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The Future Of Consulting Through 2020

Digital Is Changing The Operating Model, Services, And Strategies Of Consulting Firms

by Marc Cecere
February 11, 2016

Why Read This Report

In a changing digital world defined by increasing customer empowerment, reusable assets, and software-as-a-service (SaaS), consulting will significantly change over the next five years. These forces will threaten traditional revenue models, shift power within the traditional partnership track, reduce pure strategy projects, and alter delivery models.

This report uses interviews with 30 leaders of consultancies to predict the future of consulting. It describes the drivers of change in consulting and how their services, delivery, and business models must change.

Key Takeaways

Digital Will Drive Changes In Consulting Skills And Projects
Faster speeds, incremental deliverables, and cloud technology will shift projects and consulting skills to customer needs and emphasize agile, analytics, business process redesign, and customer experience.

Shrinking Technical Work Will Change Key Differentiators
Nontechnical areas such as business model design and change management will become more important differentiators as technical activities become more of a commodity.

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by Marc Cecere
with Christopher Andrews, Amanda LeClair, and Ian McPherson
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Forrester interviewed 30 vendor companies, including Aon Hewitt, Atos, Booz Allen Hamilton CGI, Changefirst, Clarkston Consulting, Cognizant, CSC, Dell, Deloitte, Excelacom, EY, Hackett Group, Hexaware, HP, IBM, Infosys, KPMG, LiquidHub, North Highland, Pace Harmon, Prodyna, Prophet, PwC, Razorfish, RICOH, Senn Delaney, Virtusa, West Monroe Partners, and Wipro.

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Clouds, Customers, And Assets Will Change Consulting Models

Consulting is a growing market. According to the US Census Bureau, consulting has grown by approximately 8% since 2013, and the same is expected in 2016 (see Figure 1). Similarly, according to Forrester's Global Business Technographics® Business And Technology Services Survey, 2015, 58% of global services decision-makers reported that they were increasing their 2016 spend on management/ business consultants by at least 5%, and 23% reported an increase of at least 10%.[1] KPMG, for example, reports that over the last 12 years they've grown from $2.4 billion to $9.1 billion, and they forecast double-digit growth through FY 2018.

However, even with strong projected market growth, consultancies expect change. According to Glyn Knaresborough, managing partner at CSC, "Consulting is ripe for disruption." This sentiment has been a common refrain in the consulting marketplace for the past several years, and we see growing evidence that the consulting model will morph and change dramatically over the next decade.

But what is the dominant disrupter of consulting? After all, consulting firms have been successful, in large part, because they continually change with the demands of business executives. Throughout the 90s and early 2000s, leading consultancies have been able to win new customers and grow by playing the role of "trusted advisor" to executive clients.

But the digital changes we see in all markets are converging, to a point where even entrenched consulting leaders will have difficulty keeping pace. Digitally enabled technologies, delivery methods, data, and empowered customers are creating new business models, channels, and products. According to Knaresborough, "Digital blurs the line between tech and management consulting . . . and requires a broader spectrum of people to deliver."

The specific drivers that result from this move to digital are:

› **Clients expect greater speed of delivery.** The age of the customer is creating expectations that projects will be shorter, with more iterative value. Consultants must react to client demands faster and prove to clients that their consulting expertise is delivering tangible results. According to IBM's Shanker Ramamurthy, a global managing partner, "This 'acceleration of the acceleration' has dramatic implications for everyone, including consultants."[2]

› **Clients need consultants to understand their customers.** It's not enough to simply have industry experts; these experts have to connect their expertise to actual business outcomes. Consultants now need intimate knowledge — and supporting data — on how customers research, buy, and use their clients' products and services. Renee Borkowski, GVP of strategy for Razorfish, stated that consultancies "have to be deeply customer-obsessed, with comprehensive understanding of their client's customers."

› **An increasing number of complex global transformations.** Business transformation leaders tell Forrester that these transformations increasingly require more globally consistent systems, organizations, and processes. This increases the scope, risk, politics, and impact of transformation

projects and demands consultants who can deal with executives at the most senior levels of the organization. Borkoski stated, "Consulting is moving upstairs, the problems clients are facing are much more enterprisewide — and therefore catastrophic if they don't get it right."

