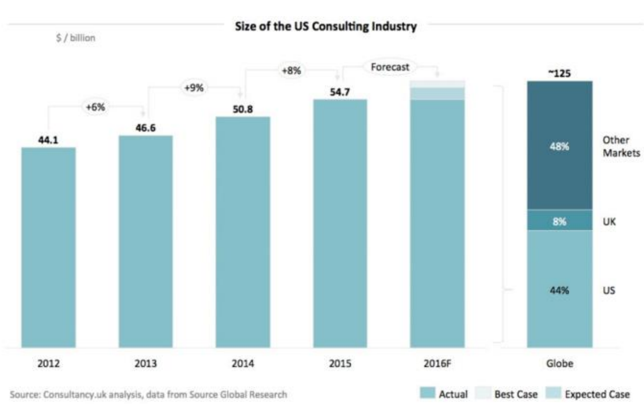
State of the Consulting Industry

The global management consulting market is worth an estimated $130 billion. Operations consulting holds the lion's share of the market, at an estimated $70 billion, followed by HR consulting and strategy consulting, which each have $30 billion markets. Companies continue to seek services, with their management consulting expenditures growing approximately 4 percent annually over the past few years. Although the market is headed for what *ALM Intelligence* calls "a decelerating trajectory," abundant opportunities remain, including those generated by the current political environment and expanded focus areas such as cybersecurity.

Source: Consultancy.uk

The U.S. Market

The U.S. holds a staggering 93 percent share of the total North American consultancy market and is between five and 10 times larger than the U.K. and German markets. As the most mature market, the U.S. leads in its offerings and innovation and is home to the headquarters of three of the Big Four – Deloitte, EY and PwC – as well as several other large consultancies, such as McKinsey and Bain. The U.S. market grew 7.7 percent in 2015 to reach $54.7 billion, up from $50.8 billion in 2014. Although 2016 data hasn't yet been published, the growth trend was expected to continue, with the U.S. accounting for nearly half (44 percent) of the global market.



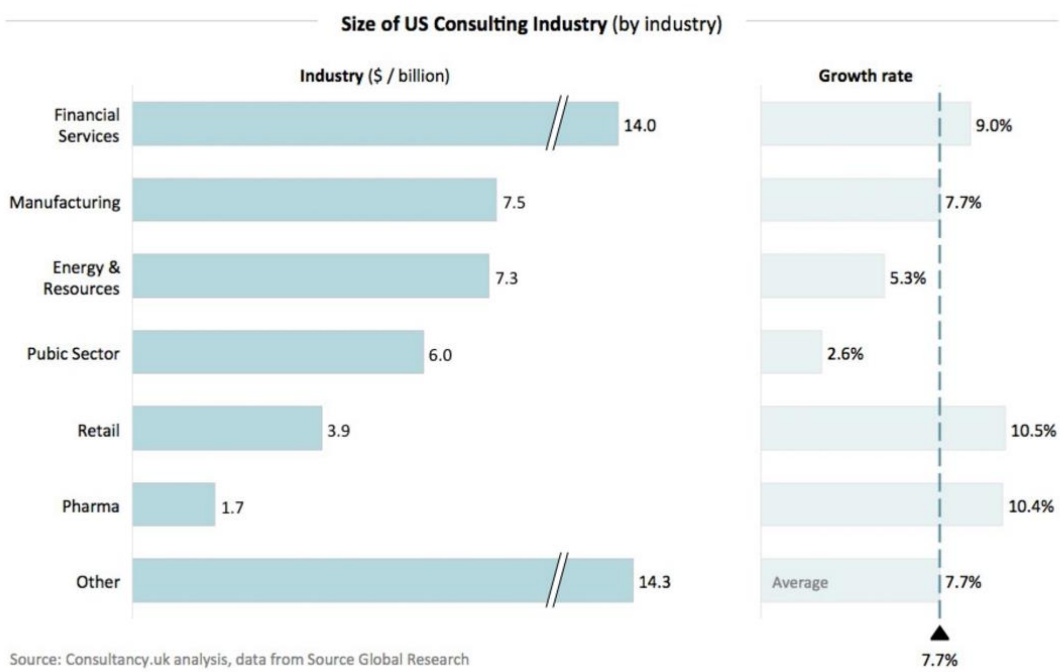
Source: Consultancy.uk

Hot Industries and Services

Healthcare continues to be an important growth engine in the North American market. However, if the economic growth rate remains below the 2 percent level, *ALM Intelligence* predicts additional public spending derived from the public sector and aerospace and defense industry could boost consulting revenues as well.

The U.S. market was led by digital and technology consulting – the fastest-growing and largest segment, worth $14.4 billion. Growth in digital was fueled by unwavering demand for offerings such as digital transformation, e-commerce and the Internet of Things (IoT). Notably, digital is the only segment expected to experience double-digit growth through 2018. The second-largest segment was risk and regulatory consulting, which reached $14 billion amid cybersecurity concerns – a 7.8 percent increase over 2014.

The biggest sector in 2015 was financial services, which spent $13.5 billion – a 9 percent increase over 2014. Retail experienced the largest growth in consultancy services, growing 11 percent to nearly $4 billion as retailers upped their digital investments to keep pace with e-commerce and omnichannel demands. Demand from the public sector grew slightly to take a $6 billion piece of the overall market. Energy and resources took another significant piece, growing by 5 percent to $7.3 billion. The pharmaceutical sector also experienced notable growth (10 percent) to take up a $1.7 billion chunk of the consultancy pie amid increasing public pressure.



Source: Consultancy.uk

Although 2016 started off on a positive note, the full-year outlook wasn't as optimistic due to anxiety resulting from an unstable economic and political landscape. Client confidence was shaken, and mixed economic signals were putting investors on edge. Edward Haigh of Source Global Research said consultants "didn't feel quite as bullish as they did in 2015, citing client hesitation in the face of growing global and domestic uncertainty. Still, they do feel that ongoing digital disruption and other rapid-fire changes happening in the U.S. market will drive plenty of work in 2017.

Big-Name Players Take a Big Piece of the Pie

The Big Four – Deloitte, EY, KPMG and PwC – command an 11 percent share of the market, representing $19.6 billion. In the U.S., they have secured about 35 percent of the market. In the U.K., the Big Four are growing five times faster than the wider consulting market. In 2015 in the U.K., this group grew by 11.5 percent, well ahead of the 8.2 percent growth experienced by the industry as a whole. Their growth is borne primarily out of an aggressive train of acquisitions. Together, the four completed more than 35 deals in 2015. They have also invested heavily in consulting, encroaching on territory traditionally dominated by firms such as McKinsey and Bain. Fiona Czerniawska, director and founder of Source Global Research, attributes the Big Four's growth to client recognition of "the scale and scope they can bring to bear" as well as inorganic growth.

