

Responsible Corporate Competitiveness



University of St.Gallen



European Consulting Survey 2012

The Future of European Management  
Consulting Firms' Business Models

Survey Report



# European Consulting Survey 2012

## The Future of European Management Consulting Firms' Business Models

### Survey Report

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This study report provides European management consulting firms' assessment of trends and currently prevailing business models in the industry. It depicts the different threats and opportunities that consulting firms with different business models, consulting foci, sizes, leverage ratios, international orientations, and geographical footprints face; it also reveals these firms' adaptation strategies. Based on an analysis of a survey of 311 consulting firms from 26 European countries, the report highlights the most interesting results. This includes general development patterns of the European consulting industry as well 15 specific key insights for a consulting firm's strategy and industry, alliances, professionals, clients and projects, and economics.

# Contents

<b>Welcome</b>	<b>4</b>
<b>Executive Summary</b>	<b>5</b>
<b>Study Method</b>	<b>9</b>
<b>Strategy and Industry</b>	<b>11</b>
Key Insights	11
Detailed Results	16
<b>Alliances</b>	<b>18</b>
Key Insights	18
Detailed Results	22
<b>Professionals</b>	<b>24</b>
Key Insights	24
Detailed Results	30
<b>Clients and Projects</b>	<b>33</b>
Key Insights	33
Detailed Results	37
<b>Economics</b>	<b>40</b>
Key Insights	40
Detailed Results	45
<b>Appendix: Business Model Classification</b>	<b>47</b>

# Welcome

What is the current state of the European management consulting industry? How will it develop in future? Which business models will prevail in the industry and which ones will be successful? These and other questions led us to perform a large-scale study on European consulting firms' business models. We wanted to gain deep insights into management firms' current and future challenges and therefore deliberately took a broad perspective, incorporating the most relevant dimensions of their business models.

More than 300 participating firms from across Europe as well as the feedback we received during this study clearly demonstrate the sheer importance of these questions for the industry. We are well aware that participating in such a research project is time-consuming, which we value, particularly in light of the pressure many consulting firms face at present. We would therefore like to express our sincere gratitude to the survey participants from the 311 consulting firms. Without their efforts, this study would not have been possible.

This report is part of a research project that we conducted jointly with two of our graduate students, Stephanie Sparber and Adrian Schärer, whom we thank for their excellent work with the survey. Further, we would like to thank the University of St.Gallen profile area Responsible Corporate Competiveness (RoCC) for providing us with the financial means to publish this report.

It is our hope that this report provides a comprehensive source of information on the current situation and future development of Europe's consulting industry, enabling management consultancies to benchmark their current business models on those of their peers.



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# Executive Summary

## Purpose

This report provides European management consulting firms' assessment of trends and currently prevailing business models in the industry. It depicts the different threats and opportunities that consulting firms with different business models, consulting foci, sizes, leverage ratios, international orientations, and geographical footprints face; it also reveals these firms' adaptation strategies. Consulting firms' renewal activities are categorized according to a business model's core dimensions: strategy and industry, professionals, clients and projects, and economics. We also report the findings on the rationale for and the success of alliance activity in the industry, a more recent phenomenon compared to other industries.

## Method

Building upon prior research and interviews with consultants and industry experts, we developed hypotheses and a comprehensive survey questionnaire. In the spring 2012, we approached 2,227 management consulting firms in almost all European countries. We received complete questionnaires from 311 firms from 26 countries (response rate 15%). The report provides quantitative analyses of all of the survey questions as well as an illustration and interpretation of the most interesting results.

## Findings

Overall, our results show that different business models prevail in the European management consulting industry, with important differences in all observed business model dimensions (strategy and industry, alliances, professionals, clients and projects, and economics) and especially their interplay. Three patterns that are further elaborated throughout the report are highly consistent across most of these different dimensions.

First, consulting firms are advised to account for the idiosyncrasies of their business model, adapt their strategy accordingly, and try to achieve a continuous consistency and fit among their business model's dimensions. Our study revealed that a consulting firm's business model is a complex activity system that must be actively managed. Renewal of one dimension often also requires change in other dimensions' activities.

Second, we consistently observed regional differences across the European consulting market. While it is most developed in the Nordic region – even more than in Western European countries – it is least developed in Central and Eastern Europe (CEE). This has important implications for a business model's suitability in a specific region. Particularly, various business model dimensions vary across regions, for example, the optimal client

and project mix, the management of the professionals, and the role of knowledge management.

Third, consulting firms that differ in size and internationalization often also differ in their business models and future outlooks. Smaller and/or local consulting firms still face different challenges, for example, regarding their client characteristics and supply of professionals, than their large and/or international peers. However, our survey suggests that small and/or local consultancies will further professionalize themselves and, thus, that the European consulting market will become more homogeneous and competitive in future.

In addition to these three general patterns, we derived 15 specific key insights for the following 5 dimensions of a consulting firm's business model:

### **Strategy and Industry**

European consulting firms are optimistic about their industry's future development, even though they expect their industry's attractiveness to deteriorate. To excel in this increasingly competitive setting, specialization is critical. To offer the best value for money to clients, most consulting firms build on solid industry and functional expertise. However, procedural and tool expertise are considered less relevant.

**Insight 1: The future looks bright, although competition will intensify**

**Insight 2: Specialization and service net value are key to success**

**Insight 3: Industry and functional expertise matter more than procedural and tool expertise**

### **Alliances**

Approximately every third respondent European consulting firm maintains one or several strategic alliances. The primary reasons for engaging in alliances are learning and additional business generation thanks to referrals, or geographical or service extensions. Those consultancies that maintain an alliance portfolio and select their partners deliberately benefit the most from their alliances: in addition to a convincing strategic rationale for joining forces, they choose partners based on complementary resources and cultural fit, and pay attention to an alliance's governance structure.

**Insight 4: Strategic alliances are increasingly important for generating business and for learning**

**Insight 5: Active alliance portfolio management pays off**

**Insight 6: Fit between alliance partners is a prerequisite for value creation**

### **Professionals**

Recruiting and retaining the best professionals – the key resource of any consulting firm – is already challenging today; it will become more challenging in future. The “war for talent” – in the past especially a war for the brightest university graduates – has reached the project manager and partner level. Increasingly often, consultancies deal with this development by using two measures that previously were less common: hiring partners from competitors and continuously training professionals, including those of the highest ranks; the latter points to the increasing importance of non-financial incentives in the industry.

**Insight 7: The war for talent is also a war for senior consultants and partners**

**Insight 8: Lateral hiring of partners has become a feasible approach to growth**

**Insight 9: Non-financial incentives will play a greater role in recruiting and retaining talent**

### **Clients and Projects**

Consulting firms stress quality – over cost and time – as the most relevant project characteristic for winning the increasingly competitive bids against competitors. At the same time, old boys’ networks seem to remain in place: both personal and alumni networks are key and support farming existing clients, a central strategy to address the increasing costs and success uncertainty associated with beauty contests.

**Insight 10: Quality dominates other consulting project features**

**Insight 11: Project acquisition will become even more challenging**

**Insight 12: Smart client relationship management is critical for follow-up projects**

## **Economics**

The continuous challenge for consulting firms – finding a balance between the needs and expectations of external clients and internal professionals – is an aggravating one. Ever-increasing client sophistication leads to a larger variety of pricing approaches, also within firms, which ideally also reflect the project characteristics and internal organizational needs. Consulting firms actively manage the utilization of professionals across ranks. However, the limited spread between the utilization of juniors and partners in some consulting firms is alarming.

**Insight 13: Balancing the needs of clients and professionals will become more difficult**

**Insight 14: The art of pricing means considering differences in projects and client demands**

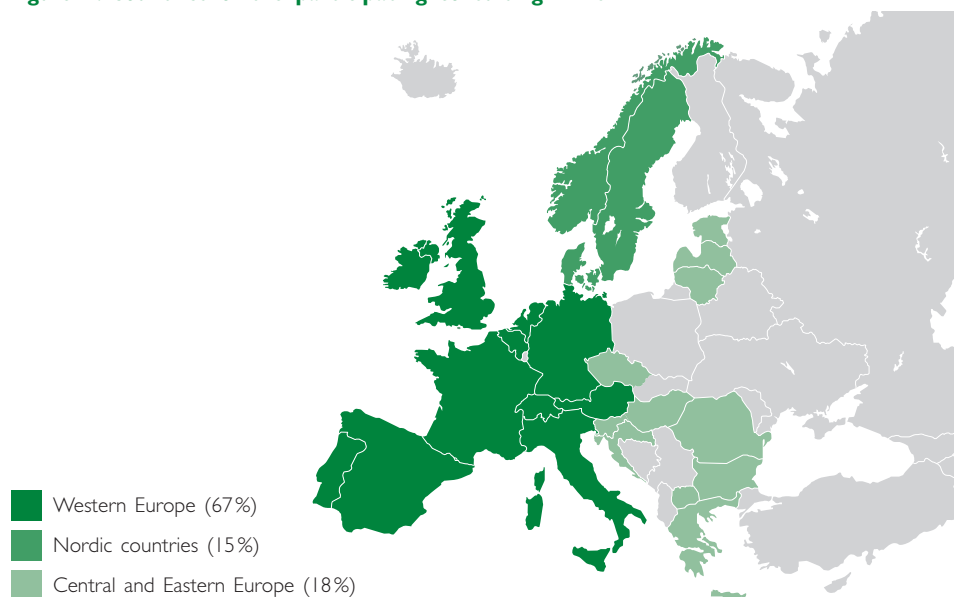
**Insight 15: The utilization of professionals across hierarchical levels must be actively managed**

## Study Method

This study is a survey of European management consulting firms. Building on prior research and interviews with consultants and industry experts, we developed hypotheses and a comprehensive questionnaire that cover the various dimensions of a consulting firm's business model. This included questions relating to a consulting firm's strategy and industry, alliances, professionals (human capital), knowledge management, clients and projects, economics, and general organizational characteristics. Overall, the survey sought to gain profound insights into how the European consulting industry will develop over the next few years, which business models will exist, and how firms will adjust them to the changing industry environment.

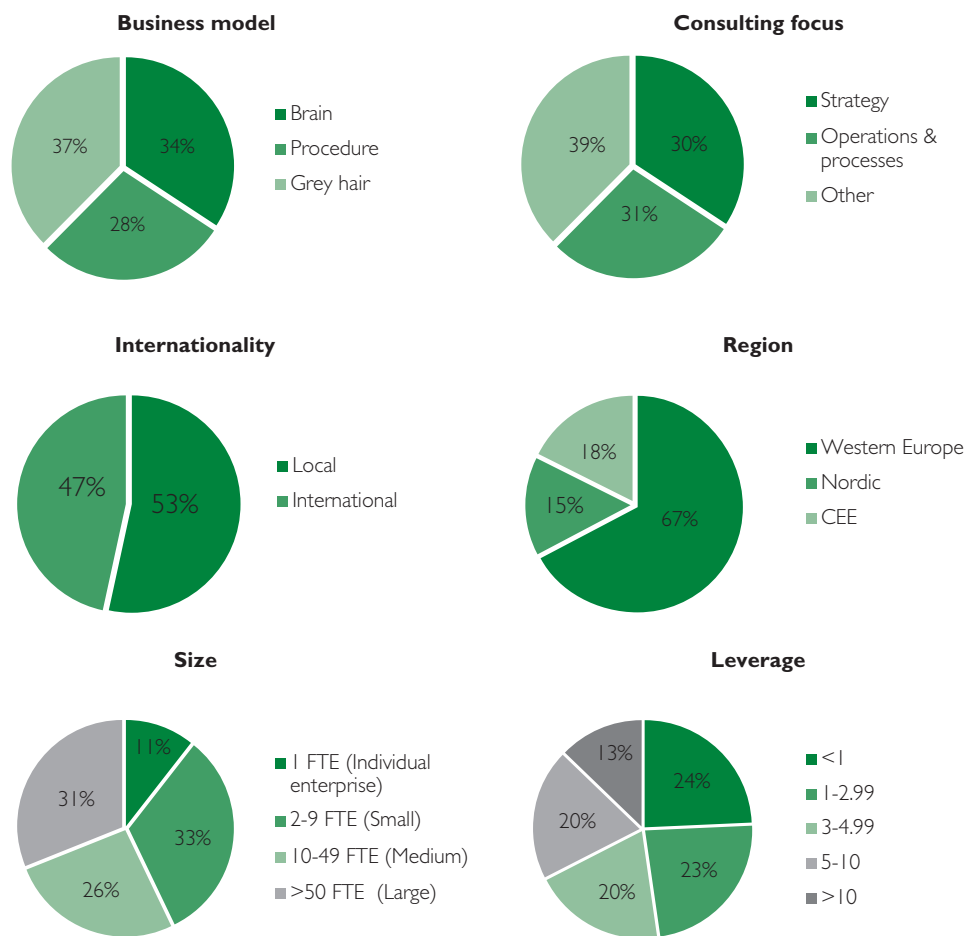
In the spring of 2012, we approached a large number of management consulting firms in European countries characterized by a minimum market maturity level, as indicated by the presence of professional consulting associations. Partially with support from the respective countries' professional consulting associations, we contacted their member firms' management (e.g. managing directors, partners, and CEOs). We approached 2,227 consulting firms and received complete questionnaires from 311 firms from 26 countries (response rate 15%). As illustrated in **Figure 1**, firms from almost all European countries participated in the study, with more than two-thirds of the firms headquartered in Western Europe (consulting firms located in Cyprus, Poland, Russia, and Turkey were not included owing to a lack of contact information).

**Figure 1: Countries of the participating consulting firms**



The data gathered from the survey was analyzed using a statistical software package. The report provides quantitative analyses of all of the survey questions as well as an illustration and interpretation of the most interesting results. We present the results for the overall sample of 311 consulting firms and the results for various sample subgroups. Specifically, to allow for meaningful comparisons across different consulting firms, we assigned the – very heterogeneous – consulting firms included in the sample to various analytical categories. As illustrated in **Figure 2**, we considered 6 categories for the analysis: business model (for a detailed description, see the Appendix), consulting focus, internationality (active in only one or active in more than one country), region, size (full time equivalents), and leverage (ratio of partners to project managers and junior consultants). The report highlights the most important (and statistically significant) differences between the various groups.