› **Greater impact of regulatory change.** According to PwC, "78% of CEOs globally (90% in the US) say that they're 'somewhat' or 'very' concerned about over-regulation, an increase of 6% over last year."[3] Clients considering new global business models will require tax advice for multiple localities. Projects using social media data on potential customers will demand legal advice on privacy. Large M&A projects will require advice on regulatory approvals.

FIGURE 1 IT Consulting, Systems Integration, And IT Training Are Growing At Approximately 7% Per Year

US IT project services spending by type
(US$ billions)

IT consulting
Systems integration
IT training

*Forrester forecast
Source: US Census Services Survey

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Six Themes That Will Define The Future Of Consulting

Given these forces, what will consultancies look like in five years? To determine this, we interviewed 30 consulting leaders and asked them about how services, revenue models, delivery methods, career paths, and other elements will change. Because the definitions of consulting span from pure strategy advice to the design and implementation of new business models, most of our clients want to understand the breadth of consulting partners that can "do it all." For that reason, we interviewed a wide range of consultancies. We included traditional firms such as Deloitte; small, specialized ones such as Senn Delaney; technology-oriented firms building up these capabilities such as Prodyna; and traditional outsourcers that have added management consulting services such as Infosys. We divided our conclusions into six themes (see Figure 2).

FIGURE 2 Six Themes Of Consulting In 2020

1. Traditional high revenue, technical work will shrink and change
2. Asset based consulting will change revenue and delivery models
3. Projects will be smaller, global, more virtual and will use centers
4. Pure strategy projects with static deliverables will shrink rapidly
5. Organizational change management will become a science; enhanced by data and software
6. Contracts will shift incrementally to gain sharing, licenses and retainers

Design, Integration, And Specialized Consulting Areas Grow; Technical Areas Decrease

The work of many technology consultants is shifting from technical implementation toward areas of business model and customer experience design as well as highly specialized areas in analytics, security, mobility, and artificial intelligence. Consultants will need broader architectural skills in these areas to pull all the pieces together.

Simultaneously, the number of huge legacy re-engineering projects that soak up large numbers of technical consultants will begin to shrink after the current wave of moving systems into the cloud. According to Dinesh Dhanasekharan, CTO of Excelacom, "Currently there is a lot of transformation work around legacy systems, but over time, as that work gets completed, those projects will go away." Cloud applications and packaged deployments will require significantly less technical expertise to deploy and maintain than previous generations of systems. Because of these factors, five years from now, companies will require fewer people with technical skills to code, wrapper, and integrate data and perform other highly technical activities. Consulting firms will experience:

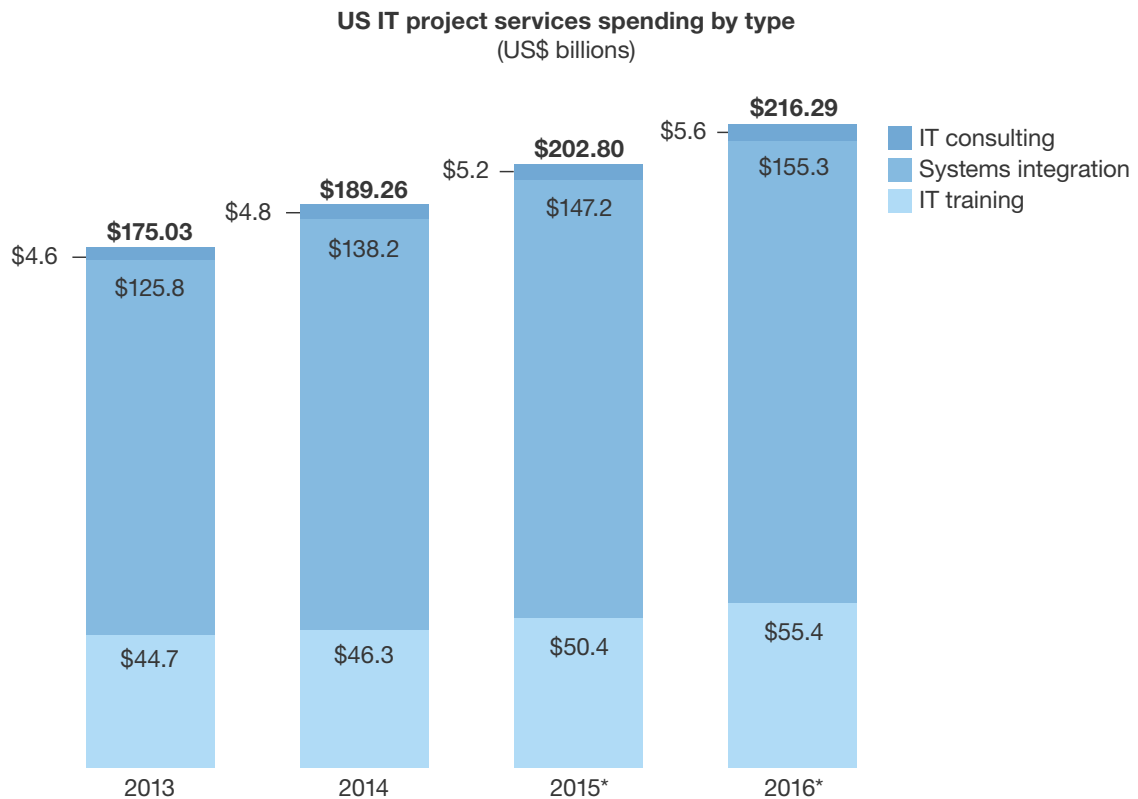FOR CIOS   February 11, 2016

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› **More projects outside of technical areas.** Clients won't need an army of techs to deploy or maintain a system. This will reduce the revenue generated from purely technical consultants and shift hiring and promotions within the consultancies toward business expertise and those who cross over both technical and business areas.

› **Greater differentiation from client-facing and specialized capabilities.** As technical work becomes a commodity (and margins fall), consultants will help their clients differentiate through adjacent nontechnology. According to Sanjay Purohit, global head of Infosys Consulting, consultancies will look for people who demonstrate the "3D skillset: industry, technology, and geographical knowledge." In particular, consultants will need to emphasize greater knowledge of industry processes, agile methods, data, and customers.

› **New access points to transformation projects for some consultancies.** Outsourcers such as TCS get most of their business transformation consulting projects from their outsourcing clients. Others, particularly midsize consultancies, started with system deployment projects and moved into management consulting areas. The reduction in technical work will reduce these points of access. They will need to develop other ways to reach senior business executives — such as customer experience capabilities — and revamp their sales and marketing strategies.

› **New career paths and motivators for individual contributors and Millennials.** Digital will change traditional consulting structures and career paths that are based on sales and the management of larger and larger teams. John DuBois, Dell's managing director of digital business consulting, stated that instead of a pyramid project structure, they'll use a diamond structure, consisting of a senior leader, seasoned subject matter experts, and a small base of junior people. This means that high-impact technical and often creative roles such as CX designers and analytics experts will need different career paths and motivators. For example, John Rolland, global advisory performance improvement leader for Asia Pacific at EY, reported that they are looking at different ways of motivating employees — Millennials, in particular. They are experimenting with more virtual work, team-driven goals, use of design centers, and the application of social media.

Asset-Based Consulting Will Automate Many Consulting Activities

Increasingly, consultancies will use dynamic software solutions, tools, and data-based assets in conjunction with static ones such as process and business models.[4] KPMG consultants, for example, use their 3D Journey Map tool from the acquired company, Cynergy, to analyze and redesign customer interactions. What was a manual process requiring weeks of effort from large teams is reduced to days and includes many interrelated sets of factors, including costs, motivators, behaviors, and physical locations.