One substantial growth area for the Big Four is HR consulting – revenue in this area grew between 5 and 10 percent in 2014. Though some of the growth was attributed to inorganic strategies, it's noteworthy that the Big Four have succeeded in improving service delivery by integrated HR offerings from adjacent business lines such as strategy, tax and transactions consulting. They've also been key innovators in the space. The Big Four is "leading in the design of new HR operating models, the practical application of data analytics across all manner of HR engagements and more," said Liz DeVito, associate director, lead for HR Consulting Research for KCRA.

Forbes' list of America's Best Management Consulting Firms points to Deloitte, McKinsey, PwC and BCG as the leading firms. The list is based on two surveys – one of partners and project managers from management consultancies and the other of management consultancy clients – across 15 industries and 16 functional areas, including strategy, HR and supply chain management. The leading firms were recommended in every functional area with the exception of executive search. KPMG and PwC's Strategy& scored in every functional area except sustainability. Accenture, Deloitte, McKinsey, PwC and BCG earned recommendations in each industry sector, while EY scored in all but aerospace and defense, and IBM scored in all but oil and gas; KPMG met the mark in all but automotive.

These well-established and well-known firms are maintaining a stronghold on the market at a time when reputation and stakeholders' perceptions of an organization are increasingly viewed as strategic assets. This is evident by Deloitte's acquisition of U.K. consulting firm Regester Larkin, well-known for its crisis, reputation and issues management.

Sharing the Leftovers: Niche Companies Shake Up Industry

Small firms are breaking ground both in terms of firm management and financial performance – disrupting the market from the ground up. Growth among small firms has been attributed to highly specialized firms that can carve out strongholds in niche markets. For example, in the M&A advisory space, the large-scale strategy, audit and consulting firms can use their brands to secure a significant portion of the market. However, the shifting landscape is reducing the advantages of traditional groups, and new consulting models by the likes of Global PMI Partners and Eden McCallum are transforming how the best projects are resourced from strategy to technology consulting. Highly specialized M&A

boutiques are chipping away to secure their own stronghold in the market. “A few small consultancies specializing in M&A are increasingly winning work with private equity and corporate clients who are looking for a better alternative,” writes Global PMI Partners’ Andrew Scola.

Notably, research by a master’s student at Lund University suggests small firms (or boutique firms) are often staffed by senior and experienced consultants, which is a critical component in attracting and retaining clients. The research also indicates that boutique firms are better able to offer a personalized process because they can secure more involvement from the client on the advisory process. “The internal bureaucracies and communication policies within large consultancies create barriers on the relationship with the client that are prejudicial for an efficient partnership,” the author writes. “The smaller dimensions of the boutique firm and the almost non-existence of communication barriers facilitates the working relationship between consultants and clients.”

The seven firms on *Consulting* magazine*’s* 2017 list of Seven Small Jewels saw revenue of 45 percent in 2016 – 3 percentage points higher than in 2015. Though the firms differ, a common theme is playing out as each small player has carved out its own niche to take on the big-name players. This year’s jewels include:

- **Atlas Executive Consulting**: The San Diego company’s revenue grew 209 percent as it secured a stronghold in the federal market via “laser focus on quality control.”
- **CorpInfo**: The company, based in Santa Monica, California, saw growth jump from $26.1 million in 2015 to $34.6 million in 2016 by establishing a foothold in the aerospace, retail and utilities markets with an IT focus.
- **Enovation Partners**: The Chicago-based company’s revenue grew 100 percent in 2016 as it carved out a space in the energy consulting market with a focus on innovation.
- **Evans Incorporated**: With revenue jumping from $7 million in 2014 to $11 million in 2016, the company set itself apart from competitors with its unique offerings in aviation.
- **Impact Makers**: The company, with revenues of $22.4 million in 2016, differentiates itself by offering clients a way to deliver community value by contributing 100 percent of its net profits to charities.
- **Strativity Group**: Armed with $13.5 million in revenue, the company positions itself as a response to failed CRM projects that lacked the strategic and operational muscle to succeed.
- **Toffler Associates**: With a focus on the disruption business and helping clients in the Third Wave, or “knowledge era,” the company generated revenue of $16.8 million in 2016.

All in all, the signs indicate that small firms can expect growth if they can capitalize on niche segments and hone in on the weaknesses of large firms. As we’ll see throughout this report, significant growth is possible with the right mix of experience, specialization and personalized service.

Sprinting to Growth: The Fastest-Growing Firms

The fastest-growing firms are experiencing triple-digit growth, which reflects the opportunities available in the market. *Consulting* magazine’s list of the fastest-growing firms in 2016 paints a picture of how firms are adjusting their business models and zeroing in on high-growth areas.

- Boutique management consulting firm **RedCloud Consulting** was dubbed the fastest-growing firm with a 526 percent growth rate, which managing partner Brett Alston attributed to the firm's focus on accountability, dependability and results. Alston said the **success isn't driven by a reinvention of the wheel, but a return to the origins of the industry based on an approach in which all stakeholders are fully informed and work together**.
- Runner-up **CoreCompete** saw growth of 513 percent over the past three years due to what it calls **"small, expert and nimble delivery teams" that help companies navigate the big data transition**. The company also pointed to increased interest in big data and referrals from existing customers.
- Second runner-up **L4 Digital** grew 487 percent by **leveraging a multi-platform experience and partnering with brands**. "Our expansion of partnerships this year engaged our company across a wide range of platforms and devices ranging from connected TVs to game consoles and wearables," explained Principal and Co-Founder Keith O'Neill. "By increasing our knowledge base, L4 has been able to provide services to new and current customers that remain at the forefront of technology."
- Fourth-place **Novus Global Solutions** fueled a 445 percent growth rate by **transitioning consulting jobs away from offshore companies back onshore**. Using a unique, localized consulting delivery model in several countries, the company provides advisory services to the C-suite.

These success stories demonstrate that growth is possible if firms adapt their business models in response to the changing environment and take advantage of opportunities presented by increased disruption.

An Eye Toward the Future: Consulting in 2017

The outlook for the consulting industry in 2017 is bright, according to *Consulting* magazine, as a combination of economic momentum and a pro-business administration converges with the upheaval of critical industries and support for increased infrastructure spending. But no forecast is guaranteed, and a number of factors could put a grinding halt to any projected growth, be it global unrest, international threats or inflation. Regardless, consulting executives seem more confident than they did after what many are calling an "outstanding year," which saw some firms surpass 20 percent growth. Indeed, in 2016, 94 percent of executives said they experienced real revenue growth, though only 91 percent had expected to. Markedly, nearly two-thirds said growth surpassed 10 percent.

Consulting magazine's Executive Outlook survey suggests that the majority of firms (98 percent) expect growth, with 91 percent projecting more than 6 percent. Specifically, 66 percent of firms expect their revenue to grow by 10 percent or more in 2017, while a quarter expect growth between 6 and 9 percent. In terms of profit, 80 percent of firm executives reported improvements in 2016, and a significant 96 percent anticipate improved profits in 2017. Importantly, only 1 percent of executives said they expect profits to fall this year, and only 3 percent expect no change in profits.