**Figure 2: Categories considered for the analysis**



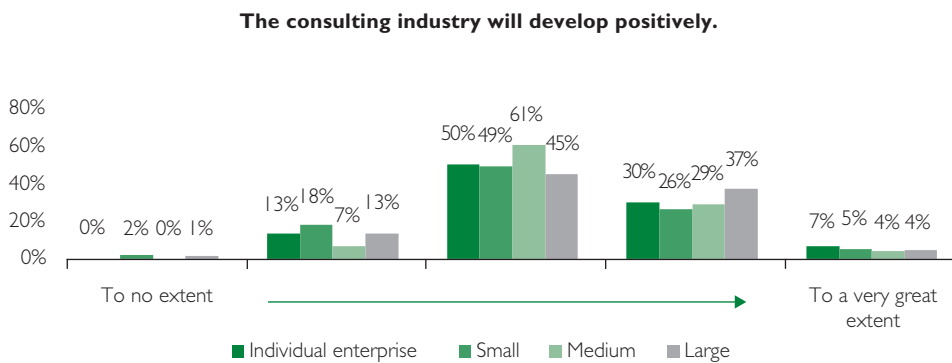
# Strategy and Industry

## Key Insights

### Insight 1: The future looks bright, although competition will intensify

Overall, the respondent European consulting firms are optimistic about the industry's development over the next three years. Of the 86% consulting firms that expect a positive development, 35% are highly optimistic. Only small consulting firms and especially those active only in one country are less optimistic: 20% and 17% respectively expect a negative market development (see **Figure 3**).

**Figure 3: Development of the consulting industry by company size (n = 309)**

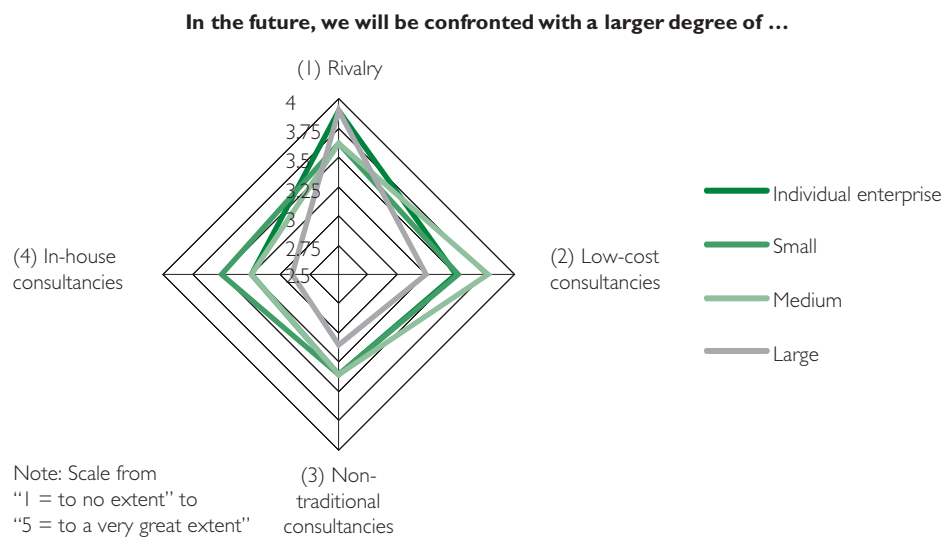


However, perceived industry attractiveness shows a different picture. In an increasingly competitive industry, gaining an advantage is a significant challenge for the future. Four threats to industry attractiveness appear relevant (see also **Figures 4 and 5**):

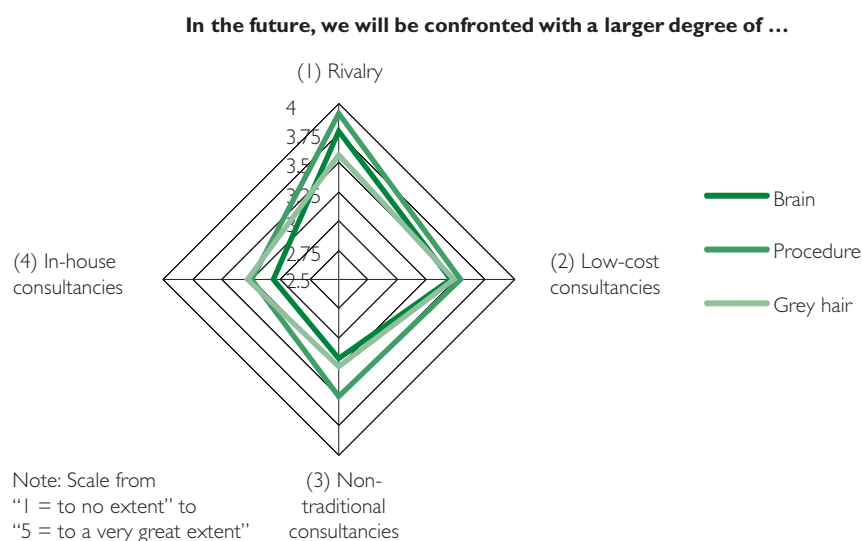
- (1) All respondent consulting firms expect stronger competition from incumbents within the next three years: 62% expect industry rivalry to grow significantly. Especially the leading large, international strategy consulting firms are acting in an increasingly competitive setting that threatens their current business model.
- (2) 80% of the consulting firms expect the number of low-cost consultancies to (further) increase, which poses a threat to their current margins. Only large, internationally operating strategy consultancies seem not to be affected by low-cost rivals, because the cost of their services plays a minor role in comparison to other consulting firms.

- (3) Finally, non-traditional competitors (e.g. auditors and lawyers) are likely to substitute consultancies that provide procedure projects (in contrast to brain projects). Providing customized, client-specific services in a very efficient way is at the heart of most auditing firms' business, and facilitated their diversification into management consulting services in recent years. However, their potential diversification into the more "upscale" brain consulting services is not yet perceived as a serious threat.
- (4) The threat of in-house consulting is generally of least concern. Only local and small consulting firms fear more competitive bids against clients' internal consulting firms in the future. These firms suspect that they cannot offer an advantage compared to the increasingly professionalized and experienced internal teams.

**Figure 4: Industry attractiveness by company size (n = 292)**



**Figure 5: Industry attractiveness by business model (n = 288)**



### Regional differences in industry attractiveness

Interestingly, there is some variety in perceived industry attractiveness between consulting firms from Western Europe, Nordic countries, and CEE countries. Overall, consultancies based in the Nordic countries are the most optimistic about the industry's development and attractiveness, while those in CEE countries are the least optimistic. CEE-based consulting firms especially fear increasing competition through newly developing and strengthening in-house consultancies in their client firms and non-traditional competitors such as auditors or lawyers diversifying into consulting services and their geographical expansion into the formerly less competitive markets. Those consulting firms that are from the CEE region and have internationalized their service portfolio face the toughest situation. Internationally, they are competing for projects and clients against their rivals from the still more mature Western European and Nordic markets.

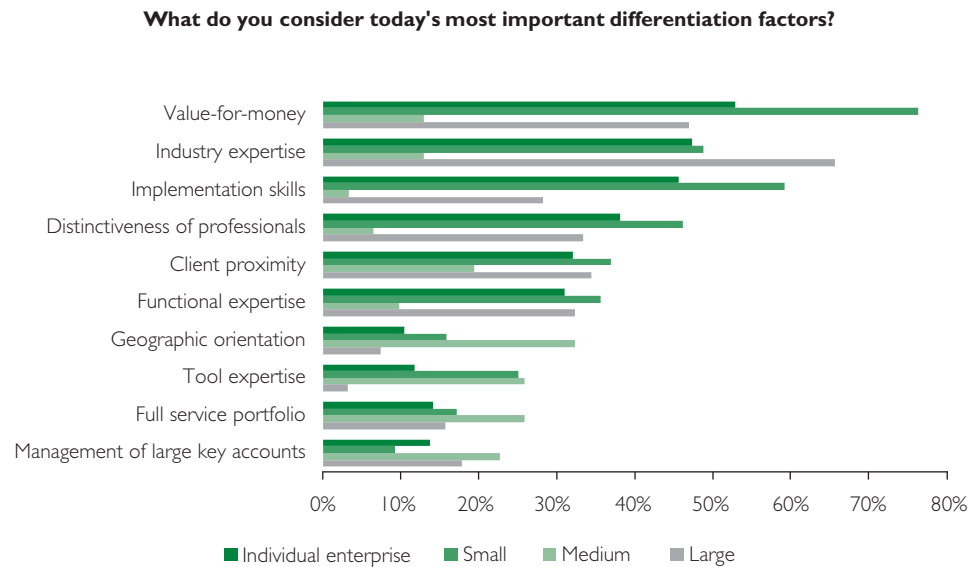
### Insight 2: Specialization and service net value are key to success

To excel in a more challenging industry environment, as characterized by intensified competition, a consulting firm's differentiation is paramount. Surprisingly, however, only half the respondents expect a higher degree of differentiation between consulting firms in the near future. In addition, while the top differentiating factors are not novel, their relative weighting is interesting. To excel in a more competitive environment, our respondents mentioned 6 key differentiating factors (for an overview on all differentiation factors, see **Figure 6**):

First, offering value for money is among the leading factors throughout all groups (with the exception of medium-sized firms). Second, industry expertise is extremely relevant, especially for large, international strategy consulting firms. Third, implementation skills are critical. Unsurprisingly, these skills are of utmost importance to operational consulting firms providing procedure-type services. They are also most relevant for medium-sized firms who seem to consider providing clients with support in the (time and resource) intense execution process as a key differentiation factor that enables them to compete against larger rivals in future. Fourth, the distinctiveness of professionals – in terms of their breadth and depth of education and experience – is relevant, especially for brain-type consulting firms. Firms using a brain business model are usually hired by clients because they employ the smartest professionals. Fifth, client proximity – least relevant for consulting firms with a grey hair business model – and, sixth, functional expertise are considered very important.

In sum, in addition to offering a high net value of projects, particularly the ability to provide highly specialized services that are tailored to a client's needs appears to matter most in order to differentiate from competitors and to acquire projects. It is therefore reasonable to expect that firms with a fairly focused service portfolio and highly specialized expertise will be the most successful players in the European consulting market.

**Figure 6: Top differentiation factors in the consulting industry by company size (n = 307)**



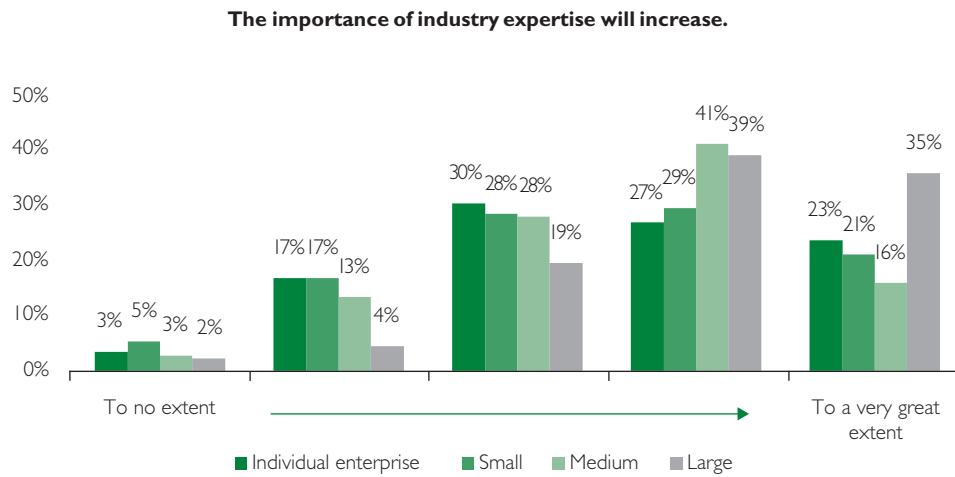
### **Insight 3: Industry and functional expertise matter more than procedural and tool expertise**

Complementing the previous insight, client-specific skills and expertise are particularly relevant. A comparison of four important expertise dimensions – industry, functional, procedural, and tool expertise – shows that industry and functional expertise will become much more important in the future than procedural and tool expertise. Across the different groups of consulting firms, industry and functional expertise are considered key capability-based differentiating factors, which supports their high ranking (as presented above).

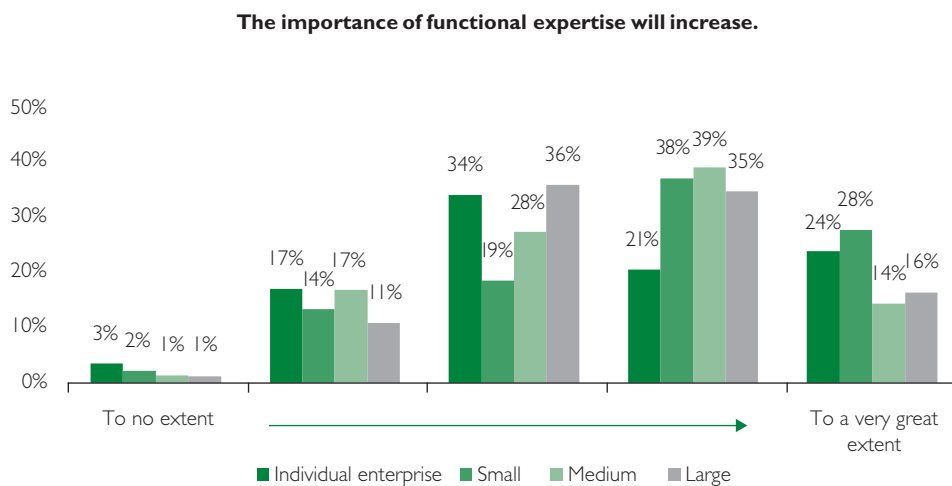
However, there are some differences across different consulting firms, particularly for firms that differ in the number of employees (see **Figures 7 to 10**). Industry expertise is most important for large Western European consulting firms with very high leverage. Further, functional expertise is – across firms in different groups – perceived as increasingly important to meet clients' demands in the near future.

The larger and more international the consultancies, the less important they consider procedural expertise. Especially process and operations consultancies are facing increasing client demands for even more extensive process capabilities. Overall, consulting firms do not consider tool expertise as very important. Clients have become much more professional regarding their management skills, resulting in less demand for tool expertise, which nowadays is sometimes even considered a commodity. This is especially the case for large strategy consulting firms in the Nordic region focusing on brain projects. Grey hair operational consulting firms – especially those active in CEE – see at least some relevance in tool expertise for their business.