The application of these dynamic assets to more areas of consulting is accelerating because many of the pieces are already in place. Full-service consultancies already have the infrastructure in the form of software development groups, well-designed access sites such as PwC's Transform portal, and incentives for reuse. In some consultancies, including Deloitte and Accenture, the culture is already one

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of "don't build it if we already have it." Many, like Cognizant, now architect their project deliverables specifically for reuse. Similarly, Infosys created a platforms business unit for commercialization of its IP.[5] Finally, smaller firms see reusable assets as a way of expanding their scale to compete for global projects with the large firms, while distancing themselves from more technical and often lower priced consultancies. However, these smaller firms lack the dedicated internal groups that can build these assets. They need to build assets based on their project work and in narrow areas where they can compete with the larger firms. The impact of these dynamic reusable assets is that:

› **Projects will be shorter.** Reusable assets will enable consultancies to build smaller teams, faster deliverables, and more functionality faster and cheaper. According to IBM's Ramamurthy, "The consulting world is increasingly moving toward more prefabrication, where services can be deployed rapidly." Similarly, the skills clients require for projects will skew toward lower-level consultants who can operate the assets and senior-level ones with business skills and specialties in areas like analytics.

› **Small consulting firms will see the delivery gap widen.** Small consultancies lack the capacity of the large firms to create reusable assets. Infosys, IBM, Accenture, and others have teams dedicated to creating these accelerators. Small firms must create these during projects for specific customers, making reuse problematic.

› **Consultancies will offer more self-service packages.** Self-service will increase in areas where extensive local knowledge of customers and culture is critical, clients need an ongoing capability, and the consulting activities can be automated. For example, Changefirst has replaced a common consulting project (creating an organizational change management [OCM] capability) with self-service software and initial training. Their platform enables client-run OCM by providing education, diagnostics, planning templates, reporting tools, and social learning functionality. This self-service revenue stream is attractive to end user organizations and consultancies and is highly leverageable. However, to provide clients with differentiation, these packages must be tailored to fit the client's culture, industry, and specific needs. For example, Deloitte has sets of detailed marketing business models, but simply selling these to clients provides little differentiation. These models must be modified to accommodate differences in products, geographies, company cultures, local regulations, and a range of factors that Deloitte consulting provides.

Delivery Will Be Agile And Collaborative, Relying On Methods, Tools, And Locations

Companies have less patience for multiyear, expensive transformation projects where results are difficult to gauge or long to recognize. At the same time, software packages, cloud applications, and agile methodologies are creating environments that can support smaller, more iterative projects. Clarkston Consulting and Hexaware stated that they are already seeing projects shrinking in size and length as they strive for quick wins. Ironically, while projects shrink in size, they're broadening to span multiple business units. These changes in projects will result in:

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› **Smaller cross-disciplinary project teams with higher seniority and specialization.** Smaller and shorter projects will reduce the need for armies of MBAs and result in teams comprised of more midlevel consultants who are highly specialized in areas including CX, process redesign, data, and OCM. But the future of consulting will be more than just throwing higher titles on projects. According to CGI's Doug McCuaig, EVP of global client transformation services, "Senior consultants have to be skilled in multiple areas because clients cannot look at digital transformation in isolation — they must evaluate their entire operations model and the processes aligned to that."

› **Delivery through onsite teams, centers, and virtual workgroups.** Kevin McCarty, president and CEO of West Monroe Partners, spoke for the majority of consultancies when he stated that, "Consultants have the greatest impact when they are onsite in front of their clients." However, consultants have new ways to engage with clients and will create this "presence" in a variety of ways. In five years, consulting will be delivered through a mixture of onsite teams, centers (e.g., digital studios or innovation centers), telepresence, and structured collaboration tools like ThinkTank. The best consultants will match the activity to the delivery mechanism — ThinkTank for global brainstorming, telepresence for status updates, centers for design, and onsite for everything else.

› **Short-term gains threatening to cloud long-term business goals.** As more projects are executed in shorter cycles with incremental value, teams will focus on short-term deliverables over long-term project goals. Some companies are already seeing the downside. Shankar Ramamurthy said they "used to do a lot of scenario planning, but horizons have gotten shorter and shorter. [Clients] miss some of the exponential compound changes." Consultants will have to be proactive in making sure their clients don't lose sight of what the three-, five-, and 10-year goals are — and manage projects so they build toward those goals.