Growth but Uncertainty: Consulting Under the Trump Administration

There are three possibilities for consulting firms in the uncertain political environment. On the one hand, 2017 could see skyrocketed demand as companies adjust to new policies and legislative changes. On the other, the year could be a bust if policy and legislative actions stall. The third option, and the most likely, is that the same drivers of risk and opportunity seen in 2016 will continue to drive demand for consulting services. The possibility of disruptions adding to the existing drivers of change will depend wholly on the extent to which President Trump is able to make his policy intentions materialize.

The administration has signaled its desire to deregulate industry and make changes to infrastructure spending and trade and immigration laws. If successful, these changes would have significant impacts on an array of industries, from financial services to healthcare and the public sector. Specific policy changes, such as the repeal of the Affordable Care Act (ACA), would impact certain businesses, such as health insurers. At the same time, policy changes, such as corporate tax reform, could drive increased demand for specific consulting services (e.g., tax advisory services).

> *"In the consulting market, disruption always means there is an opportunity. We need to hone in on the right areas of disruption and areas where we can make a difference and add value for our clients."*
>
> Srikant Sastry, Grant Thornton national management principal of advisory services

The Trump administration's impact on the consulting industry depends on several factors, including the potential replacement of the ACA, the degree of infrastructure investment, the range of deregulation and tax rule reform and the degree of trade policy changes and their bearing on specific industries. "Based on our analysis of policies proposed to date by the administration and Congress, we believe there will be a business uptick in 2017 resulting from deregulation early in the year followed by tax reform and infrastructure spending," said Gary Sturisky, managing partner, consulting, RSM. Janet Foutty, chairman and CEO of Deloitte, reminds us that the key competencies of consulting firms will remain pertinent regardless of the Trump administration. "Policy changes could present new opportunities, but the core work business leaders do every day – optimizing talent, driving innovation, determining where to invest, focusing on customers, driving growth – remains a priority regardless of who is president."

Most industries, especially financial services and oil and gas, are anticipating a more favorable regulatory environment. However, consulting executives told *Consulting* magazine that several industry challenges are likely to arise based on President Trump's rhetoric throughout the election.

1. **Healthcare**: Though it's far from clear what will happen to the ACA, its repeal would significantly impact providers, payers and small businesses across industries. Corporate tax cuts could help insurers, while pharmaceutical companies grapple with mounting pricing pressure.
2. **Public sector**: The new administration is expected to slash the federal workforce while shifting priorities for certain agencies and departments and pushing for more collaboration between the private and public spheres. At the state level, public agencies are expected to take on more authority.

3. **Financial services**: Cuts to regulations borne out of the 2008 financial crisis (e.g., Dodd-Frank) are expected, leading financial services firms to take on more risks and new growth opportunities. Lending revenues may grow with the help of interest rate hikes.
4. **Energy**: Environmental regulations and standards for fossil fuels are on the chopping block – a positive signal for oil and gas companies and their suppliers.
5. **Manufacturing**: Greater emphasis on domestic job growth in the manufacturing industry will present opportunities and challenges, particularly regarding the placement of product facilities and job creation. These changes will pair with the ongoing technology-driven transformation of the manufacturing industry.
6. **Retail**: Expected changes don't bode well for retailers. The implementation of new trade tariffs could adversely impact retailers that manufacture significant portions of their products outside the U.S. Large retailers could be forced to remap their entire supply chain, close stores and implement cost-cutting measures.
7. **Technology**: Restrictions on immigration will create talent management issues for technology companies, but it's not all bad news. Large companies could benefit from a tax break for repatriating overseas profits, while smaller companies and startups take advantage of a more favorable IPO market borne out of loosened public company regulations, decreased taxes and freed-up capital.
8. **Defense**: Rollbacks of defense spending cuts implemented in 2013 could drive growth for the defense industry and its suppliers, though the president has sent mixed signals to contractors, particularly regarding costs.

Consulting firms with expertise in these areas are ripe for growth as demand increases, but they're not alone. Second-tier and regional accounting and consulting firms could benefit markedly in an environment favorable to small businesses. "If Obamacare and other regulations are scaled back, I see small businesses hiring and really trying to grow," explained Rich Iler, COO of NorthPoint Group.

Regardless of the policy changes, however, companies will continue to face the same disruptors. "The global trends of the past few years – the move to digital, machine learning, analytics, cybersecurity and other trends we're all familiar with – are going to continue. The genie is out of the bottle, so to speak, and we're all trying to figure out how to best respond to these trends. I don't see those areas being affected by the political changes that have occurred," said Srikant Sastry, Grant Thornton national management principal of advisory services. Irrespective of who is in the Oval Office, critical business functions (e.g., talent recruitment, investment decisions, innovation) will remain top priorities.

A safe option for 2017 is increasing investment and interest in digital transformation, new technologies, data analytics and cybersecurity. Several other areas are also poised for growth, though forecasts are rockier and rely on favorable policy and legislation development unfolding.

1. **Tax and compliance**: Tax reform and trade tariffs, coupled with recent developments in international fiscal, government and tax policy, would make tax planning more important and could lead multinationals to restructure their tax planning strategies.
2. **Growth strategy**: In recent years, growth has been fueled by acquisitions made more favorable by low interest rates. In the evolving landscape, companies are likely to need a hand developing strategies for more organic growth.

3. **Supply chain**: New tariffs on imports will force U.S. manufacturers to draft new sourcing strategies and secure new sourcing partners.

Shapeshifting: The Changing Consulting Landscape

There are several critical macro factors contributing to disruption in the consulting market, according to Ex-Consultants Agency, including:

1. **Smart buyers**: Clients are building out their own corporate strategy teams, staffed with former consultants, making them more sophisticated buyers.
2. **Lower cost competitors**: New entrants such as curated networks and freelancers are entering the market and offering clients reduced fees with comparable talent to the big consultant firms.
3. **Penetration of technology**: Technology is making its mark as a core capability within consulting models.
4. **Consolidation of mature players:** Large firms are acquiring mid-size strategy companies to provide a full suite of services, making it increasingly difficult for mid-size players to compete in a market where scale benefits matter.

Disrupters: Drawing New Lines

Borne out of the cutbacks spurred by the 2002 and 2008 recessions, and the entrepreneurial essence of the dot-com economy, increasing numbers of independent consultants have entered the market.

Although these freelance consultants initially posed little threat to the dominating market leaders, digital networking has provided them with the needed muscle to establish a marketplace for their services. As Nathan Simon and Michael Taylor explain in *Consulting* magazine, the development of coordinated networks of freelancers helps circumvent constraints of scalability by consolidating business development activities and standardizing elements of project structuring and management. Freelance models offer consultants flexibility and freedom from business development while offering clients more on-demand service at lower costs.

Network-based consulting firms are redrawing industry lines with the help of savvy buyers – consultants that left the industry during recessive periods and took up positions in industry. In parallel, the market is seeing a shift toward what *LexisNexis* refers to as “uberization,” under which services become more commoditized and transactional. These shifts are driving consulting firms to leverage more flexible organizational structures and use more freelance and transactional arrangements, rather than long-term partnerships.