**Figure 7: Industry expertise by company size (n = 295)**



**Figure 8: Functional expertise by company size (n = 292)**



**Figure 9: Procedural expertise by company size (n = 296)**

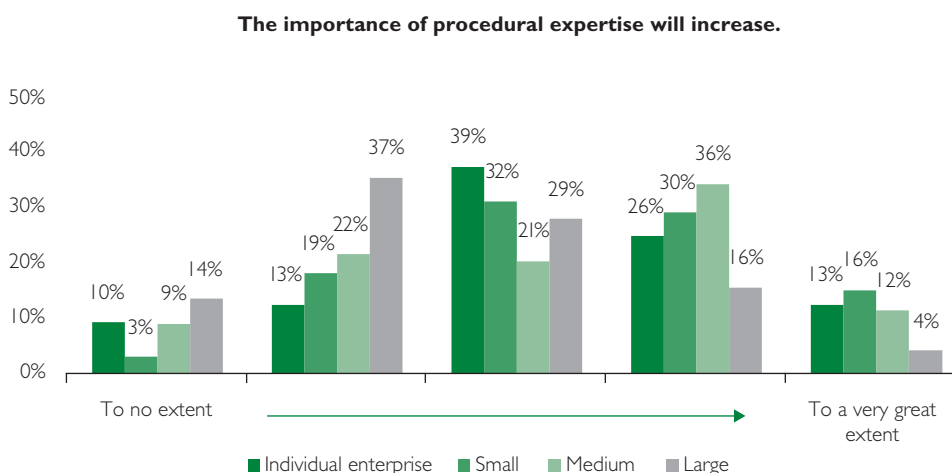
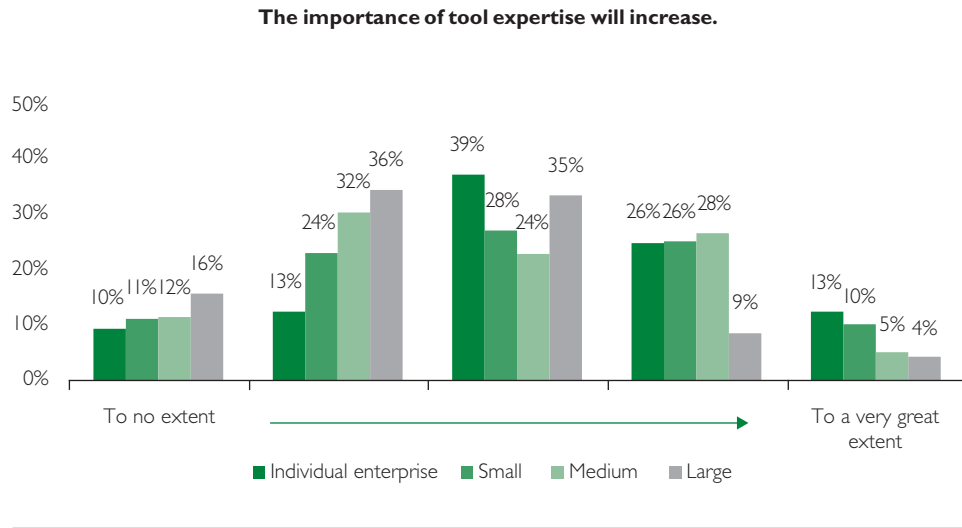


Figure 10: Tool expertise by company size (n = 293)



## Detailed Results

### Industry attractiveness – mean comparison

Grouping variable	Category	Factors influencing future industry competition									
		Positive industry outlook		Perceived rivalry		In-house consultancies		Low-cost consultancies		Non-traditional consultancies	
		mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.
<b>OVERALL</b>		3.26		3.72		3.19		3.44		3.25	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	3.25		3.80	G	3.12		3.40		3.17	p
	<b>Procedure (P)</b>	3.23		3.87	G	3.26		3.58		3.47	b
	<b>Grey hair (G)</b>	3.28		3.55	B;P	3.31		3.48		3.29	
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	3.24		3.88	P;O	3.19		3.33	o	3.26	
	<b>Process (P)</b>	3.31		3.68	S	3.20		3.44		3.23	
	<b>Other (O)</b>	3.24		3.61	S	3.17		3.53	s	3.25	
<b>INTERNATIONAL</b>	<b>Local (L)</b>	3.21	i	3.64	i	3.34	I	3.60	I	3.34	
	<b>International (I)</b>	3.34	I	3.79	I	3.04	L	3.34	L	3.24	
<b>REGION</b>	<b>W. Europe (W)</b>	3.25		3.76		3.17	n;C	3.45		3.18	C
	<b>Nordic (N)</b>	3.36		3.59		2.95	w;C	3.33		3.22	C
	<b>CEE (C)</b>	3.19		3.66		3.51	W;N	3.58		3.57	W;N
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	3.19		3.89		3.38	I	3.60		3.36	
	<b>2-9 FTE (S)</b>	3.19		3.66		3.45	L	3.52	I	3.35	
	<b>10-49 FTE (M)</b>	3.31		3.55	L	3.16		3.74	L	3.23	
	<b>&gt;=50 FTE (L)</b>	3.31		3.89	M	2.91	xs;S	3.18	S;M	3.10	
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	3.15		3.64		3.32		3.63		3.38	
	<b>1-2.99 (L)</b>	3.41		3.60		3.29		3.46		3.35	
	<b>3-4.99 (M)</b>	3.18		3.72		3.32		3.69		3.30	
	<b>5-10 (H)</b>	3.15		3.79		3.08		3.20		3.14	
	<b>&gt;10 (VH)</b>	3.36		3.73		2.91		3.56		3.26	

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent). Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level. FTE denotes full time equivalents.

## Importance of various types of expertise – mean comparison

Grouping variable	Category	Expected importance of							
		Industry expertise		Functional expertise		Procedural expertise		Tool expertise	
		mean	sig.	mean	sig.	mean	sig.	mean	sig.
<b>Ranking</b>			I		I		3		4
<b>OVERALL</b>		3.62		3.61		3.09		2.78	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	3.67		3.63		3.05		2.65	g
	<b>Procedure (P)</b>	3.41		3.61		3.16		2.70	
	<b>Grey hair (G)</b>	3.71		3.57		3.15		3.02	b
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	3.68		3.66		2.84	P	2.57	P
	<b>Process (P)</b>	3.66		3.60		3.31	S	3.02	S
	<b>Other (O)</b>	3.54		3.58		3.11		2.75	
<b>INTERNATIONAL</b>	<b>Local (L)</b>	3.56		3.56		3.31	I	2.96	I
	<b>International (I)</b>	3.71		3.64		2.85	L	2.59	L
<b>REGION</b>	<b>W. Europe (W)</b>	3.71	N	3.61		3.00	c	2.81	N
	<b>Nordic (N)</b>	3.16	W; c	3.48		3.23		2.29	W; C
	<b>CEE (C)</b>	3.63	n	3.68		3.36	w	3.11	N
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	3.50		3.45		3.19	I	2.69	
	<b>2-9 FTE (S)</b>	3.44	L	3.76		3.36	L	3.00	L
	<b>10-49 FTE (M)</b>	3.54	L	3.49		3.18	L	2.83	
	<b>&gt;=50 FTE (L)</b>	4.01	S; M	3.56		2.62	xs;S;M	2.51	S
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	3.51	VH	3.52		3.36	h	2.83	
	<b>1-2.99 (L)</b>	3.31	VH	3.61		3.34	h	2.90	
	<b>3-4.99 (M)</b>	3.63		3.62		3.06		3.00	
	<b>5-10 (H)</b>	3.56	vh	3.60		2.77	v;l	2.63	
	<b>&gt;10 (VH)</b>	4.21	VL;L;h	3.58		2.85		2.75	

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent). Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level.

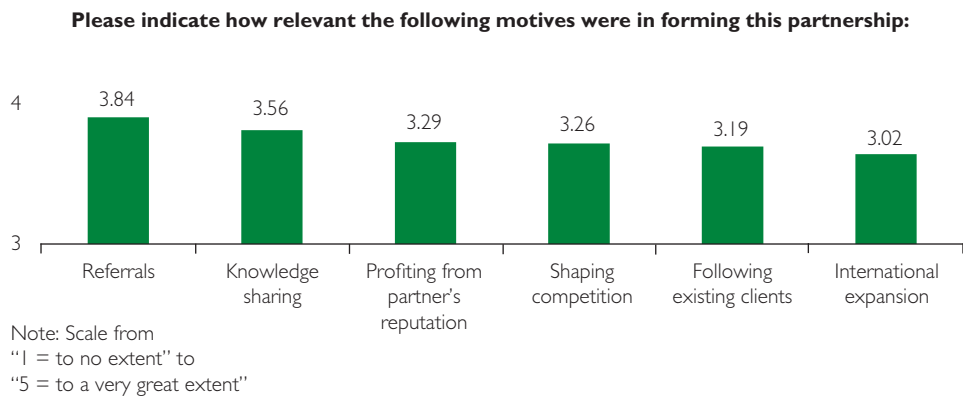
# Alliances

## Key Insights

### Insight 4: Strategic alliances are increasingly important for generating business and for learning

Four out of 10 consulting firms are currently collaborating with partner firms to achieve their strategic objectives. However, building on strategic alliances and networks is more common for small and mid-sized firms (almost 50% of the firms), compared to firms with more than 50 employees (approximately 25%). Consulting firms build on partners particularly because of the following 6 reasons (see **Figure 11**):

**Figure 11: Motives for alliance formation (n = 118)**



- (1) Referral of new clients through partners: This is especially important for grey hair consulting firms, because their business model builds on specialization – they sell their specific experience with a similar project type. For international grey hair consulting firms, referrals by local partners often represent the only effective way to generate a sufficient amount of business.
- (2) Learning from partners and all aspects related to knowledge transfer: While competence development through inter-organizational learning is a relatively common motive across all firms, it represents the most important motive for consultancies with a brain business model.
- (3) Profiting from partners' brand and reputation: Unsurprisingly, this is especially a key motive for small and mid-sized consulting firms. Also, firms from the CEE region expect positive reputational spillovers by allying with more established, often international partners.

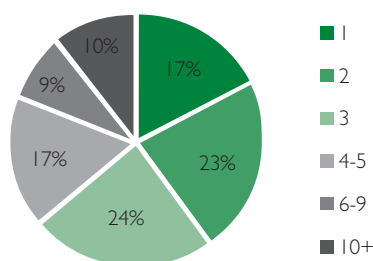
- (4) Actively shaping competition: Large und highly leveraged consulting firms that do not focus on strategy work attempt to use alliances as a means to shape competition. Regional differences also exist. While this represents a common motive in the Nordic region and in CEE, it is not relevant in Western Europe.
- (5) Following existing clients: Consistently mentioned as less important motive. Only small consultancies with 2 to 9 employees seem to more often attempt to use alliances to avoid losing their existing clients when they begin to internationalize.
- (6) Facilitating international expansion: Along with international consultancies, especially medium-sized consulting firms (10 to 49 employees), which in recent years have increasingly faced pressure to internationalize, build on strategic alliances to achieve these objectives.

**Insight 5: Active alliance portfolio management pays off**

The majority of consulting firms maintain a portfolio of individual alliances with separate partners (see **Figure 12**). Strategy consulting firms, for example, strongly build on the benefits of multiple collaborations – 62% of them have 4 or more strategic alliances in their portfolio. Most of the alliances assessed by respondents are also relatively enduring – 55% were already ongoing for four or more years (see **Figure 13**), which may indicate these alliances’ importance and performance. Firms with higher alliance experience (measured by the number of alliances maintained) outperform their peers. Alliances of firms with higher alliance experience levels are on average more successful; however, returns of an increasing number of alliances are diminishing. In addition, our statistical analysis reveals that consulting firms that build on alliance portfolios outperform their peers in achieving their strategic objectives and meeting their cost, time, and quality objectives.

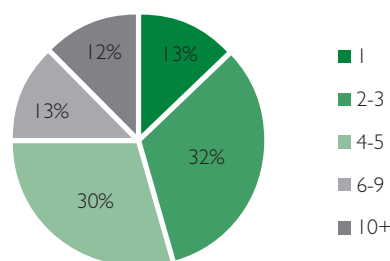
**Figure 12: Number of strategic alliances per firm (n = 105)**

How many strategic alliances do you sustain?



**Figure 13: Duration of strategic alliances (n = 115)**

For how many years have you been in an alliance with this partner?

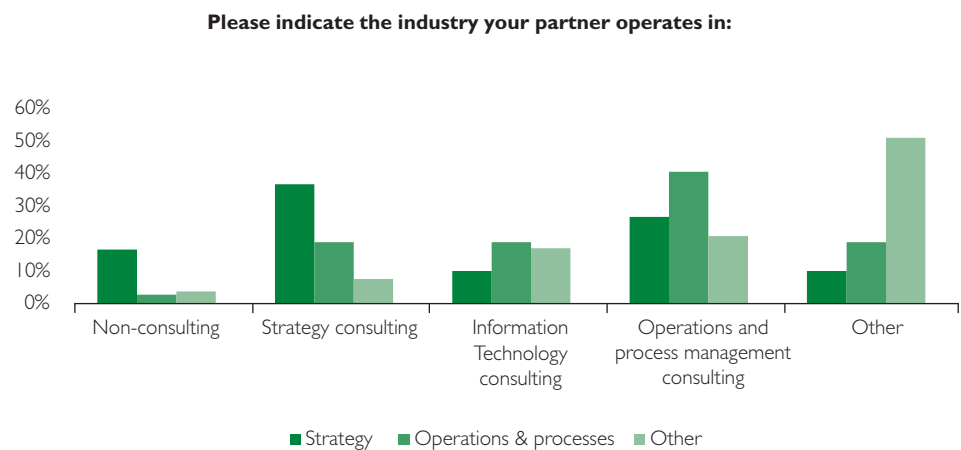


## Insight 6: Fit between alliance partners is a prerequisite for value creation

Selecting the right partner is critical for the success of an alliance. Thus, it seems reasonable that those consulting firms who do not find a fitting partner or who do not see added value in cooperation refrain from engaging in alliances. Our results show that finding a fitting partner is a question of fit in four dimensions:

- (1) Strategic fit: Strategic fit means compatibility between partners in terms of strategic vision and long-term goals, their views on the importance of quality and client orientation, as well as congruent organizational values, social norms, and management philosophies. The survey illustrates that consulting firms choose typically their partners from the same focus area, for example, strategy consulting firms predominantly collaborate with other strategy consulting firms (see **Figure 14**). This positively affects partner compatibility and their strategic fit. Hence, a solid strategic rationale is the primary condition for entering an alliance.

