

# *The Value of Consulting*

An analysis of the tangible benefits of  
using management consultancy

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## About the MCA and this report

The Management Consultancies Association (MCA) is the trade body for the UK's management consulting industry. Between them, our sixty members employ 40,000 consultants, comprise 70% of the UK's £9 billion consulting industry and work with 90 of the FTSE 100 firms, as well as almost all government departments.

This report outlines the findings of a year-long research programme the MCA undertook in 2009 to establish the tangible benefits of using management consultancy. After spending substantial time developing a robust and objective methodology, the research quantified the value consultants add, both in conventional economic terms and in relation to the value created for clients. The report focuses on what the research revealed in answer to the three key questions the MCA sought to answer.

To register for the MCA's Value of Consulting updates visit [www.mca.org.uk/value/subscribe](http://www.mca.org.uk/value/subscribe)

# FOREWORD



The use of management consultancy is an accepted business practice in many sectors. Indeed, the UK industry, recently described by a government-sponsored report as a 'world leader', generated fee income of around £9 billion in 2008; there is clearly considerable demand for their services.

But the focus of public discussion continues to be on the cost of consultancy; there has been very little research or analysis of the value that this can generate – either for individual clients or the economy as a whole. This report seeks to address that gap.

*The Value of Consulting* presents the findings of a pioneering research programme to quantify the value consultants add. The data it relies on all come from client organisations which use consultants. We have also been careful not to make exaggerated or generous assumptions. While our findings necessarily cannot be comprehensive, they suggest strongly that the UK consulting industry is delivering significant value to its clients.

We are extremely grateful to all those who helped us and contributed to the research, particularly Fiona Czerniawska, the MCA's Head of Research. She was ably assisted by a working group comprising partners and directors from MCA member and non-member firms, and Tim Morris, Professor of Management Studies at Oxford University, who was instrumental in developing the research methodology.

I hope that the publication of our findings will have two effects.

First, this way of thinking about consultancy will help consultancies to engage in the sort of dialogue they need to have with their clients, and help clients to be demanding and intelligent customers.

And, second, I believe that we must now reshape the conversation about consulting. We should look at the benefits as well as the costs and think of the value as well as the price. In practice, many clients already do this when they plan, commission and review their work with consultants. As a country, we should follow their lead – it will lead to better decision making, in all sorts of places.

A handwritten signature in black ink that reads "Alan Leaman". The signature is written in a cursive, flowing style.

**Alan Leaman**

Chief Executive  
Management Consultancies Association

# Executive summary

In January 2009, the MCA launched a project looking at how best to quantify the value consultants add. The impact of consultants is often difficult to measure, so the aim of this initiative has been to find:

**A simple yet meaningful and authoritative way to quantify the value consultants add, to both their clients and the wider economy.**

In order to do this, and after an extensive period of work to develop a robust and objective methodology, the MCA adopted a three-pronged approach, with each area of research focussed on a specific question:

1. How much does the consulting industry contribute to the UK economy?
2. How satisfied are clients with the work of consulting firms?
3. What value do consultants add to clients?

The MCA's research findings indicate that in 2008:

- The UK consulting industry spent more than £180 million on innovation, £85 million on training and £80 million on *pro bono* work for charities.
- 58% of clients say they are very satisfied with the work their consultants do; 41% are satisfied.
- Very satisfied clients reported in interviews that the value of consultancy to them is a multiple of the fees that they spend. They estimate that this value ranges from around twice up to twenty times the cost, with most clients grouped around multiples of eight to twelve. Assuming an average of ten times the fees paid, and taking account of other projects where value is equivalent to price, this suggests that the benefits provided by consultancies are equivalent in value to around £56bn to UK clients, a return of £6 for every £1 spent.

*A simple yet meaningful and authoritative way to quantify the value consultants add, to both their clients and the wider economy*

*“This was an important but difficult project to carry out. It has involved clarifying how we can understand the ways in which consultants can add value to clients, developing a robust model to reflect this and then operationalising it to generate results which, as far as we can tell, stand up to critical review. As a result, the findings and implications are worth taking seriously.”*

**Tim Morris, Professor of Management Studies, Oxford University**

# The definition of management consultancy and how it is used

The MCA defines management consultancy as:

**The creation of value for organisations – through improved performance, achieved by providing objective advice and implementing business solutions.**

The UK and global consulting industries span a wide array of firms, some of which only undertake 'pure' management consulting work, and others of which are part of larger firms that also undertake IT systems development, outsourcing, and, increasingly, other activities. The MCA recognises this diversity by segmenting the industry into six types of firm. For further information about our segmentation visit [www.mca.org.uk/about/consulting-industry](http://www.mca.org.uk/about/consulting-industry)

Clients use management consulting firms to provide a broad range of services, from help in defining strategies to implementing large-scale IT and operational change programmes, and from coaching individuals and teams to providing expert advice in highly specialised fields. Management consultants are valued for their independent perspective, their technical expertise and their ability to drive projects forward to achieve results to deadline.