At the same time, a drive toward value-based pricing arrangements is playing out as savvy buyers look to realize economic value from consulting efforts. These buyers have the upper hand in these transactions as competition in the market increases. Increasingly, they are seeking better control over providers in order to help them better manage their expenses and secure high-quality services. Procurement managers may implement performance tracking metrics to measure suppliers’ performance against agreed-upon contract terms. However, Simon and Taylor point out that performance-based free structures aren't aggressively promoted by consultants in strategy and other areas that don't align well with discrete outcomes. Clients have also complained that these arrangements end up costing them more than traditional fee structures.

Online Consulting

These new lines are pushing market leaders to explore new business models. A surge in on-demand consulting has led to the emergence of a new delivery model in which consulting services are offered via online platforms. Both new entrants and traditional consulting firms are launching crowdsourcing initiatives. For example, business consultancy Wikistrat offers a global network of more than 2,000 SMEs working together on an online platform to help buyers identify solutions to strategic issues. The company claims to be the "first crowdsourced consultancy." Similarly, HourlyNerd established a crowdsourced marketplace that draws together freelance consultants and businesses to provide analysis and solutions to problems. Deloitte Pixel is seeing consultants and clients collaborate with external crowds to explore expertise in services of new product design and development. Deloitte's partnership with Gigwalk allows it to use a crowdsourcing platform to deliver outcomes across sectors and bolster on-location visibility. Elsewhere, Mercer PeoplePro is targeting fast-growing companies for which premium consulting services are generally unavailable while affording HR-consulting flex workers an opportunity to monetize their experience. PwC's Talent Exchange similarly matched crowdsourced talent with ongoing PwC projects.

> *"With on-demand consulting increasingly an option, people with analytical minds and a taste for problem solving may not have to sign up with a big consulting firm if they aren't interested in the travel."*
>
> Mark Garrison, NPR Marketplace

There has been a transition away from the typical system, in which one large consulting firm would be retained to execute a substantial project for a client, toward more collaborative arrangements in which clients leverage multiple consultancies. The transition is driven by the recognition among corporate executives that their interests may be best served by tapping firms with specialized experience in niche markets, then requiring companies to work together for the client. Indeed, open-source consulting in also becoming a reality as the days of leveraging only one consultant or firm disappear.

Under this new model, enabled by technology, individuals or firms with varied expertise and knowledge work together to provide customized solutions to clients. In parallel, consulting firms are working to provide "one-stop shopping" by outsourcing certain aspects of a client's project to another firm while retaining responsibility for the overall project.

However, Ex-Consultants Agency contends the emerging models don't pose a real threat to traditional firms, but serve as complementary players. The agency outlines three primary management consulting models – traditional, curated network and freelance – and posits that each has its own ideal use-case. To adapt to the changing market, traditional firms will need to leverage technology (as discussed below), and emerging models will need to build out in-house capabilities.

	High-Profile Strategy Engagements	Strategic Analysis / Operational Improvements	Presentations / Discreet Analysis
Ideal Model	Traditional Consulting Model	Curated Network Model	Freelance Model
Example Project Types	• Large-Scale Strategy / Transformation Initiatives • Outsourcing • New Product Launch • Brand Strategy	• Salesforce Effectiveness • Pricing Strategy • Market Assessment • Sourcing / Procurement Initiatives	• Fundraising Presentations • Financial Models / Projections • SWOT Analyses • Marketing Plans
Rationale	• Brand name matters • Partner expertise is required • Large consulting and client teams necessary	• Value / cost more important than brand • Smaller teams (1-3) can drive work independently	• Speed and cost are prevailing concern • Significant portion of freelance network in graduate school

Source: ECA Analysis

New Governance Models

Notably, consulting firms also seem to be experimenting with new governance models. MorganFranklin Consulting, a fast-growing consulting firm launched in Washington, D.C., in 1998, decided to sell the firm to an employee stock ownership plan (ESOP). The move allowed the firm to retain its talent and recruit more top consultants from rival firms while providing for enhanced employee engagement and productivity. MorganFranklin decided to rethink its consulting arm after selling off its national security business. To begin, the founders brought in big-name CEO C.E. Andrews, formerly of Sallie Mae, to run the consulting operation. MorganFranklin hired senior, experienced people from firms like the Big Four, McKinsey, Booz Allen and Accenture to offer clients an experienced project team without the newbies often assigned to projects by major consultancies.

With Andrews on board, the founders wanted to sell their stakes. Although a sale to a larger consultancy was initially considered, the plan was rejected because many employees and clients had joined specifically for an environment different from the big-league players. A sale to private equity buyers was likewise rejected for fear of “dilution of our special culture and identity,” Andrews said. Despite warning of a “messy democracy” that would prevent future acquisitions and limit growth, MorganFranklin opted for an ESOP. And, to its surprise, it found the day-to-day governance changed very little, with a board and senior operating executives taking control of decision-making and leaving room for acquisitions despite some debt to pay down from the ESOP transaction.

The ESOP has boded well for long-term employee retention. Jeff Henry, a 28-year-old senior manager who came from Booz Allen, said the ESOP “makes you think about your work at the firm in a different way.” Although he initially joined to gain experience, he said he wants to stay to earn an ownership stake. Similarly, 27-year-old Aryn Christman left a Big Four firm to join MorganFranklin seeking more varied assignments. “It’s pretty cool to be in these environments,” she said. Employee ownership “is another lever that really gets you thinking long-term.”

Changing Business Models: From Traditional to Digital

The management consulting market has reached an inflection point in which firms have polished their arsenal of tools (e.g., processes and methods), but the context in which they use these tools is changing. Consumer expectations are changing as disruption is bringing more science into the consulting process. As a result, the market is shifting away from its domineering overdependence by firms and their clients on what Nathan Simon and Michael Taylor refer to as the "A-Team" – highly experienced consultants who deliver the best product. Writing in *Consulting* magazine, Simon and Taylor argue this transition not only highlights the limits of the traditional consulting model but also presents significant opportunities for technology-based transformations.

The traditional model, they said, is designed to maximize the in-project adaptability of experienced consultants, rather than an organization's versatility to respond to changing environments at scale. This is because these transitional models leverage a human-centric process that lacks scalability. External factors impacting consulting firms include the changing customer expectations for seamless experiences that meet their needs across touchpoints, declining barriers to entry that are attracting new competitors, and new technologies that permit a reinvention of service activities.

Moving away from a traditional model to a technology-based process allows consulting firms to transform their service delivery model into one that "designs in responsiveness to the sources of divergence between intended and realized client outcomes rather than consigning that activity to a separate implementation process." Without more robust and scalable process control, Simon and Taylor said consulting firms have only two options – acquire competitors' senior talent or employ a system for training consultants in the methods and judgments of seasoned partners.

Simon and Taylor note that consulting firms are adapting by adding new consultants and business partners with unique knowledge and experience and assembling specialized labor forces. At the same time, they are mechanizing their processes with more interactive platforms for data accrual and analysis, using data analytics that automate predictive modeling and establishing digital libraries and technology and trend insights. They are also launching new offerings, such as ongoing managed services, and better aligning their business models to client outcomes by shifting fee structures from service-based to performance-based.