**Figure 14: Alliance partners' industries by consulting focus (n = 120)**



- (2) Dependence fit: Dependence fit involves partners' mutual dependence concerning achieving objectives, all partners contributing complementary know-how and skills to this partnership, and joint activities resulting in added value for clients and partners.
- (3) Cultural fit: Cultural fit integrates similar attitudes by partners towards risk, time (i.e. short-term versus long-term orientation), and change.

- (4) Structural fit (alliance design): Alliance design provisions represent an effective means of governance. Firms that design their alliance contracts in a way that both partners perceive to have a fair amount of control, with adequate provisions to overcome potential strategic conflicts, and similar exit provisions are more successful than those that do not.

Particularly the first three fit dimensions are important predictors of overall alliance success. Mutual dependence seems to be paramount, closely followed by strategic fit. Cultural fit also adds value. On average, alliances between firms that are similar in terms of their size tend to perform better than those that are not alike. Unsurprisingly, alliances with partners with a great reputation relative to their industry peers tend to perform better than firms that have been well acquainted with their partner prior to forming the alliance.

#### **Interplay between the different fit dimensions**

Alliance design is important to achieve the full potential of partners' strategic fit and dependence fit. First, the potential benefit of strategic fit can only be fully exploited when there is an adequate alliance structure. When no structural provisions are in place, alliances require high cultural fit levels to be successful. For alliances that have neither culturally compatible partners nor a suitable alliance design, strategic fit cannot improve alliance success. Thus, strategic fit should be complemented by at least one of the two dimensions cultural fit or structural/design fit. Interestingly, for firms high on strategic and structural fit, a high cultural fit does not add additional value. Cultural similarities seem to hamper stimulating discussions. Second, a similar pattern can be observed for dependence fit. If alliances are characterized by both low cultural fit and low structural fit, a high mutual dependence leads to the lowest alliance performance.

## Detailed Results

### Motives for alliance formation – mean comparison

Grouping variable	Category	Motives relevant for alliance formation											
		Facilitating international expansion		Learning, transferring knowledge		Referrals to new clients		Shaping competition		Following existing clients		Profiting from partners brand/reputation	
		mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.
<b>RANKING</b>		6		2		1		4		5		3	
<b>OVERALL</b>		3.02		3.56		3.84		3.26		3.19		3.29	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	3.03		3.72		3.63		p		3.15		3.32	
	<b>Procedure (P)</b>	2.79		3.43		3.96				3.39		3.30	
	<b>Grey hair (G)</b>	3.27		3.53		4.09		b		3.30		3.12	
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	2.97		3.67		3.65		o		2.97		3.23	
	<b>Process (P)</b>	2.84		3.68		3.81				3.17		3.24	
	<b>Other (O)</b>	3.17		3.42		3.98		s		3.49		3.13	
<b>INTERNATIONAL</b>	<b>Local (L)</b>	2.49		1		3.59		3.79		3.23		3.24	
	<b>International (I)</b>	3.71		L		3.50		3.92		3.28		3.13	
<b>REGION</b>	<b>W. Europe (W)</b>	3.06		3.46		3.78		n; c		3.09		3.22	
	<b>Nordic (N)</b>	3.14		3.93		4.07		w		3.77		3.08	
	<b>CEE (C)</b>	2.79		3.72		3.95		w		3.63		3.11	
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	2.31		m		3.85		3.23		3.15		2.46	
	<b>2-9 FTE (S)</b>	2.51		M		3.68		3.93		3.12		3.35	
	<b>10-49 FTE (M)</b>	3.59		xs;S		3.50		4.03		3.24		3.21	
	<b>&gt;=50 FTE (L)</b>	3.17				3.00		3.57		3.57		3.23	
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	2.52		M		3.74		3.77		3.23		3.13	
	<b>1-2.99 (L)</b>	3.25				3.74		4.00		3.11		3.29	
	<b>3-4.99 (M)</b>	3.90		VL		3.95		h		3.90		3.40	
	<b>5-10 (H)</b>	2.64				2.86		m		3.71		2.79	
	<b>&gt;10 (VH)</b>	3.25				3.08		3.83		3.83		3.73	

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent). Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level.

## Alliance partner fit dimensions – mean comparison

Grouping variable	Category	Fit between alliance partners							
		Strategic fit		Dependence fit		Cultural fit		Structural fit (alliance design)	
		mean	sig.	mean	sig.	mean	sig.	mean	sig.
<b>OVERALL</b>		3.94		3.69		3.46		3.24	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	3.96		3.67		3.50		3.22	
	<b>Procedure (P)</b>	4.12		3.82		3.58		3.23	
	<b>Grey hair (G)</b>	3.87		3.73		3.50		3.37	
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	3.97		3.77		3.60		3.26	
	<b>Process (P)</b>	3.86		3.70		3.48		3.22	
	<b>Other (O)</b>	3.98		3.64		3.37		3.25	
<b>INTERNATIONAL</b>	<b>Local (L)</b>	4.00		3.71		3.55		3.41	I
	<b>International (I)</b>	3.91		3.69		3.46		3.05	L
<b>REGION</b>	<b>W. Europe (W)</b>	3.99		3.68		3.48		3.21	
	<b>Nordic (N)</b>	3.97		3.60		3.45		3.05	
	<b>CEE (C)</b>	3.68		3.83		3.49		3.56	
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	4.06		3.68		3.54		3.62	
	<b>2-9 FTE (S)</b>	4.00		3.85		3.58		3.36	
	<b>10-49 FTE (M)</b>	3.96		3.65		3.49		3.13	
	<b>&gt;=50 FTE (L)</b>	3.82		3.49		3.19		3.12	
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	4.17	H	3.72		3.72	VH	3.21	
	<b>1-2.99 (L)</b>	4.01		3.79		3.64	vh	3.34	
	<b>3-4.99 (M)</b>	3.99		3.74		3.51		3.37	
	<b>5-10 (H)</b>	3.43	VL	3.57		3.31		2.77	
	<b>&gt;10 (VH)</b>	3.77		3.63		2.94	VL;l	3.31	

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent). Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level.

# Professionals

## Key Insights

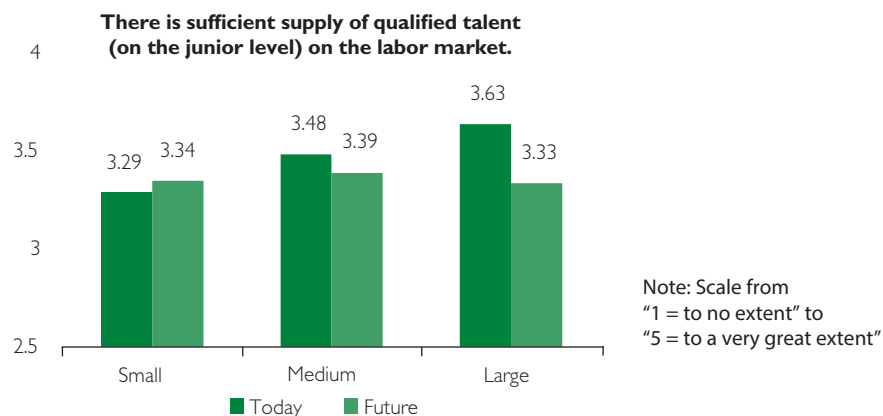
### Insight 7: The war for talent is also a war for senior consultants and partners

Along with the increasing industry rivalry and tougher competition for attractive client projects, the competition for the key resource of any consulting firm – the professionals – is increasing. Distinguishing between three ranks of professionals employed in consulting firms – junior consultants, senior consultants/project managers, and partners – the study suggests that there is currently an insufficient supply of senior consultants and partners. However, the expected decreasing supply in junior consultants is particularly notable in medium-sized and large firms (see Figures 15 to 17).

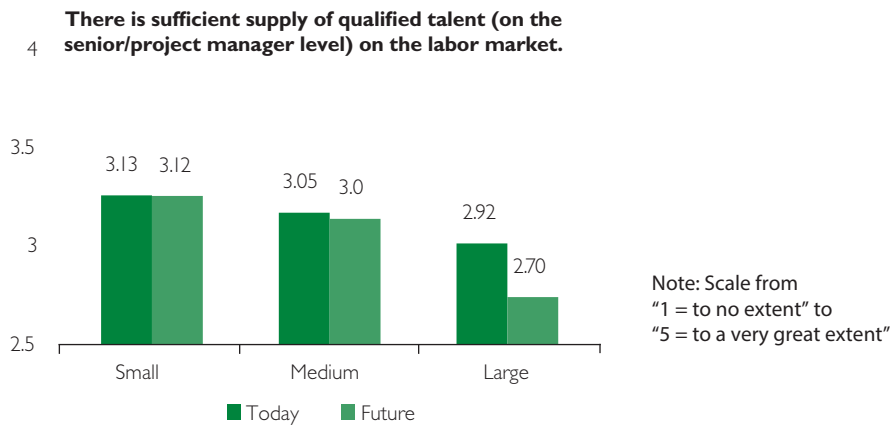
There is at present a sufficient supply of junior consultants. Especially large and international consulting firms currently do not have problems in recruiting well-trained junior consultants or university graduates – a potential indicator of these firms' attractiveness. However, large European consulting firms expect a steep drop in available junior talent over the next three years, which may be due to industry growth and the demographic change of fewer university graduates, especially in Nordic countries and Western Europe.

The market for well-trained project managers and other senior professionals is already tighter. Predominantly international consulting firms face problems in recruiting adequate senior-level professionals. This problem, which is expected to increase in the future, poses a threat, particularly for the large and highly leveraged consulting firms. Partner-level professionals are currently the scarcest resource, especially in the Nordic region. However, the good news is that the respondent European consulting firms do not expect the market for partners to worsen in the future.

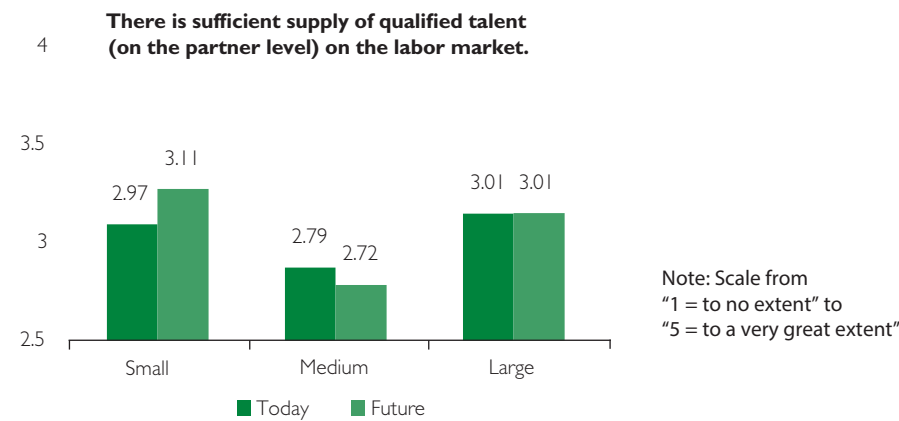
**Figure 15: Supply of junior-level professionals today and in the future by company size (n = 244)**



**Figure 16: Supply of professionals of senior or project manager level today and in the future by company size (n = 242)**



**Figure 17: Supply of partner-level professionals today and in the future by company size (n = 240)**



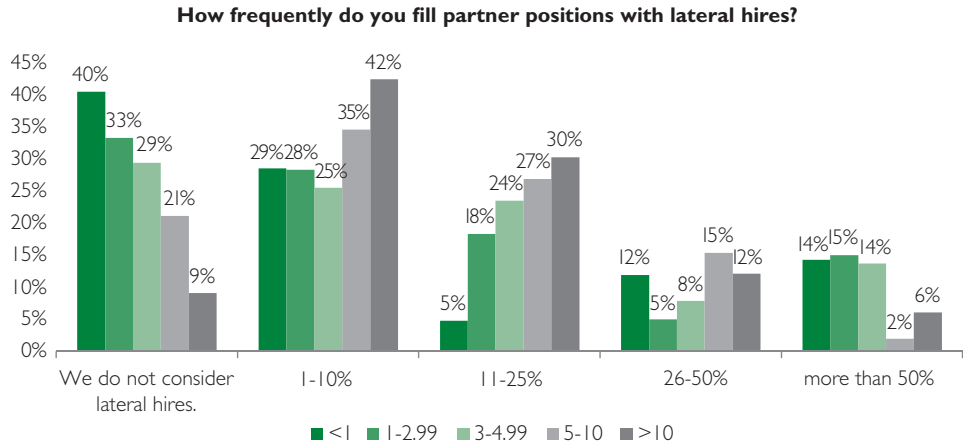
### Insight 8: Lateral hiring of partners has become a feasible approach to growth

The need for partners in a growing market and the lack of supply has not only intensified the competition for partner-level consultants in general, but has particularly led to an increase in recruiting them from outside the firm. Indeed, lateral partner hires have become a common recruiting strategy for the respondent European consulting firms (see **Figure 18**). While in the past, the vast majority of consulting firms explicitly did not consider hiring partners from their competitors, today only 26% of all respondents would never consider lateral hiring of partners. Among these are especially strategy consulting firms, which fear the dilution of their firm's culture and brand image, as perceived by the clients.

There are some differences in recruiting behavior across firms. 40% of the consulting firms with a very low leverage (below 1) would never consider lateral hiring, whereas only 21% of the firms with a fairly high leverage (above 5) would exclude this measure. Hence, the higher the

leverage in the organization, the more common the lateral hiring. It is important to note that although lateral hires have become more common, only 10% of the consultancies fill more than 50% of their partner positions with lateral hires, and only 11% fill between 26% and 50% of them. Thus, firms seem to care about their culture when filling open partner positions. There are also significant differences across countries. For example, while 32% of German consulting firms would never consider lateral hiring, only 17% of the Swiss firms exclude this alternative.