Strategy Will Merge With Implementation

The opportunities for pure strategy projects and pure strategy firms will shrink. There have been too many visible failures when a strategy developed by one firm has been handed off to another to deliver. Furthermore, agile methodologies blend strategy with rapid delivery, essentially blurring the distinction between the two. This doesn't mean that standalone strategy work will disappear. But even strategy consulting projects will require consultants with delivery experience and deliverables that provide implementation guidance in the form of road maps and high-level project plans. The implications of this for consultancies are that:

› **Strategy firms will acquire delivery assets.** McKinsey and other high-end strategy firms are already building up delivery assets through hiring, acquisitions, and partnerships; McKinsey acquiring Lunar for user design and partnering with Sapience for workforce analytics is one example. Another is BCG's ownership stake in the analytics firm TSG and their purchase of the digital design firm S&C. In addition, firms that are known for strategy, but already have delivery capabilities, are beefing up as well. PwC, Deloitte, KPMG, and Deloitte have all acquired firms with strong delivery capabilities.

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> **Digital strategy work gives technology and small and midsize firms an opening.** Small and midsize technology-focused consultancies such as Prodyna have found that they must help their clients with strategy development to enable successful technology deployments. This also protects them from low-cost offshore technical consultancies that don't provide business strategy. David Wainwright of Prodyna stated, "We have to move up the value chain to maintain our margins." He also stated, "Digital business transformation is a huge opportunity because it gives us the chance to guide customers on strategy and IT, and it is a generator of technical projects."

OCM Will Become A Science, Enhanced By Data And Software

The demand for OCM expertise will increase over the next five years. According to Kevin McCarty, "Years ago, it was very big, then it went through a time of dissolution and was reduced to communications and training, with clients doing it themselves. Then big projects failed, and now we are back to OCM growing rapidly in importance." As it grows, consultancies will invest in more complete methodologies complemented by tools and data. Furthermore, OCM methods will extend beyond the consultant's clients to the client's customers.

Three factors will drive changes in OCM. First, digital projects demand faster turnaround and less time for project teams and end users to adjust to changes. Second, compared to process redesign, technology assessments, and other consulting activities, consultancies have applied OCM inconsistently, informally, and with mixed success, making OCM a new differentiator.[6] Third, consultancies need to provide OCM in order to keep pace with changing customer expectations. For example, according to West Monroe's Kevin McCarty, "Utility companies that have spent 50 years hiding from clients are now trying to curb usage and energy demand." Because of these factors, consultancies will:

> **Continue to upgrade OCM capabilities.** Full-service consultancies like EY will better integrate OCM with other methodologies and tools. Small and midsize consultants will add OCM capabilities to their specific offerings. Furthermore, those like Deloitte, EY, and IBM GBS, with sophisticated project-oriented OCM capabilities, will incorporate more advanced forms of OCM based on behavioral psychology research and their stored knowledge of local cultural differences.

> **Shift from fixing the problem to prevention.** Today, many consultants are brought in to fix a problem (e.g., people are not using the new system, employees are not developing skills fast enough, or clients are still an afterthought). In the future, consultants will focus on preventing these problems. Senn Delaney, one of the leaders in change management consulting, is showing how to do this. Jim Hart, their president and CEO, stated, "We are continuing to invest in the transfer of competency to our clients . . . we want them to lead their own culture change and become self-sufficient."

> **Lead with change.** According to Sanjay Purohit, Infosys' global head of consulting, some will "lead with defining the change rather than only managing the change." Projects will start with the primary goal of changing the culture of the organization rather than reducing costs or improving the customer experience. Culture will be viewed as the new "infrastructure" that companies must establish before they can make other improvements.