What's missing, they said, is a "reinvention of the management consulting process that can radically change at an industrial scale both performance in terms of client outcomes and the economics of the service delivery model." They call for a model that can accommodate the increased complexity and uncertainty of the environment, coupled with process technology that enables a focus on input that drives real outcomes. They note that a well-thought-out process backed by technology can reduce the mundane work of consultants and allow them to deliver more consistent outcomes. "As clients become more educated and experience the value of firms using consulting process automation and technology, they will create a 'pull' as they shift their buying criteria towards consulting process capabilities that deliver outcomes, while small and mid-size consulting firms that avail themselves of this new source of competitive disorientation will furnish the 'push,'" Taylor and Simon conclude.

New technologies that automate certain consulting capabilities, such as modeling and analysis, are being leveraged to complement consultants' skills. For example, asset-based consulting is being leveraged by firms such as KPMG (which spent $51 million on asset-based consulting in 2014) to provide more functionality (e.g., automating financing and accounting processes) at more cost-effective prices. Artificial intelligence, in particular, is enabling firms to automate critical functions of their process historically completed by humans. Though it's unlikely a consultant's job would be replaced by robots, it's expected that consulting firms will continue to establish more effective business models by combining technology and human capital. For example, McKinsey is embracing digital technology with McKinsey Solutions – a combination of human insight and technology-based tools – while Deloitte is using mobile technology with its Deloitte Digital offering.

A key technology transforming the consulting industry is professional services automation (PSA), which is being leveraged as a critical support of internal operations, from front-end aspects, such as business development, project management and delivery, to back-end processes. Fergus Gilmore, managing director of Deltek U.K., believes PSA has the ability to provide a competitive edge in three core areas:

1. **Project management**: Better management of front-office activities provides firms with needed insight to prosper, while boosting engagement-related work and enabling firms to better align decisions with strategic goals. Research suggests 73 percent of the top professional services firms have standardized methods and tools for delivering projects.
2. **Profitability**: PSA can be used as a weapon against tightening margins by helping firms key in on areas where consultants are being used and then assigning them to projects that generate the best revenue.
3. **Securing and retaining clients**: Leading firms use PSA to identify and retain the right kind of clients, which Gilmore describes as "those that will benefit most from a firm's particular skill set and will, in turn, reap the most reward."

Digital transformers in the consulting industry see technology as a means to add value for customers through new and innovative products, services and ideas, subsequently fostering growth. Known as the "digerati," these firms have "more agile business processes, well-connected departments, improved collaboration, stronger analytical capabilities and better insight for more accurate reporting that simply puts them out in front," explained Gilmore. He suggests that these digerati are 26 percent more profitable than competitors and 50 percent more likely to have lower employee turnover.

Although small firms are disadvantaged in the uptake of digital tools, they too are making efforts to keep pace by integrating digital processes into their workflows. At the same time, technology has allowed new startups to meet business needs for companies with lower willingness to pay for traditional industry-level expertise. Under the traditional model, consultants help define a client's problem with the help of internal and external experts. However, clients that already understand their problem and are simply seeking solutions may not require the same level of guidance and may be unwilling to pay for traditional services. Technology can serve as a solution that may be priced out of the traditional market. For example, HourlyNerd used a technology-based marketplace to allow clients to connect directly with experts, meeting the needs of companies with lower willingness to pay.

M&A: Redrawing Market Distribution

In 2015, global deal activity in the consulting sector jumped 9.4 percent, maintaining an average of 150-200 deals per month. There were 2,418 acquisitions in the worldwide consulting sector in 2015, continuing a trend of steadily rising deal activity since the financial crisis. The sector reached near-peak levels in deal volume as well as deal value, with global transaction revenue multiples reaching the highest level since 2007. Buyer demand has outstripped supply, pushing deal values even higher. The consultancy market in the U.S. has been a hotbed for acquisitions, with 1,092 deals recorded in 2015 – representing 91 percent of the total number of deals in North America and 45 percent of global deals. Notably, the majority (85 percent) of buyers were from the U.S. market.

In a bid to build out their internal ecosystems, consulting providers are actively seeking capabilities in leadership development, organizational culture consulting, design thinking, data analytics, digital innovations and collaboration platforms, writes *Consulting* magazine. Traditional consultants are using these built-out ecosystems to provide differentiation through new approaches. Although the Big Four and large consultants have been active acquirers, the sector is also experiencing (alongside larger deals) a large number of small deals. In 2015, 83 percent of deal volume was below $100 million.

"Although market conditions are different now than the last peak in 2007, and there remains some cautious optimism among buyers about near-term activity, these positive conditions are unlikely to continue for long at current near-peak levels," said Paul Collins, Equiteq founder and CEO. Indeed, in the second quarter of 2016, the number of deals remained relatively flat compared to the prior year period, though median deal values climbed markedly with the support of strong deal activity from traditionally prolific consulting firms. Notably, management consulting experienced the most deal activity. Buyers appear interested in niche data analytics, cybersecurity and digital consulting capabilities, in addition to traditional IT offerings.

Consulting or Marketing? Blurred Lines

In recent years, there has been a convergence between consulting and creative agencies. Management consulting firms are quickly enhancing their design and digital skills, encroaching on the advertising and marketing space, while creative agencies work to add business know-how and consulting rigor to their portfolios. This convergence is fostering new, blended business models (and partnerships) and pushing consultancies to snag people from the marketing world to add value to their strategies. In what Manfred Abraham, founder and managing partner of BrandCap, calls the "next-generation business consultancy," these firms are carving out the sweet spot between consultancies and creative agencies, combining the rigor of traditional management consultancy with creative thinking.

These developments are driven primarily by rising demand for marketing-based consulting services (thanks to the digital transformation), an uptick in marketing automation technology and advancements in tracking customer behavior. An increasing number of marketing functions across industries are hungry for traditional consulting services and insights, as CMOs gain more influence and take on a more expansive role within the C-suite. "Most requests boil down to helping companies connect with their target audiences and delight them in order to improve conversion and increase loyalty," explained Anatoly Roytman, managing director for Accenture Interactive Europe, Africa, Middle East and Latin

America. With responsibility extending to the entire marketing function, CMOs are facing an array of strategic, structural, technological, cultural and tactical challenges – presenting a large pool of marketing-related consulting opportunities.

Further, a number of larger consulting firms are acquiring digital agencies. Big-name consulting firms have been replicating firms like WPP and Publicis by acquiring startups and promising small firms in a bid to expand their skill sets and beef up their offerings. PwC has acquired a least 10 agencies, and IBM and Deloitte have each made several acquisitions in the space. Consulting firms with digital consulting practices are acquiring design and innovation firms. Several consulting firms are also forming strategic partnerships with market research firms. For example, BCG and McKinsey are engaging with groups such as Gartner and Forrester.