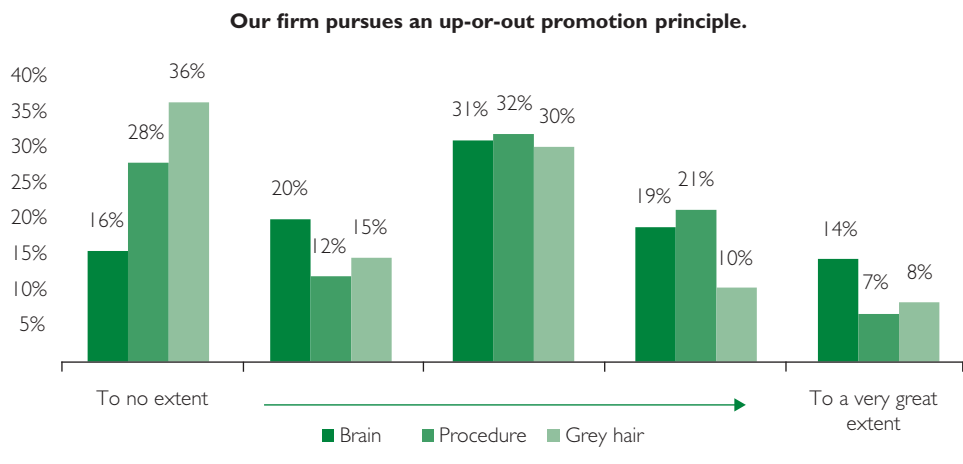
**Figure 18: Lateral partner hires by leverage (n = 238)**



**Promotion system and “time-to-partner”**

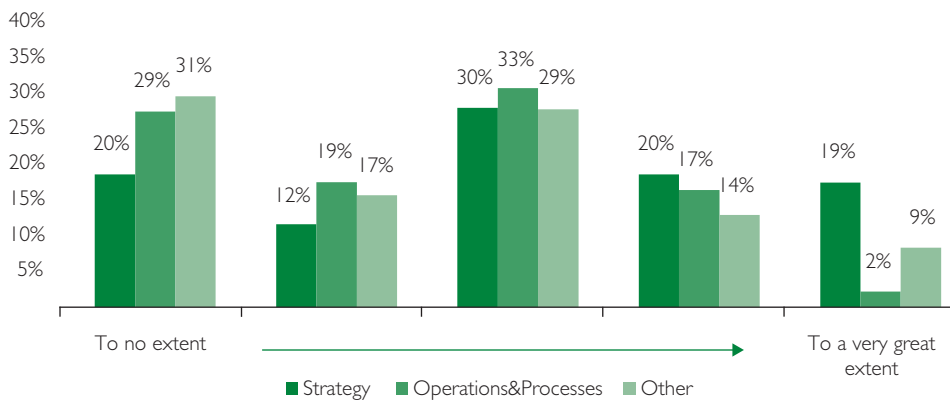
Overall, only 10% of the respondent European consulting firms pursue a pure “up-or-out” promotion system. Another 47% pursue it to some extent. Brain consulting firms follow an up-or-out promotion principle more often, as do strategy consulting firms (see **Figures 19 and 20**). It is also more common in CEE countries, compared to Western Europe and the Nordic region, and in Switzerland compared to Germany. It is also interesting to note that firms on average tend to apply a more strict up-or-out policy the larger, the more international, and the higher leveraged they are.

**Figure 19: Up-or-out principle by business model (n = 238)**



**Figure 20: Up-or-out principle by consulting focus (n = 269)**

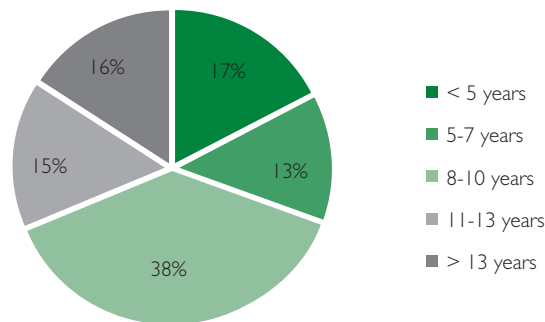
**Our firm pursues an up-or-out promotion principle.**



In 38% of the firms, it takes between 8 and 10 years to become a partner (not distinguishing between different partner levels) (see Figure 21). Promotion plans are more consistent and predefined in larger international consulting firms – in 53% of these firms, it takes 8 to 10 years to become a partner, while there is a greater variety in time-to-partner across smaller firms. The time required to become a partner does not differ across the consultancy’s focus area or the region in which it operates. Unsurprisingly, the lower the leverage, the more time it takes to move up the ranks to partner level: in 39% of the consultancies with a leverage of below 1, it takes more than 13 years. 48% of the respondent European consulting firms think that time-to-partner will not increase in future, and only 17% consider this a very likely development.

**Figure 21: Time-to-partner in years (n = 259)**

**How many years does it take on average to become partner at your firm?**

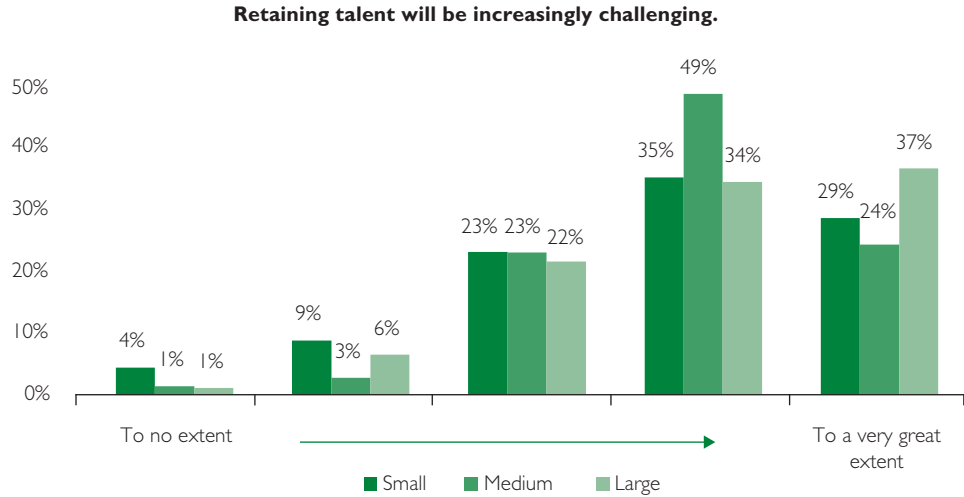


**Insight 9: Non-financial incentives will play a greater role in recruiting and retaining talent**

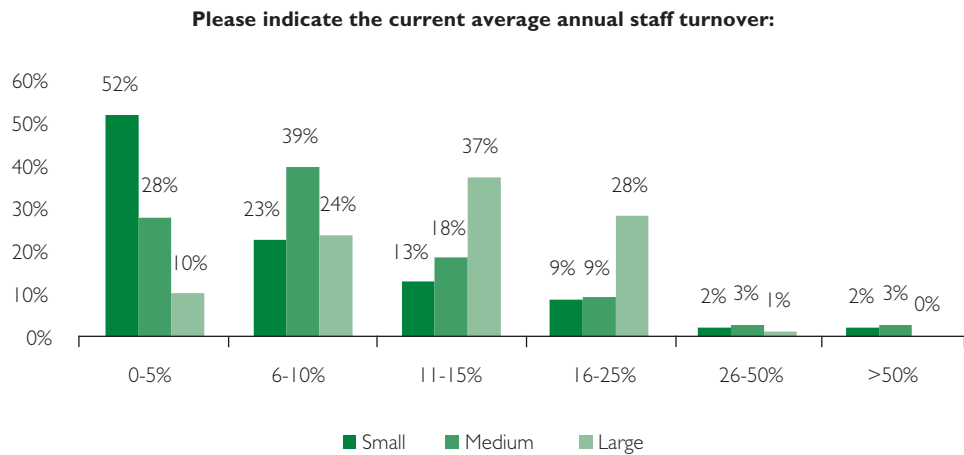
Because recruiting is generally challenging and costly, retaining the best talent has become increasingly important for consulting firms over the past few years. Unfortunately, 93% of all consulting firms face increasing challenges to retain their best professionals (across all hierarchical levels). Retaining talent is particularly challenging for larger, international consultancies (see Figure 22). At the same time, however, annual staff turnover is relatively low: 81% of the respondent European consulting firms

report an annual staff turnover below 15%, 15% between 16% and 25%, and only 3% above 25%. Unsurprisingly, annual staff turnover is positively related to company size and internationalization, since university graduates recruited for these firms often plan to stay with the firm for a period of only two to three years (see **Figures 23** and **24**).

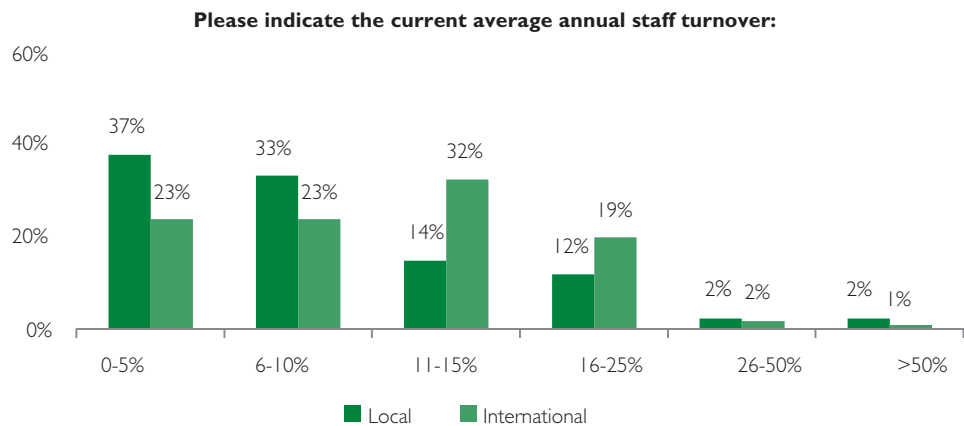
**Figure 22: Challenge to retain talent by company size (n = 258)**



**Figure 23: Average annual staff turnover by company size (n = 258)**

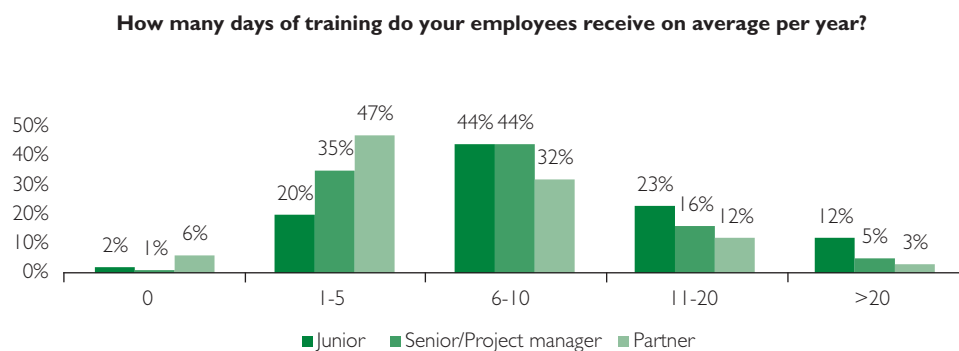


**Figure 24: Average annual staff turnover by internationality (n = 267)**



To retain their professionals and motivate them to excel, non-financial incentives, especially training, become more important: 60% of respondents stress the significant increase in the importance of non-financial incentives, a trend especially observed in large and strategy consulting firms. Here, on-the-job training and coaching/mentoring are the most frequent forms of training. While the number of training days per year is the highest among junior ranks, a common trend is that training also plays an important role in the firms' highest ranks. **Figure 25** provides an overview on training in days per year at the junior, senior, and partner levels.

**Figure 25: Training days per year and per hierarchical level (n = 261)**

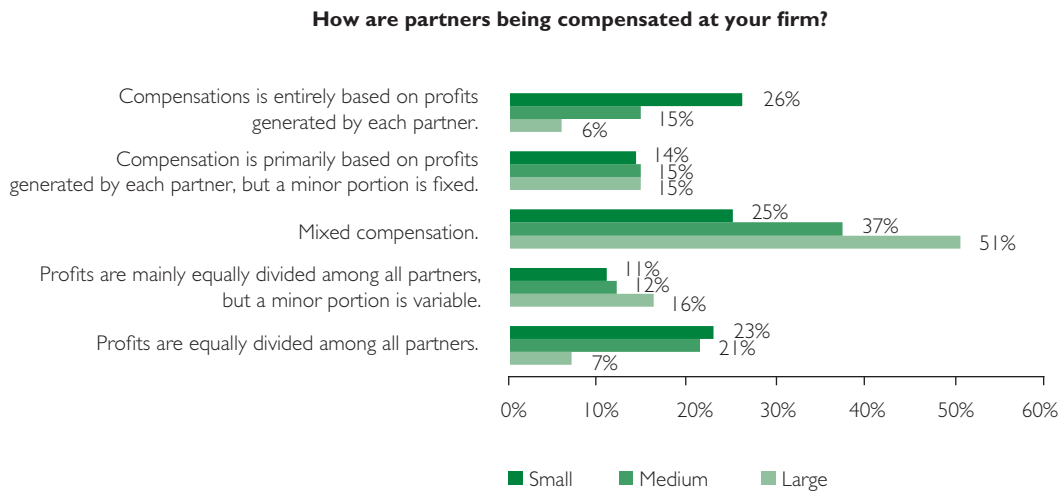


### Partner compensation

A consulting firm's partner compensation system typically affects professionals' behavior. Broadly speaking, two extreme systems can be distinguished: the "eat-what-you-kill" system and "lock-step" system. These two systems have different consequences, for example, for partners' incentives to share their knowledge with partner colleagues. In 32% of the surveyed European consulting firms, partners are fully or mainly compensated through a lock-step system. Here, profits are equally divided among partners, irrespective of the individual partner's profit contribution. In contrast, in 31% of the surveyed consultancies, partners are compensated through an eat-what-you-kill system, where the individual compensation is based on the individual profit generated by a partner. 36% of the consultancies, however, use a mixed compensation approach that combines elements of both systems.