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Contracts Will Shift Modestly To Gain Sharing, Licenses, And Retainers

Agile methodologies, accelerators, ecosystems, innovation centers and other delivery mechanisms will increase pressure for new types of contracting models. However, the commoditization of technology, better OCM, reusable assets and other factors will — at the same time — increase the predictability of projects and the attractiveness of traditional contracts (like fixed price, and time and materials). These two trends will counter-balance each other, creating only modest changes in the approach to contracting. Specific to contracts, the changes will be:

› **Modest growth in gain-sharing contracts.** There will be some growth in contracts where consultants share in the benefits such as increased revenue or decreased costs; but it will stay under 10% of all deals. According to CSC's Glyn Knaresborough, "The risk-reward thing is overhyped; most companies still can't tell you what they spend on individual items, so they can't justify a contract like that to the board." Digital projects that have more incremental benefits and less predictable end results will make these contracts even riskier.

› **Increased license, subscription, retention, and equity contracts for specific activities.** Consultancies like the idea of different types of revenue streams such as software license revenue. According to Kyle Montgomery, partner at Clarkston Consulting, "The consultant's dream is to have an ongoing revenue stream not tied to billable hours." Most of the consulting firms we interviewed are increasing the software component of their consulting; but only as a complement to consulting, not as the primary product. Subscriptions, retention contracts, and equity will all increase for narrow areas, but they will not change the primary consulting contracting mechanisms.

Recommendations

CIOs Must Lead When Selecting And Managing Consultants

Sooner or later, the CIO's organization will need to support any technology built with consultants; even if only to provide oversight. Over the next five years, as consultancies move toward services that are more global, data intensive, based on reusable assets, and created by empowered customers, CIOs must contribute their perspective and skills to:

› **Ensure a strong connection between strategy and delivery.** CIOs must vet strategies developed with consultants that require technology in terms of their scalability, robustness, and maintainability. To do so, CIOs and their staff need to be involved early in defining strategy before others create momentum and a constituency. With this involvement, they need to weigh in on the validity of delivery plans and provide alternatives when necessary.

› **Include digital-specific criteria when selecting a consulting partner.** Digital is changing the criteria for selecting a consulting partner. CIOs need to ensure that the consulting selection criteria includes consulting capabilities in agile methods, customer data, a portfolio of local, virtual,

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and design center methods, and extensive use of reusable assets. Many traditional sourcing professionals — focused more on reducing costs of consulting resources — need new training and direction in this area. CIOs need to define how this landscape has changed and the new expectations for consultancies.

› **Provide oversight for the mechanics of change in a digital world.** Change management in the digital age needs to accommodate rapid and incremental change and will be one of the pillars of sustainable competitive advantage. CIOs and their staff don't need to be experts in digital change management, but they do need to know enough to provide oversight for those implement it. Therefore, at a minimum, they need a high-level understanding of the techniques, key roles, and supporting vendors required for organizational change.

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Companies Interviewed For This Report

Aon Hewitt

Atos

Booz Allen Hamilton

CGI

Changefirst

Clarkston Consulting

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Cognizant	LiquidHub
CSC	North Highland
Dell	Pace Harmon
Deloitte	Prodyna
Excelacom	Prophet
EY	PwC
Hackett Group	Razorfish
Hexaware	RICOH
HP	Senn Delaney
IBM	Virtusa
Infosys	West Monroe Partners
KPMG	Wipro

Endnotes

[1] Source: Forrester's Global Business Technographics Business And Technology Services Survey, 2015.

[2] Shankar Ramamurthy is the global managing partner strategy and analytics at IBM.

[3] Data is from the 2015 US CEO Survey.

Source: "Leading in extraordinary times: The 2015 US CEO Survey essay," PwC, 2015 (https://www.pwc.com/us/en/ceo-survey/img/ceo-survey-essay-10.pdf).

[4] Internally developed or acquired software assets that IT services vendors use to automate a particular business or aspect of product development for a range of clients. Solution accelerators provide 30% to 90% of the solution that the client is looking for and are reused across multiple engagements. See the "The Move To An Asset-Based Services Play" Forrester report.

[5] In 2012, Forrester made the call that the increased focus on business innovation will push service providers to invest more in the development of software assets that provide strong business value to multiple clients. See the "The Move To An Asset-Based Services Play" Forrester report.

[6] We spoke with transformation leaders at 38 user companies about how their transformation consultants performed in 12 areas including OCM, model design, and software deployment. OCM consistently received the lowest scores.

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