To adjust to the evolving landscape, consulting firms are integrating new digital talent using new collaborative modes. For instance, PwC Global Digital Services is using a blend of business talent, experience talent and technology talent to focus on business issues. “These creative individuals from the agency world are now working on the big, hairy business problems that are out there,” explained Tom Puthiyamadam, global digital leader at PwC. Elsewhere, IBM is mixing traditional consulting talent with creative and design talent in what IBM Interactive Experience North America leader John Armstrong calls “primordial soup.” IBM Interactive Experience describes itself as a “next-generation services company” that “thinks bigger than an agency and more creatively than a consultancy.”

A New Differentiator? Industry Standards

According to Sunil Abrol, president of the Institute for Consultancy and Productivity Research in India, clients are becoming more business savvy. They want consultants who can add value in ways they can’t themselves and want to ensure their money is being well spent. Clients want real value from consultancy services, whether in the form of a return on investment or an actual improvement in business processes. Abrol explained that this can only happen “if there is transparency at every level.” In an effort to improve transparency, an ISO project committee is developing a management consultancy standard (ISO 20700) – the first international standard to help service providers and clients clarify the terms of service at the beginning of a project.

Dr. Ilse Ennsfellner, leader of the committee’s task group that helped develop the standard, said it represents a turning point by adding a new layer of credibility and confidence. She believes standards can help management consulting firms be more effective by ensuring a constituent minimum quality and clarifying the rights and responsibilities of the provider and the user of the service. “They can also help consultancies really demonstrate their expertise because the standard will set benchmarks against which quality and performance can be measured by the consultants and the clients,” she said.

Growth Projections: Industries Ripe for Consulting

While the outlook for the consulting market is bright as a whole, several industries and sectors are particularly well-suited for growth.

Healthcare

Healthcare is expected to continue to be the most attractive vertical market for the consulting industry, with life sciences accounting for a disproportionate share of focus for consultancies targeting growth. Payers, providers and new market entrants are expected to need consultant support as a new ecosystem is shaped under the Trump administration. Although details of the administration's healthcare plans are evolving, it's expected that the sector will continue to experience a drive toward consumer-centrism. This continued push will fuel demand for strategy and operations and digital consulting.

Irrespective of where healthcare goes under the new administration, demand by healthcare companies for advisory on IoT and cybersecurity is expected to surge. Healthcare is a leading growth industry for IoT devices, and there has been a drive to share data among players in the healthcare ecosystem. These players will call on consultants to craft effective IoT integration strategies and ensure cybersecurity strategy is sound.

Consulting firms can also expect to benefit from an increased demand to vet potential partners. "The backlash against organizations lacking due diligence in partner vetting processes has resulted in disputes and legal action over IP rights and shared gains, pointing to the benefits of more comprehensive partner evaluation considerations," explained Liz Leonard, associate director, lead for Healthcare Consulting Research. "Trial and error in do-it-yourself JVs and partnerships have ultimately driven demand for more up-front due diligence and strategy advisory in structuring [healthcare] and [life science] JVs, partnerships and agreements." There is also increased demand for consulting that supports public-private partnerships, integrated payer-provider risk sharing and other clinical integration agreements.

At the same time, a frenzy of M&A activity is taking place with players from across the spectrum, from pharmaceutical companies to drugstores to hospitals, looking to amass size and boost their negotiating power. This frenzy opens the floodgates of opportunities for multiservice firms, as needs span from tax to operational optimization, cost reduction and data sharing. Though large global firms have the most to gain, there is significant opportunity domestically and regionally – opening up opportunities for mid- and small-tier firms with a more specialized focus.

Financial Services and Fintech

The financial sector is undergoing structural change as large financial institutions adapt to technology trends that allow new entrants to shake up the market. Financial services companies are leveraging technology-based strategies to improve consumer experiences, enhance operational efficiency and decision-making and navigate bolstered market regulation. These companies are facing an array of choices in product and service ideas, with new innovations cropping up in banking, insurance, wealth management, trading and other sub-segments. Amid the changing playing field, these companies are turning to analytics to profile and understand consumer trends as well as capture and analyze data to inform more agile, predictive and effective operations.

Consulting firms are a critical link, bringing together clients, stakeholders and innovators. "In this position, these firms are ideally situated to help source solutions for their own clients who are working hard not to be left behind in the digital age, be well-positioned to scoop up assets for themselves that can enhance their own practices, and be at the forefront in working with all interested parties like governments, politicians and business leaders who are looking for ways to capitalize on the new digital economy," explained Gabe Walle, analyst, Financial Consulting Research. EY and KPMG, for instance, are involved with fintech through incubators bringing together government, regulators, industry and startups. This positions them to offer strong industry expertise to their financial services clients engaged in the financing of innovators.

Digital, IoT and Cybersecurity

Digital consulting is starting to blur delivery channel lines while driving acquisitions of digital and design agencies and infusing more agility into traditional consulting toolkits, according to *Consulting* magazine. Annual digital consulting service revenues climbed in 2016 after posting an 11.5 percent growth rate in 2015. This demand is pushing firms to bulk up their digital consulting offerings either via formal practices or by establishing digital networks or ecosystems. With IoT rapidly gaining ground, consulting firms are formalizing and building out their offerings, laying the groundwork for a very competitive market, *Consulting* magazine explained.

Typically, digital consulting includes offerings related to data analytics, artificial intelligence, collaborative networks and connected systems, and innovation and design thinking. Though these services were previously housed in firms' strategy, operations, IT or HR practices, firms are formalizing their digital consulting practices. The end buyers are increasingly CEOs and other C-suite executives. Although there is no hard and fast rule about what does and doesn't constitute digital consulting, and the nature of digital consulting engagements vary, the projects generally share core qualities – an emphasis on agility, a phased approach, the involvement of numerous disciples and areas of expertise, and the deployment of digital tools. Ralf Dreischmeier of BCG explained that the scope of demand is broad, ranging from one-off initiatives, pilots and proof-of-concepts to more holistic digital transformation.

Cybersecurity, in particular, will be a key growth area. "Every aspect of the cyber sector is becoming increasingly busy as clients continue to identify substantial opportunities, a trend that is only likely to grow over the long-term as opportunities such as IoT present growing challenges in this space," Rees Draper Wright explained. Cybersecurity extends beyond IT into strategic risk management, legal, HR, supply chain management, M&A and other areas. And related consulting practices are booming, with growth rates ranging from 50 to 500 percent. Notably, boards of directors have become increasingly aware of the risk of cyber-attacks and are taking a more active role in measures to prevent breaches. This, in turn, is driving direct involvement in hiring professionals for cybersecurity assessments and advisory. The involvement of the board and top-level C-suite executives is shifting the skill set required to be a successful consultant. When the CIO or CISO was the primary buyer, consultants focused on advising on IT products to protect assets. With the shift in buyers, consultants need to have established board- and executive-level relations to convey risks to the business as a whole, rather than just the IT network.

To meet the growing demand for cybersecurity consulting services, Grant Thornton's Forensic, Investigative and Dispute Services Practice Leader and Manager Director Johnny Lee said they need to take a risk-based approach. "You have to ground things in the context of the client's risk profile," he said. Consulting firms also need to understand all the pieces of the puzzle, explained PwC's Global Cybersecurity Leader David Burg. "It's as if you have a puzzle with 50 pieces," he said. "To make a security program work well, you need to have the right 50 pieces."