While smaller firms tend to opt for one of the two pure compensation systems, 51% of all large firms employing more than 50 employees, as well as international firms, use a mixed approach (see **Figure 26**). Further, the lower the leverage (i.e. the more active partners are working on client engagements), the more these partners benefit from their own client accounts. 38% of the consultancies with a leverage of below 1 have a pure eat-what-you-kill system in place, in contrast to only 15% of the firms with a leverage of between 1 and 4, and 10% of the firms with a leverage of above 4. The application of the compensation systems does not differ across consulting foci or regions.

**Figure 26: Partner compensation by company size (n = 208)**



## Detailed Results

### Supply of professionals – mean comparison

Grouping variable	Category	Current and future supply of professionals on different hierarchical levels											
		Junior		Senior/Project manager				Partner					
		Today		Future		Today		Future		Today		Future	
		mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.
<b>OVERALL</b>		3.46		3.33		3.07		2.98		2.95		2.97	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	3.44		3.32		3.14		2.93		3.08		2.97	
	<b>Procedure (P)</b>	3.42		3.41		3.02		3.03		2.78		2.87	
	<b>Grey hair (G)</b>	3.47		3.21		3.02		2.97		2.93		2.97	
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	3.52		3.41		3.05		2.96		2.91		2.86	
	<b>Process (P)</b>	3.38		3.33		3.06		3.01		2.95		3.06	
	<b>Other (O)</b>	3.47		3.26		3.08		2.98		2.98		2.99	
<b>INTERNATIONAL</b>	<b>Local (L)</b>	3.32	I	3.33		3.15	i	3.15	I	2.95		3.03	
	<b>International (I)</b>	3.61	L	3.33		2.96	I	2.78	L	2.94		2.88	
<b>REGION</b>	<b>W. Europe (W)</b>	3.47	n;C	3.25		3.10		2.93		3.06	N	3.01	
	<b>Nordic (N)</b>	3.85	w;C	3.65		3.07		3.03		2.51	W	2.64	
	<b>CEE (C)</b>	3.09	W;N	3.37		2.98		3.22		2.87		3.08	
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	3.52		3.23		3.31		3.07		3.03		2.81	
	<b>2-9 FTE (S)</b>	3.29	I	3.34		3.13		3.12	I	2.97		3.11	
	<b>10-49 FTE (M)</b>	3.48		3.39		3.05		3.03		2.79		2.72	
	<b>&gt;=50 FTE (L)</b>	3.66	s	3.36		2.95		2.72	s	3.01		3.01	
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	3.42		3.32		3.13		2.93		2.84		2.67	
	<b>1-2.99 (L)</b>	3.30		3.33		3.28		3.28	VH	2.92		3.03	
	<b>3-4.99 (M)</b>	3.38		3.16		2.98		3.04		2.90		2.92	
	<b>5-10 (H)</b>	3.69		3.58		2.96		2.98		3.00		3.14	
	<b>&gt;10 (VH)</b>	3.45		3.10		2.85		2.45	L	2.64		2.70	

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent). Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level.

## Training and promotion – mean comparison

Grouping variable	Category	Training days per hierarchical level						Up-or-out promotion		Demand for non-equity positions	
		Junior		Senior		Partner		mean	sig.	mean	sig.
		mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.
<b>OVERALL</b>		3.21		2.87		2.58		2.66		2.78	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	3.48	p;G	3.11	P;G	2.71		2.92	G	2.98	
	<b>Procedure (P)</b>	3.12	b	2.71	B	2.51		2.69		2.71	
	<b>Grey hair (G)</b>	3.05	B	2.78	B	2.53		2.40	B	2.72	
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	3.31		2.88		2.46		3.05	P;O	2.81	
	<b>Process (P)</b>	3.03		2.80		2.69		2.46	S	2.80	
	<b>Other (O)</b>	3.28		2.92		2.59		2.50	S	2.75	
<b>INTERNATIONAL</b>	<b>Local (L)</b>	3.13		2.89		2.69	I	2.63		2.68	i
	<b>International (I)</b>	3.29		2.84		2.46	L	2.69		2.89	I
<b>REGION</b>	<b>W. Europe (W)</b>	3.21		2.81	C	2.44	N;C	2.49	n;c	2.79	
	<b>Nordic (N)</b>	3.09		2.85		2.91	W	3.00	w	2.81	
	<b>CEE (C)</b>	3.29		3.15	W	2.89	W	2.96	w	2.76	
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	n.a.		n.a.		n.a.		n.a.		n.a.	
	<b>2-9 FTE (S)</b>	3.12		2.85		2.74	L	2.73		2.49	M;L
	<b>10-49 FTE (M)</b>	3.08	I	2.88		2.60		2.45		2.97	S
	<b>&gt;=50 FTE (L)</b>	3.40	m	2.88		2.40	S	2.76		2.91	S
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	2.70	L;h;VH	2.76		2.76		2.58		2.17	I;M;H;VH
	<b>1-2.99 (L)</b>	3.37	VL	3.05		2.81		2.73		2.74	vl
	<b>3-4.99 (M)</b>	3.06		2.63		2.40		2.46		3.06	VL
	<b>5-10 (H)</b>	3.28	vl	2.98		2.60		2.63		3.08	VL
	<b>&gt;10 (VH)</b>	3.42	VL	2.97		2.45		2.73		2.91	VL

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent), except for questions about number of training days, where the following scale applies: 1 = 0 days; 2 = 1-5 days; 3 = 6-10 days; 4 = 11-20 days; 5 = >20 days. Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level.

Because these questions do not apply to 1 FTE consulting firms, we excluded this group from the analysis.

## Promotion, remuneration, and retention – mean comparison

Grouping variable	Category	Future developments with regards to promotion, remuneration, and retention							
		Increasing number of years to partner		Increasing importance of non-financial incentives		Increasing challenge in retaining talent		Increasing importance of maintaining active alumni network	
		mean	sig.	mean	sig.	mean	sig.	mean	sig.
<b>OVERALL</b>		2.43		3.70		3.88		3.67	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	2.56		3.71		3.87		3.59	
	<b>Procedure (P)</b>	2.35		3.82		4.04		3.83	
	<b>Grey Hair (G)</b>	2.39		3.62		3.74		3.59	
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	2.42		3.82		3.91		3.78	
	<b>Process (P)</b>	2.51		3.68		3.81		3.60	
	<b>Other (O)</b>	2.37		3.62		3.91		3.63	
<b>INTERNATIONAL</b>	<b>Local (L)</b>	2.38		3.64		3.86		3.56	i
	<b>International (I)</b>	2.48		3.76		3.90		3.77	I
<b>REGION</b>	<b>W. Europe (W)</b>	2.48	N	3.69		3.98	N	3.75	N
	<b>Nordic (N)</b>	1.74	W;C	3.69		3.37	W;c	3.21	W
	<b>CEE (C)</b>	2.75	N	3.71		3.84	n	3.62	
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	n.a.		n.a.		n.a.		n.a.	
	<b>2-9 FTE (S)</b>	2.52		3.63		3.75		3.50	L
	<b>10-49 FTE (M)</b>	2.20		3.64		3.92		3.56	I
	<b>&gt;=50 FTE (L)</b>	2.53		3.82		3.98		3.92	S;m
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	2.35		3.63		3.78		3.46	
	<b>1-2.99 (L)</b>	2.22		3.67		3.73		3.58	
	<b>3-4.99 (M)</b>	2.47		3.60		4.11		3.66	
	<b>5-10 (H)</b>	2.54		3.73		3.79		3.75	
	<b>&gt;10 (VH)</b>	2.82		3.85		3.94		3.91	

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent). Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level.

Because these questions do not apply to 1 FTE consulting firms, we excluded this group from the analysis.

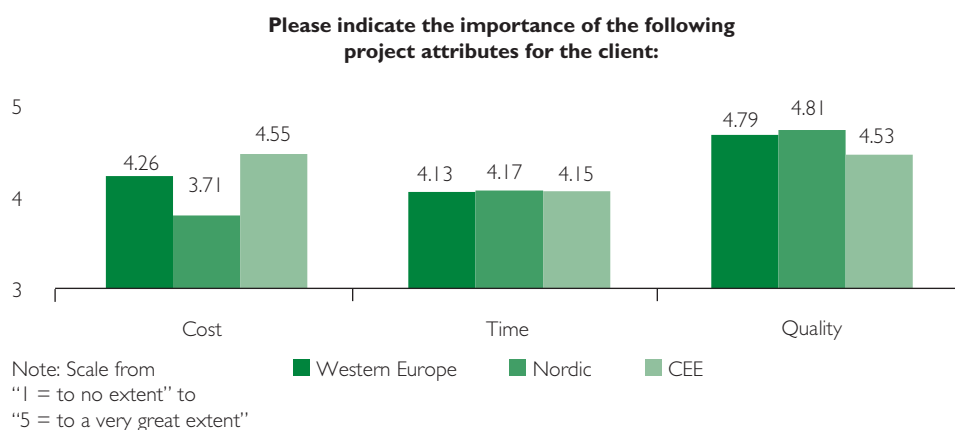
# Clients and Projects

## Key Insights

### Insight 10: Quality dominates other consulting project features

Quality is considered the most important project characteristic, followed by costs and time. This indicates that consulting firms perceive the quality of the projects they deliver as one of the most critical factors to meet client demands and differentiate themselves from competitors. Unsurprisingly, there are some differences in the importance of the three project attributes across consulting firms. On the one hand, costs are considered particularly important by consulting firms in CEE, compared to those in Western Europe and particularly those in Nordic countries (see **Figure 27**). On the other hand, quality is more critical for firms in Western Europe and in the Nordic countries than in CEE. Again, these results point to the different stages of development in the European consulting sector.

**Figure 27: Importance of project attributes for clients by region (n = 300)**



### Insight 11: Project acquisition will become even more challenging

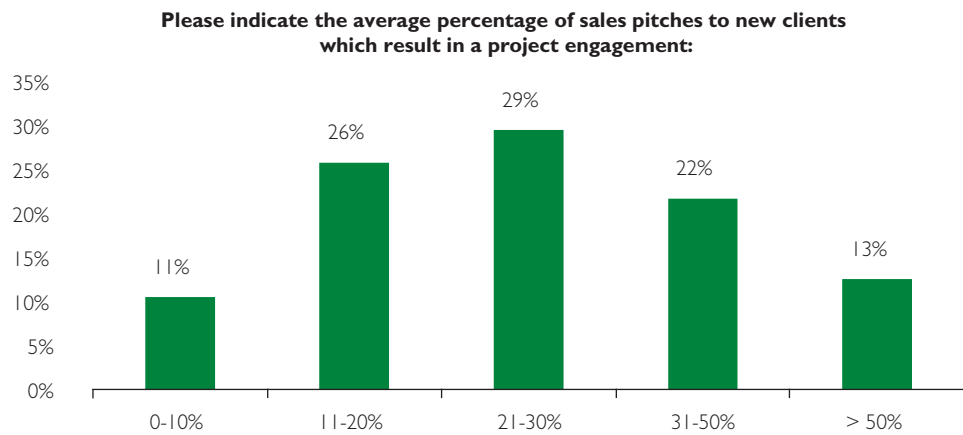
For more than two-thirds of the consulting firms, only one-third of sales pitches to new clients results in a project engagement (see **Figure 28**). Since the majority of the study's participants expect future project acquisition to be increasingly challenging, the success rate is expected to worsen further. Also attributable to the generally increasing competition in the industry, three factors indicate that the growing client sophistication is a potential explanation for this development:

- (1) 60% of the surveyed European consulting firms agree, at least to a great extent, that clients will increasingly demand support from consulting firms for the implementation of the recommendations they provide. Hence, in future, the successful project proposal will go well

beyond the traditional project contents, to include implementation considerations.

- (2) More than 50% of the surveyed consultancies find that clients' purchasing departments will become increasingly powerful. Particularly large, international consulting firms with highly leveraged projects that are offering their services to large multinational corporations are faced with stronger purchasing departments. These departments have started coordinating consultant engagements across business divisions and geographical units, thereby enhancing efficiency and transparency.
- (3) In a similar vein, 38% of the participants are convinced that "beauty contests" (i.e. sales pitches against competitors) will become the dominant selection tool for the client when hiring a consultant. Again, this tool will primarily be applied by clients of large, highly-leveraged, international consulting firms. Interestingly, it is particularly Western European consulting firms that face the latter two developments.

**Figure 28: Average percentage of successful sales pitches to new clients (n = 295)**

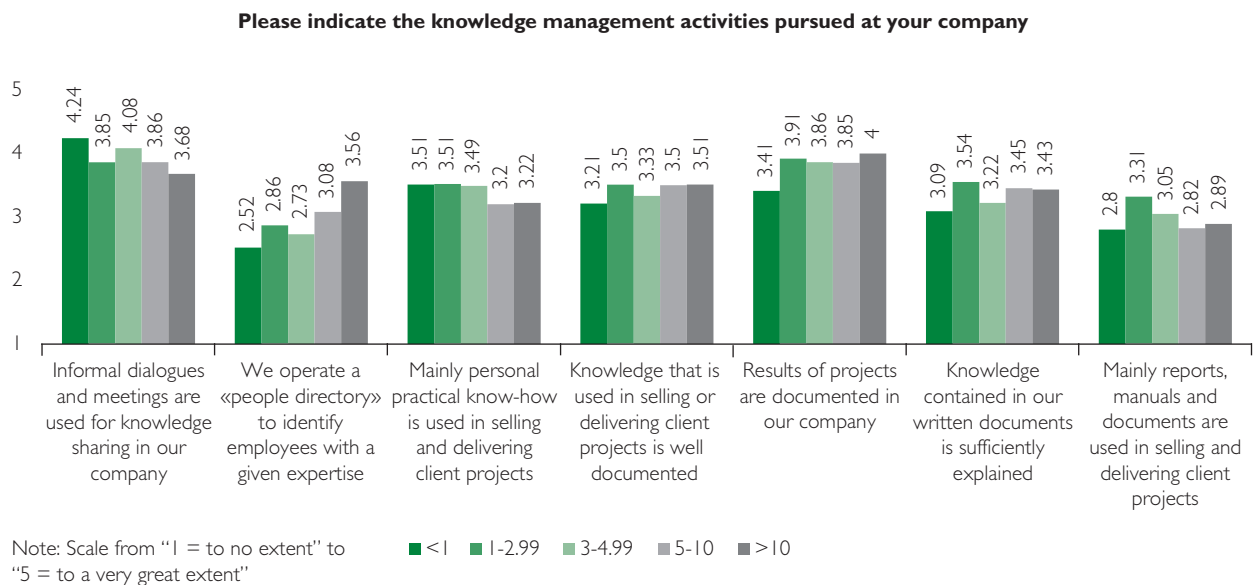


**Knowledge management**

Knowledge management is one of the key characteristics of consulting firms. Unsurprisingly, the surveyed European consulting firms pay some attention to the management of knowledge in their firms. While there are many different ways of dealing with knowledge, ranging from more personalized to more standardized approaches, their importance to the surveyed European consultancies varies. Knowledge sharing through informal discussions and meetings is considered by 68% of the consultancies as very important, followed by activities relating to the appropriate documentation of projects. People directories and formal manuals are used for project delivery to a much lesser extent.