At the same time, the relationship between consultancies and their clients is changing, in particular how clients are buying and using consultants' services. Many clients and consultancies are now sharing the rewards as well as the risks of a project, rather than simply contracting for time and materials, and more "value based" methods of pricing are being used. This focus on value for money is welcome, but it is also a challenge to both parties. It requires a deeper and shared understanding of how consultancy generates value and how it can be assessed.

*The creation of value for organisations – through improved performance, achieved by providing objective advice and implementing business solutions*

### **Why do organisations use management consultants?**

- “The consultants brought the technical support to make the project possible.”
- “We had expertise in certain areas, but didn’t know how to bring all the pieces together.”
- “The consultants brought a fresh, external perspective.”
- “We are hiring consultants to bring us the knowledge that they have and we don’t, and we want some of that knowledge at least being transferred into our domain after they have gone.”
- “Consultants have the ability to bring resources very quickly.”
- “Consultants are flexible and work long hours, and deliver a project within specific periods of time; this is represented as a huge benefit for the organisation.”
- “Consultants add additional value by keeping a time scale to develop a project. They also do things faster: our project could have taken twice as long if the organisation had done the project by itself.”

# Research methodology

The MCA worked with a steering committee of industry experts to develop the most robust and objective research methodology possible for this ambitious project. The steering committee was made up of senior representatives from the consulting industry, from both MCA member and non-member firms, and Tim Morris, Professor of Management Studies at Oxford University, who specialises in professional service firms.

The research consisted of three areas in response to the MCA's three questions:

1. How much does the consulting industry contribute to the UK economy?
2. How satisfied are clients with the work of consulting firms?
3. What value do consultants add to clients?

**To answer question 1** – A quantitative survey was developed to collate data from a sample of over forty consulting firms, which focussed on the amount of time firms typically spend on training, innovation and service development, and *pro bono* work. Data were collected and analysed, and the time was then assigned a financial value. The MCA also used data from its annual industry research programme to assess the industry's contribution to the UK balance of payments.

**To answer question 2** – The largest ever survey of client satisfaction with consulting services was undertaken. MCA member firms were asked to provide all the data they gather directly from clients. This was aggregated to give the MCA information on more than 1,800 projects. To ensure the validity of this research, firms had to send complete years' worth of data: they were not allowed to pick only those where the feedback was positive. As every firm has its own questionnaire format, common questions were identified. Response data for these questions were then collected, standardised and weighted by industry segment for analysis.

**To answer question 3** – A conceptual model was developed to explain the value consultants add to client organisations. This model categorises consultants' contribution under three headings: the knowledge they bring, their ability to help deliver projects and the skills of individual consultants. The conceptual framework can be downloaded from [www.mca.org.uk/value-consulting](http://www.mca.org.uk/value-consulting). These three facets of consulting take many different forms but, from a client point of view, they translate into three benefits:

- Knowledge helps clients take better decisions.
- Experience in project delivery helps clients execute their plans more effectively and efficiently.
- The skills of individual consultants improve the capability and teamwork of managers in client organisations.

This model formed the basis of a questionnaire, and both model and questionnaire were piloted with clients to ensure that they made sense from their point of view. Around thirty client contacts were then interviewed. Part of the questionnaire asked clients whether they judged the value added by the consultants to be more than their fees, around the same as their fees or a multiple of their fees. The model, the questionnaire and the answer to Question 2 were then used together to quantify the value of consulting. This is explained further on page 10.

## Question 1:

# How much does the consulting industry contribute to the UK economy?

In July and August 2009, the MCA carried out a survey of MCA firms to find out the amount of time typically spent on training, innovation and service development, and *pro bono* work.