Consulting firms are offering comprehensive cybersecurity services. EY, for example, assigns its cybersecurity work to five broad categories – major security transformation, cyber threat management, identity and access management (which it notes is a booming area), data protection and business resiliency. Indeed, resiliency is a key topic when consultants discuss cybersecurity offerings. "Resilience has moved out of the traditional business continuity planning realm into a much more real-time and more holistic view – of which cyber is just one component, but a very large component," said Ken Allan, head of EY's global information security group. "This is a growth area for us."

There has been a surge in the number of small boutique firms offering specialized cybersecurity consultancy. For instance, Cyber Risk Management, which made the list of the fastest-growing firms in 2016 with 100 percent growth over the past three years, attributes its gains to strong momentum in its "cyber risk consulting sweet spot." Going forward, the company anticipates strong demand in industries such as healthcare and retail. "A major business driver is tapping into cyber risk concerns at the board level," said CEO Yong-Gon Chon. "As cyber incidents surface in more corporate espionage, legal and other headlines, boards are rethinking processes for preparedness and governance everywhere."

To secure a piece of the cybersecurity pie, consulting firms are investing heavily in M&A and collaborations, with major consulting firms snapping up boutique firms to strengthen their go-to market strategy. However, the larger firms may struggle with successful integration of these smaller firms. Deloitte is investing heavily in digital and making investments to enhance its capabilities in cyber, analytics, crowdsourcing, artificial intelligence, cloud computing and IoT. EY's Global Deputy Vice Chair of Advisory Services, Errol Gardner, said the firm expects technologies such as IoT, robotics and artificial intelligence to "redefine the very nature of business."

Another surging growth area is cloud consulting – which is growing as companies face increasing pressure to provide speedier, more convenient and personalized services to consumers, while also enhancing operating models and keeping costs down. In the face of saturated cloud services, companies are turning to consulting firms to help craft comprehensive cloud strategies that align with their business strategy and set the foundation for processes and guidelines to securely manage and operate in the cloud or offer cloud services. Cloud consulting spend is primarily being driven by a need to have effective and efficient support for data and analytics goals.

Supporting the Industry: Labor Streams

Despite strong growth in recent years, the management consulting industry is experiencing a shortage of talent – an important development for an industry for which talent is the lifeblood. During the recessions in 2002 and 2008, large numbers of consultants were let go, transitioning to positions in industry. Corporate spending has slowed for the past several years, tightening the competition for talent. Finding and retaining the best talent is a top priority for nearly a quarter of consulting firms. “Retaining talent is always a challenge in this industry and will continue as a challenge” in 2017, said James Pajakowski, Protiviti’s EVP of Global Solutions. The fierce competition for talent may force some firms to zero in on specific niche markets and recruit professionals that meet specific needs on their team.

Two key trends are playing out in the labor streams feeding the consulting industry, explained Ex-Consultants Agency:

1. **Expanding pool of alumni**: As large firms grow, so too do their alumni networks, which in turn provide talent pools for lower-cost players.
2. **The rise of remote workers**: Technology and shifts in cultural norms are facilitating a consulting-from-home labor model.

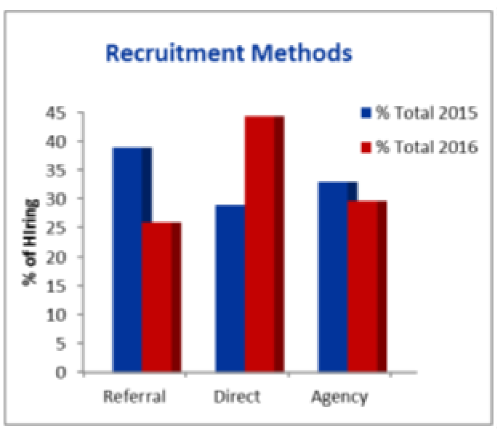
The flow of people entering the consulting landscape is also diversifying. “Today, we have different types of people working together than would have been found in a consulting firm in the past,” said Janet Foutty, chairman and CEO of Deloitte. “For example, we have data scientists and designers working alongside with people in more traditional consulting roles to help clients take advantage of developments in artificial intelligence, the cloud and the transition to a more digital approach to business.” For example, leading firms such as Bain, BCG and EY are reportedly seeking out engineer graduates at increasing rates – nearly doubling the number of offers in the country’s top institutions. This drive to secure engineering talent is being fueled by an increased demand for engineering work.

It’s notable that while data-led talent management programs can help firms save money on recruitment and reduce their expenditure, 60 percent of organizations don’t have a talent management system capable of providing a more meaningful view of talent management. “With firms battling over consulting talent, it’s a worrying trend that can have devastating consequences on growth,” said Neil Davidson, enterprise vice president at Deltek. “If you want to do more to hold onto your staff and avoid the disruption and expense of hiring new people, perhaps reviewing your talent management approach and systems is a move you need to make.”

Smaller firms are gaining traction in attracting talent because of their relative autonomy compared to big firms, promise of more expansive work and better incentives and rewards. Smaller, entrepreneurial firms offer more tangible prospects of hands-on business experience compared to the big firms, where consultants may “feel like a number,” explained Simon Denis, founding director at London-based management consultancy Gate One. Smaller firms generally offer broader opportunity for individuals to align their passions with a business’s needs, as well. Similarly, small consultancies tend to offer solutions to a variety of challenges and problems, whereas large firms often narrow a consultant’s focus to one specific matter to maximize their return on each individual specialist. Lastly, small firms may be better at unlocking motivation by providing incentives that are shared and equitably distributed.

In the U.K., nearly two-thirds of small- and mid-size consulting firms are expecting to increase their recruitment efforts in the coming year, though they are facing competition from the big wigs. Research by Prism Executive Recruitment suggests growing competition for talent is becoming visible in the mid-tier segment. Its survey showed that 64 percent of small- and medium-size consultants accelerated hiring in 2015, and 24 percent expected to see a similar percentage in 2016. With competition for talent heating up, all firms said they were continuing recruitment in 2016, with the most in-demand roles being in the realm of digital, project management, technology, strategy and business process management. Nearly half (46 percent) of the firms said they expect the most recruitment to occur at the consultant/senior consultant level. Critically, most firms didn't meet their target increase in recruitment – a miss attributed to the shortage of talent and competition from rivals. This trend is likely to play out in the U.S., as well, as the competition for talent is playing out globally.