Interestingly, not all consulting firms manage their knowledge in the same way. Particularly notable are the differences across consultancies of different sizes and leverages (see **Figure 29**). Large and highly leveraged consulting firms follow more formalized knowledge management approaches, whereas smaller firms with a low leverage have more personalized knowledge management activities.

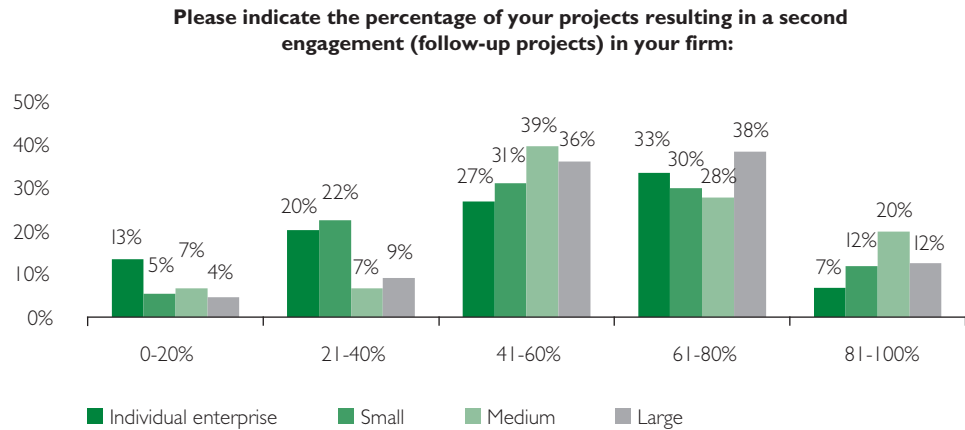
**Figure 29: Knowledge management activities by leverage (n = 231)**



### **Insight 12: Smart client relationship management is critical for follow-up projects**

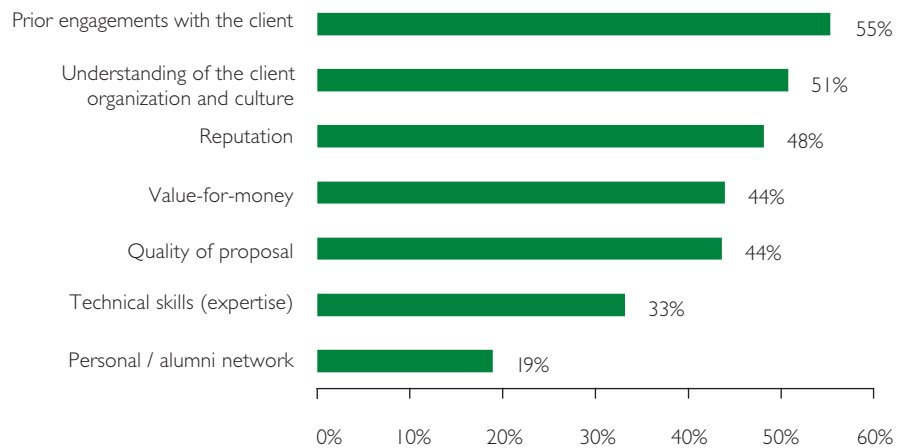
Because of the difficulty of acquiring projects with new clients, retention of existing clients is critical. Interestingly, the majority of projects lead to follow-up projects (see **Figure 30**), particularly for larger consulting firms. Indeed, prior engagements with the client are regarded as the most decisive factor for a future client engagement by far (see **Figure 31**). The second most important factor, understanding the client organization and culture, and the third most important factor, reputation, may also directly result from prior engagements with the same client. Because these factors are considered more critical than proposal quality or cost-related aspects, a focus on "farming," i.e. selling projects to existing clients, seems very promising. While networking is the most commonly employed activity to acquire projects, a consultant's personal or alumni network alone seem not to "make" a new engagement. Instead, it appears particularly important to direct efforts towards regular communication with existing clients and, thus, to building sustainable client relationships.

**Figure 30: Percentage of projects resulting in a second engagement (follow-up projects) by company size (n = 289)**



**Figure 31: Most decisive factors for being engaged by a client (n = 307)**

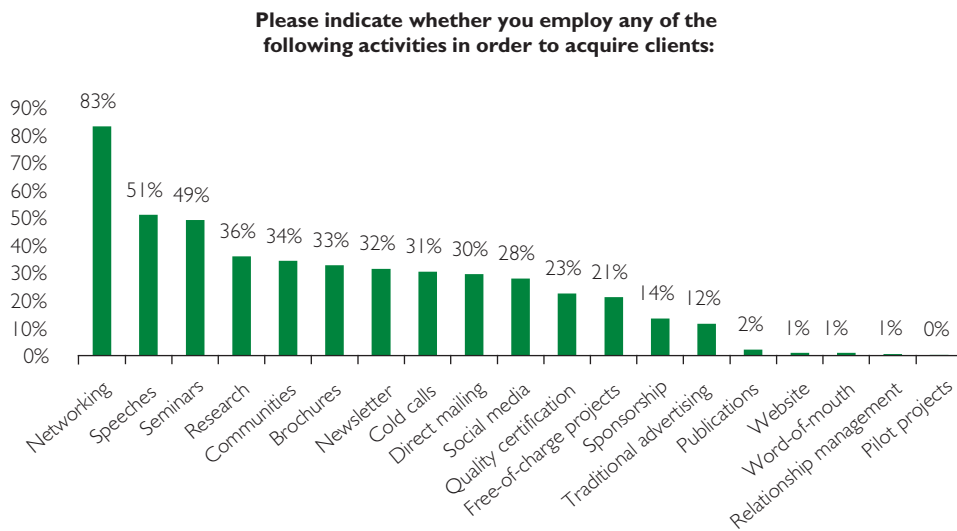
Please indicate the most decisive factors for being engaged by a client:



### Marketing and sales activities by consultancies

European consulting firms perform a large variety of marketing and sales activities in order to acquire new clients. Confirming suggestions by prior research on the marketing and sales efforts of professional service firms, the activities are fairly focused on the specific target group. Specifically, networking, speeches, seminars, research, and newsletters are frequent activities (see **Figure 32**). Surprisingly, approximately one-third of the surveyed consultancies cold call potential new clients in order to sell their services. Large international consulting firms rely even more on the acquisition of clients through cold calls, whereas it is almost never done by consulting firms in the CEE region. Also notable is the use of social media to attract new clients: about 28% of the firms use this new tool, particularly the small and local consultancies.

Figure 32: Activities employed in order to acquire clients (n = 311)



## Detailed Results

### Project attributes – mean comparison

Category	Group	Importance of project attributes to clients					
		Cost		Time		Quality	
		mean	sig.	mean	sig.	mean	sig.
<b>OVERALL</b>		4.26		4.11		4.75	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	4.24		4.14		4.81	
	<b>Procedure (P)</b>	4.27		4.15		4.70	
	<b>Grey hair (G)</b>	4.24		4.10		4.70	
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	4.17	p	4.13		4.81	
	<b>Process (P)</b>	4.40	s	4.09		4.76	
	<b>Other (O)</b>	4.24		4.11		4.69	
<b>INTERNATIONAL</b>	<b>Local (L)</b>	4.25		4.10		4.73	
	<b>International (I)</b>	4.26		4.14		4.76	
<b>REGION</b>	<b>W. Europe (W)</b>	4.28	N;C	4.11		4.78	C
	<b>Nordic (N)</b>	3.84	W;C	4.11		4.83	C
	<b>CEE (C)</b>	4.55	W;N	4.12		4.54	W;N
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	4.10		4.23		4.84	
	<b>2-9 FTE (S)</b>	4.28		4.17		4.73	
	<b>10-49 FTE (M)</b>	4.17		4.04		4.75	
	<b>&gt;=50 FTE (L)</b>	4.30		4.08		4.73	
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	4.10		4.23		4.79	
	<b>1-2.99 (L)</b>	4.35		3.99		4.67	
	<b>3-4.99 (M)</b>	4.13		4.05		4.83	
	<b>5-10 (H)</b>	4.20		4.08		4.68	
	<b>&gt;10 (VH)</b>	4.36		4.18		4.64	

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent). Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level.

## Knowledge management – mean comparison

Category	Group	Informal dialogues and meetings are used for knowledge sharing in our company		We operate a people directory to identify employees with a given expertise		Mainly personal practical know-how is used in selling and delivering client projects		Knowledge that is used in selling or delivering client projects is well documented		Results of projects are documented in our company		Knowledge contained in our written documents is sufficiently explained		Mainly reports, manuals, and documents are used in selling and delivering client projects	
		mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.
<b>OVERALL</b>		3.93		3.02		3.39		3.44		3.80		3.40		3.02	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	3.94		3.25		3.32		3.44		3.83		3.46		2.90	
	<b>Procedure (P)</b>	4.10	g	2.90		3.48		3.40		3.84		3.32		3.02	
	<b>Grey hair (G)</b>	3.79	p	2.87		3.51		3.41		3.77		3.43		3.06	
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	4.08		3.09		3.31		3.46		3.74		3.41		3.12	
	<b>Process (P)</b>	3.86		2.94		3.43		3.44		3.92		3.39		3.13	
	<b>Other (O)</b>	3.87		3.02		3.43		3.43		3.75		3.39		2.86	
<b>INTERNATIONAL</b>	<b>Local (L)</b>	4.01		2.61	l	3.51		3.36		3.74		3.34		3.13	i
	<b>International (I)</b>	3.88		3.38	L	3.28		3.49		3.84		3.42		2.90	l
<b>REGION</b>	<b>W. Europe (W)</b>	3.84	N	3.17	n;C	3.38		3.43		3.76		3.38		3.01	
	<b>Nordic (N)</b>	4.29	W	2.78	w	3.21		3.51		3.82		3.48		2.81	
	<b>CEE (C)</b>	3.97		2.60	W	3.60		3.43		3.89		3.40		3.23	
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	4.10		2.96	l	3.69		3.62		3.70		3.40		3.17	
	<b>2-9 FTE (S)</b>	4.00		2.53	L	3.51		3.26		3.71		3.32		3.17	
	<b>10-49 FTE (M)</b>	4.11	L	2.76	L	3.53		3.39		3.77		3.30		2.98	
	<b>&gt;=50 FTE (L)</b>	3.70	M	3.60	xs;S;M	3.09		3.53		3.83		3.44		2.80	
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	4.24	VH	2.52	VH	3.51		3.21		3.41	l;VH	3.09		2.80	
	<b>1-2.99 (L)</b>	3.85		2.86	vh	3.51		3.50		3.91	vl	3.54		3.31	
	<b>3-4.99 (M)</b>	4.08		2.73	VH	3.49		3.33		3.86		3.22		3.05	
	<b>5-10 (H)</b>	3.86		3.08		3.20		3.50		3.85		3.45		2.82	
	<b>&gt;10 (VH)</b>	3.68	VL	3.56	VL;l;M	3.22		3.51		4.00	VL	3.43		2.89	

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent). Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level.

## Client characteristics – mean comparison

Category	Group	Acquiring new projects will be increasingly challenging		Clients will increasingly demand our support for the implementation of our recommendations		Clients will increasingly be able to formulate project objectives more clearly		The client purchasing department will be increasingly powerful		“Beauty contests” (i.e. sales pitches against competitors) will be the dominant selection tool for the client	
		mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.
<b>OVERALL</b>		3.71		3.74		3.00		3.59		3.23	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	3.75		3.60		3.03		3.61		3.33	
	<b>Procedure (P)</b>	3.81		3.83		3.00		3.63		3.12	
	<b>Grey Hair (G)</b>	3.69		3.69		2.96		3.59		3.18	
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	3.67		3.70		3.14		3.51		3.26	
	<b>Process (P)</b>	3.78		3.88		2.97		3.66		3.38	o
	<b>Other (O)</b>	3.69		3.66		2.90		3.59		3.09	p
<b>INTER-NATIONAL</b>	<b>Local (L)</b>	3.71		3.72		2.92		3.38	I	2.99	I
	<b>International (I)</b>	3.70		3.77		3.08		3.77	L	3.44	L
<b>REGION</b>	<b>W. Europe (W)</b>	3.79	N	3.77		3.06		3.74	N;C	3.44	N;C
	<b>Nordic (N)</b>	3.31	W;C	3.68		2.89		3.30	W	2.64	W
	<b>CEE (C)</b>	3.79	N	3.62		2.83		3.29	W	2.94	W
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	3.77		3.58		3.23		3.57		2.87	L
	<b>2-9 FTE (S)</b>	3.73		3.71		3.01		3.25	L	2.92	L
	<b>10-49 FTE (M)</b>	3.66		3.80		2.90		3.54	I	3.17	L
	<b>&gt;=50 FTE (L)</b>	3.71		3.75		2.98		3.90	S;m	3.57	XS;S;M
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	3.83		3.79		3.25	h	3.50		2.97	h
	<b>1-2.99 (L)</b>	3.72		3.69		3.03		3.24	VH	2.91	H;vh
	<b>3-4.99 (M)</b>	3.57		3.78		2.92		3.62		3.17	
	<b>5-10 (H)</b>	3.68		3.66		2.74	vl	3.64		3.48	vl;L
	<b>&gt;10 (VH)</b>	3.76		3.96		2.89		4.00	L	3.45	I

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent). Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level.