- **Consulting firms spend around 2% of their time on innovation, equivalent to about £180 million a year.** This compares favourably with the European Union average for expenditure on R&D in the private sector (the nearest equivalent statistic) which is 1.85% of revenue<sup>1</sup>. Despite the recession, three quarters of consulting firms say they have increased the amount of time and money they invest in innovation over the last five years.
- **The UK consulting industry spends £85 million a year on staff development and training, equivalent to funding an entire university<sup>2</sup>.** Although this expenditure makes economic sense for consulting firms – past MCA research has shown that one half of all consulting projects are commissioned because clients want access to specialist skills not available internally – it also has a wider impact on the economy: 90% of consultants who leave consulting firms go on to work in client organisations, taking their skills with them.
- **The value of the time spent by consulting firms working with not-for-profit organisations amounts to £80 million per year.** Research in 2009<sup>3</sup> put the total spent by the private sector in the UK on charitable donations at £1.4 billion, equivalent to around 0.2% of the economy. By contrast, charitable work by consulting firms represents 0.9% of the consulting industry, making consulting firms more than four times more generous than an average private sector organisation.
- **The consulting industry also contributes £900 million a year to the UK balance of payments in the form of work carried out for overseas clients<sup>4</sup>.**

*Despite the recession, three quarters of firms say they have increased the amount of time and money they invest in innovation over the last five years*

*Research in 2009<sup>3</sup> put the total spent by the private sector in the UK on charitable donations at £1.4 billion, equivalent to around 0.2% of the economy*

<sup>1</sup> Eurostat 2008 figures

<sup>2</sup> Universities UK, 2006-07 figures

<sup>3</sup> Social Investment Fund and YouGovStone

<sup>4</sup> The UK Consulting Industry 2009 report, MCA, 2009



## Question 2:

# How satisfied are clients with the work of consulting firms?

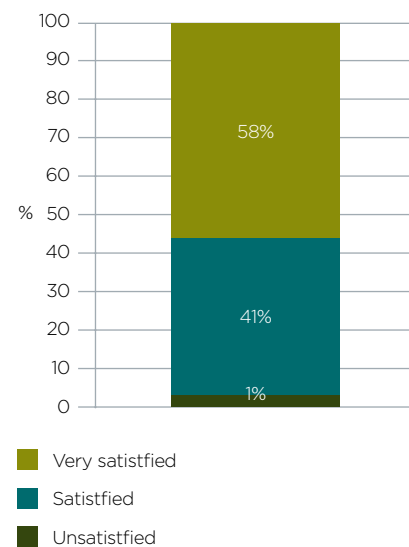
The MCA conducted the largest ever survey of client satisfaction with consulting services, analysing data from more than 1,800 projects. To ensure the validity of this research, MCA firms had to send complete sets of data: they were not allowed to pick only those where the feedback was positive.

In 2008 (the latest complete year for which data could be assembled), **99% of clients said they were either satisfied or very satisfied with the work of their consultants**; only 1% said they were not satisfied (Figure 1) and only 2% of clients said they would not be willing to use the same firm again (Figure 2). Although these high levels of satisfaction are consistent with independent research the MCA has commissioned in the past, it should be noted that a small percentage of clients said they were “neither satisfied nor dissatisfied” with the project. It could be argued that these people were actually dissatisfied but reluctant to say so.

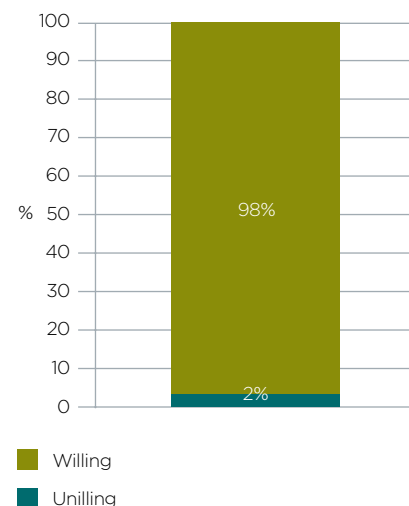
Despite the recent economic difficulties, there is no evidence of satisfaction levels dropping due to more demanding clients. If anything, satisfaction levels have improved, suggesting the importance of management consultancy during times of difficulty. The survey found that consultants’ communication and project management skills, and their understanding of the industry-specific issues involved in the projects all improved between 2007 and 2008, suggesting that consultants are learning from past mistakes and that the overall level of quality of service they deliver is increasing.