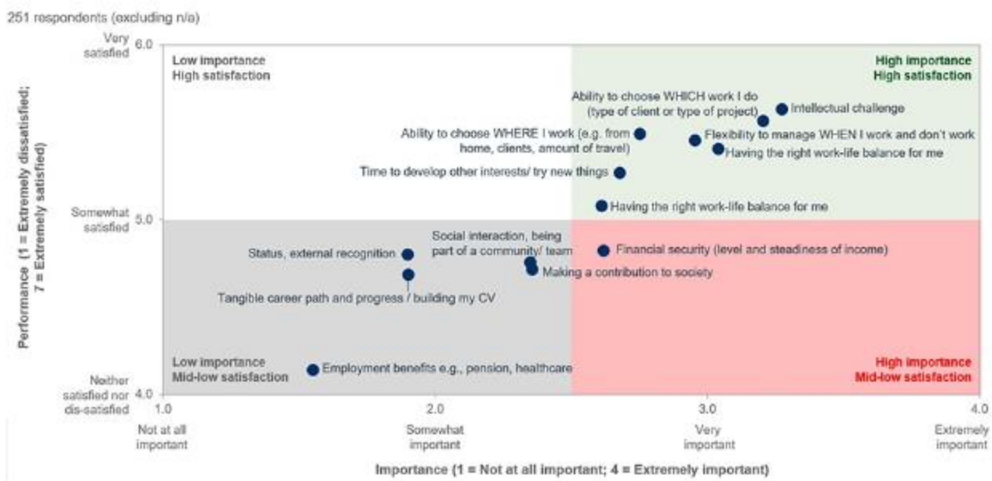
To address the competition for talent, management consulting firms are implementing several changes within their recruitment processes. A critical component is the lifting of salaries – an area in which small and medium-size firms struggle compared to the big wigs. "Competition from larger firms and the Big Four is in some cases driving salaries above 'market rate,' and some smaller firms find it difficult to compete," said Chris Sale, managing director of Prism. They are also shifting their focus on external channels from referrals to more in-house recruitment. In fact, direct hiring – which includes in-house recruitments, advertisements and recruitment events – is expected to account for 44 percent of total hires in 2016, though Prism said that figure may be optimistic, given the labor-intensive and time-consuming nature of the method. Despite the talent competition, many firms don't expect to increase their use of external recruitment agencies, though they acknowledge that external expertise adds value.



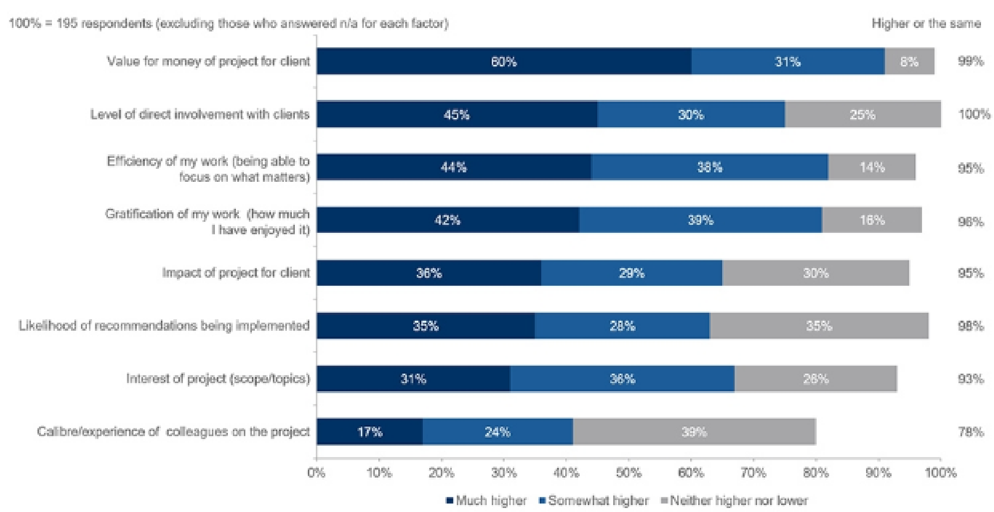
Source: Management Consultancy Hiring Survey 2016

However, small firms aren't the only option for consultants, and research suggests independent consultants are highly satisfied and may even make more money. A study conducted by Eden McCallum, *The Financial Times*, London Business School and INSEAD of 251 independent management consulting professionals in the EU and a group of their employed peers demonstrated that 91 percent are happy working as independent consultants. Notably, more than half who are happy said they are highly satisfied (53 percent). Several factors contributed to this – the most important being the intellectual challenge of the work. Another critical component was the differentiating factors between consulting for a firm and working as an independent – most notably, the ability to choose which type of work and the location of the engagement. It's worth noting that these independent consultants also report making more or similar money compared to when they were employed, with half indicating that they make more.

Job importance factors for independent consultants

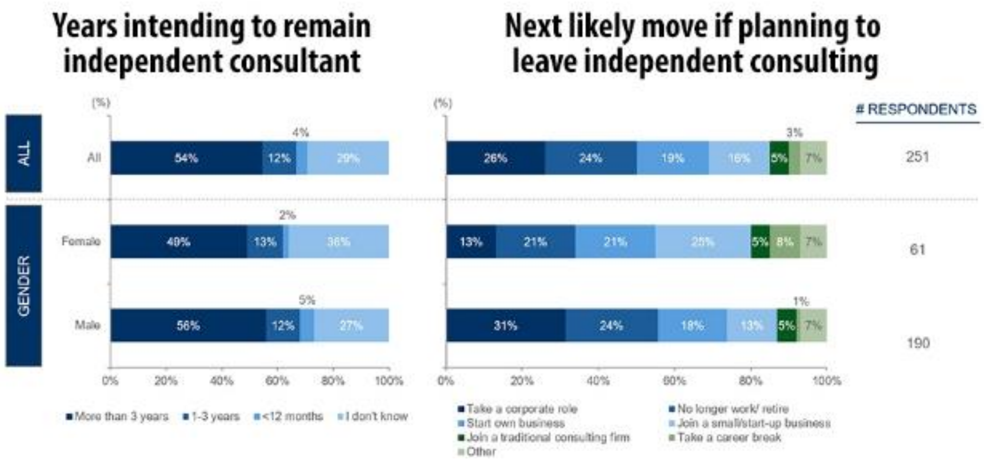


Working as an independent consultant versus in a traditional consulting firm



Source: Consulting.uk

It's also noteworthy that independent consultants see freelancing as a benefit for clients, as they believe the work provides more "bang for the buck," has a more significant impact and is more likely to be implemented compared to the work they did while at traditional firms. However, McCallum warns that freelancing isn't suitable for everyone. "Being an independent consultant is a fabulous choice for many, but for some, those without the relevant experience or without an entrepreneurial mindset, making the move could be a risky choice. Some will prefer life inside a big firm, with the financial security this brings.” More than half of the surveyed consultants said they expect to continue working as a freelancer in the coming years.



Source: Consulting.uk

Conclusion

Despite speculation of decelerated growth – but growth nonetheless – in 2017, the outlook for the consulting industry is positive. Although the entire economy is fraught with uncertainty, the Trump administration appears poised to overhaul several critical industries, opening the floodgates of opportunity for consulting services to help companies navigate this new landscape.

While no projections are certain, demand for traditional services should continue to support consulting firms. However, the industry is changing – digital disruptors and independents are reshaping traditional business models, and a shortage of talent is pushing firms to find new ways to entice professionals to enter (and remain) within their doors.