However, clients’ perception of value for money declined between 2007 and 2008: the percentage of people rating the consultants’ work as very high value shrank from 56% to 32%, and those rating the work as low value increased from less than 1% to 5%. As there was no commensurate decline in overall satisfaction levels or any other measurement analysed, it is likely that this perception was affected by the economic environment. In other words, clients’ perceptions of value for money are not absolute: during recessions, consulting services will seem more expensive and therefore reduced value for money.

**Figure 1** Overall satisfaction levels among clients in 2008



**Figure 2** Relating clients’ willingness to use a consulting firm again



## Question 3:

# How much value do consultants add to clients?

Our research, undertaken with an initial sample of thirty clients, suggests that consultants add value in three ways:

- They provide specialist knowledge that helps clients take better decisions.
- Their experience in project delivery helps clients execute their plans more effectively and efficiently.
- The skills of individual consultants improve the capability and team work of managers in client organisations.

However, quantifying this value is difficult: the nature and scope of consulting projects vary enormously and many do not yield benefits that can be easily or objectively measured. To overcome this difficulty, the MCA asked clients whether they judged the value added by the consultants to be more than their fees, around the same as their fees or a multiple of their fees.

Of the thirty people interviewed, only one said that the value had been less than the amount paid to the consultants. Four said the value had been around what they paid for. However, as previously discussed, these proportions may not wholly reflect the situation: because people do not like to discuss problems in public, those willing to be interviewed were likely to be disproportionately positive. This is where the survey of client satisfaction surveys comes in. Our hypothesis is that:

- The 1% of clients in 2008 who said they were unsatisfied with the work their consultants did are likely to be the people who would judge that the consultants cost more than the value they added.
- The 41% who described themselves as satisfied are those who would rate the value added as equivalent to the fees paid.
- The 58% who said they were very satisfied would see the value as a multiple of the fees paid.

When it came to the multiple of fee rates in that third category of clients, answers ranged from twice the fees to more than twenty times. Most were grouped around the mid-point of that range and the average was around **ten times the fees paid**, a figure which has been reinforced anecdotally in conversations with MCA member firms.

Between them MCA member firms earned £6.33 billion in fees in 2008. As the MCA's membership accounts for an estimated 70% of the UK consulting industry, this puts the size of the total industry at just over £9 billion. Using the satisfaction levels identified in Question 2 with the multiple identified in Question 3, suggests that the benefits of using consultants were equivalent in value to around £56bn to UK clients in 2008.

*Of the thirty people interviewed, only one said that the value had been less than the amount paid to the consultants*

*Consultancy value ranges from around twice up to twenty times the cost*

# Next steps

This is pioneering research which sheds light on the management consultancy industry and the value that it provides. It is the first step towards developing a comprehensive understanding of the contribution consultants make. Our findings already demonstrate the significant value management consultants are adding both to their clients and to the wider economy as a whole.

The priorities for the consulting industry must be to maintain its quality and professionalism, and to promote its credibility as an important player in the economy. These can only be achieved through clear and transparent communication of what it does, helping clients get the most out of their services, and tangibly demonstrating that it is serious about industry standards. The MCA and its Code of Practice have a key role to play in helping the industry to achieve these aims.

At the same time, clients and others need to be to discuss benefits as well as costs with consultants, and to be a demanding and intelligent customer from initial negotiation right through to project completion. The MCA hopes that the conceptual framework that was developed to help establish the value that consultants bring will be a useful tool for clients. It will help them understand and articulate their reasons for using management consultancy, and help set expectations about the outcomes that are being sought. The conceptual framework can be downloaded from [www.mca.org.uk/value-consulting](http://www.mca.org.uk/value-consulting)

Consulting is a two-way process and clients can utilise proven best practice to get the most out of their consultants:

1. Only use consultants where necessary, to supply skills and input which is not available internally.
2. Develop a clear business case for the use of consultants which provides qualitative and quantitative details of the expected benefits.
3. Ensure your own staff understand why the consultants have been brought in and the contribution they will make.
4. Involve your staff in the process, working side by side with the consultants, so that they acquire the skills to carry out similar work by themselves in the future.
5. Review the work completed by the consultants against the original business case.

For further information about the Value of Consulting project and the Management Consultancies Association and its members, visit [www.mca.org.uk](http://www.mca.org.uk)

*The focus for the consulting industry going forward must be to maintain the quality and professionalism that it brings, and to promote its credibility as an important player in the economy*

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