# Economics

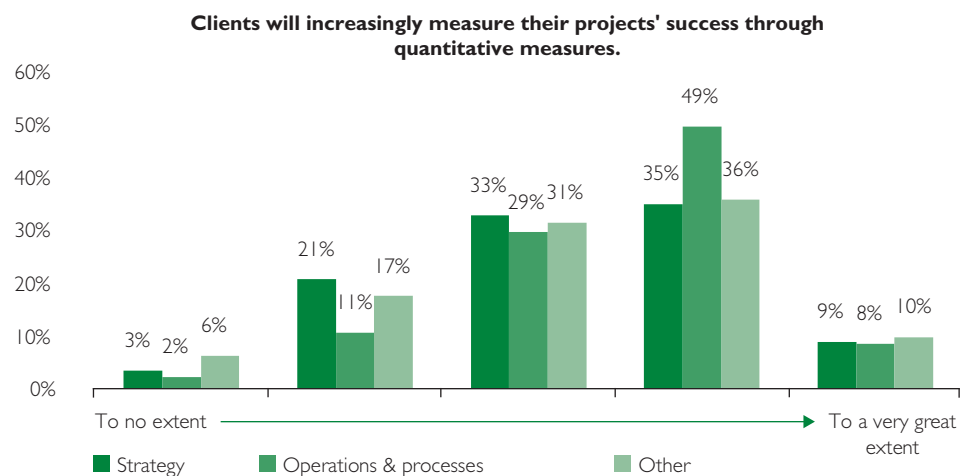
## Key Insights

### Insight 13: Balancing the needs of clients and professionals will become more difficult

The economic success of European consulting firms will be mainly affected by their client needs and characteristics as well as by people management. First, clients will increasingly professionalize the way they deal with consulting projects. For example, 75% of the respondent consulting firms think that formal project evaluations by clients will gain importance, at least to some extent. Further, 80% of the respondent firms expect that clients will increasingly measure the success of their projects through quantitative measures, at least to some extent, and 49% to a great or very great extent. Here, it is particularly operations and process consulting firms that anticipate this development (see **Figure 33**). Interestingly, although clients become more sophisticated and project acquisition will be tougher than in the past, only 10% of the respondent European consulting firms will seriously consider undertaking projects free of charge (not including charity/pro bono projects) in economically challenging times.

Second, for some consulting firms, maintaining a high level of leverage (ratio between junior consultants and partners) will be increasingly difficult in future. Particularly international consulting firms that compete with each other for the best talent will need to strengthen their efforts to recruit university graduates, because the amount of available junior consultants will directly affect the economics of their business models.

**Figure 33: Quantitative success measurement by consulting focus (n = 302)**

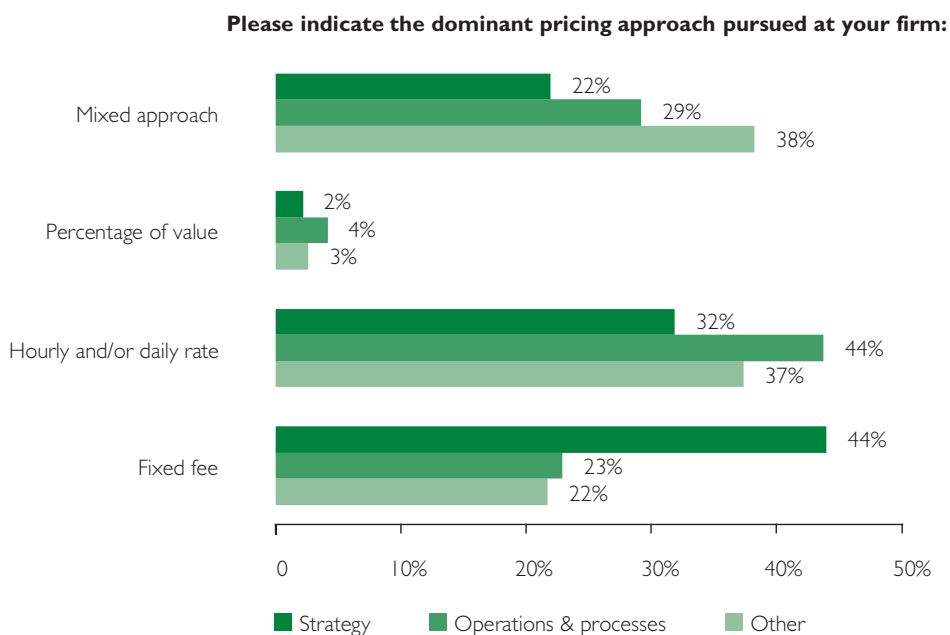


**Insight 14: The art of pricing means considering differences in projects and client demands**

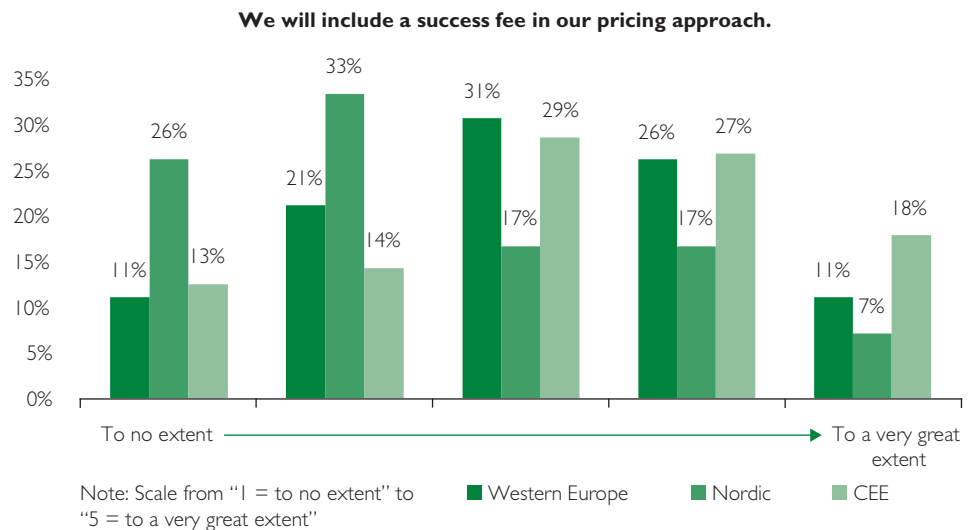
The approaches used to price projects offered vary widely, ranging from hourly/daily fees to a fixed fee. In general, charging hourly/daily fees is the dominant pricing approach used by 38% of the respondent European consulting firms. However, many consulting firms often rely on a predefined fixed fee for their projects (29%) or on a mixed approach (30%). A “percentage of value” approach (e.g. percentage of production costs saved) is rarely (3%) applied. There is some variation in the pricing approaches across firms. While small and medium-sized respondent consulting firms tend to charge hourly/daily fees, larger firms predominantly charge a fixed fee. Particularly notable is the difference in pricing approaches across different consulting foci (see **Figure 34**). Strategy consulting firms more often charge a fixed fee (44%) than hourly/daily rates (32%), whereas operations and process consulting firms prefer hourly/daily rates (44%) over a fixed fee (23%). This result is consistent with the importance of typical project characteristics: the cost focus and standardization of operations and process consulting projects is reflected in an hourly/daily fee.

Interestingly, 37% of the respondent consulting firms agree to a great or very great extent that they will in the future include a success fee in their pricing approaches. Clients will increasingly demand that a project’s fees are somehow partly based on the project’s success. The increase in success-based project fees will be particularly notable in CEE countries, mainly because clients in these countries are likely to become as sophisticated as their Nordic and Western European peers in the future (see **Figure 35**).

**Figure 34: Pricing approach by consulting focus (n = 302)**



**Figure 35: Success fee as part of future pricing approach by region (n = 297)**

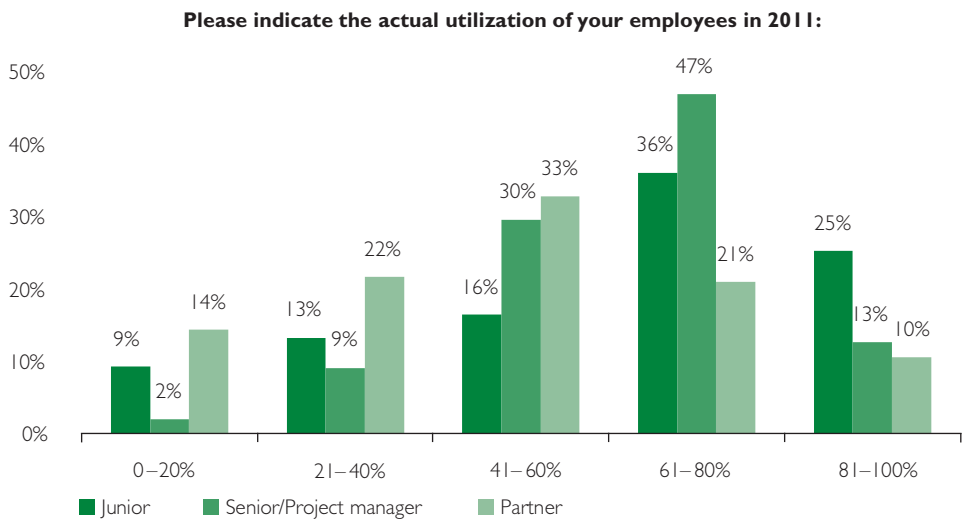


**Insight 15: The utilization of professionals across hierarchical levels must be actively managed**

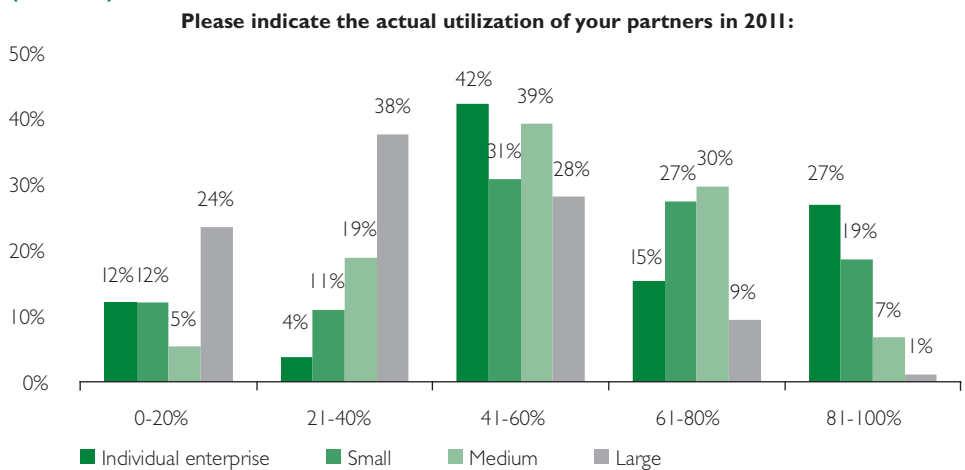
The utilization of professionals (percentage of working hours billed to clients) is one of the most critical aspects in any consulting firm’s business model. The respondent European consulting firms confirm that the actual utilization varies across employee level. The percentage of partners’ working hours billed to clients is much lower than that of project managers and junior consultants (see **Figure 36**). The difference is mainly a result of partners spending a significant part of their working time on non-billable activities such as client acquisition, employee recruiting, and general management tasks, whereas consulting firms seek to keep the percentage of project managers’ and juniors’ working time billed to clients at a very high level. Indeed, the survey reveals that in 69% of the respondent consulting firms, partner utilization is on average less than 60%, and in 36% of cases, it is even below 40%. Otherwise, for 59% of the project managers and 61% of the junior consultants, utilization is above 60%. However, it is noticeable that in only 25% of the firms, the actual utilization of junior consultants is above 80%, potentially a sign of the increasing challenge to sell high leverage ratios to clients and certainly a driver of lower productivity.

The survey results indicate that there is no one optimal utilization for all European consulting firms, but that the “right” utilization, particularly that of partners, depends on company characteristics. In small consulting firms, partners are utilized more (predominantly between 40% and 60%) than in large consulting firms (predominantly only 20% to 40%) (see **Figure 37**). Partners are also billed to clients less in settings in which consulting services are more standardized, for example, operations and process consulting firms.

**Figure 36: Actual utilization across hierarchical levels (n = 250)**



**Figure 37: Actual utilization of professionals on partner level in 2011 by company size (n = 276)**



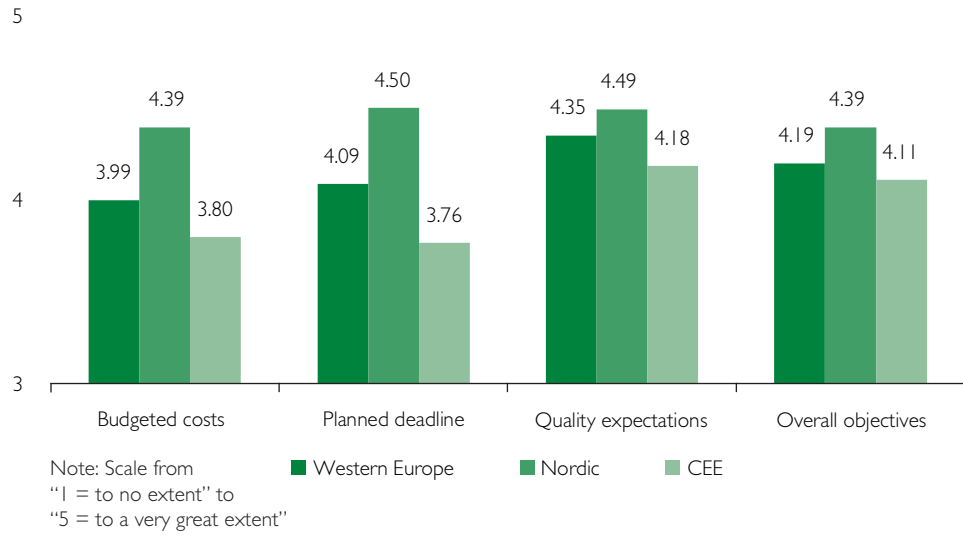
### Project performance

An important indicator for the success of a consultancy's business model is the performance of its client projects. Overall, the respondent European consulting firms consider the performance of their projects to be very high. Strikingly, 84% of the respondent firms report that their client projects on average meet the predefined overall project objectives to at least a great extent. There is some variation in client project performance across different performance dimensions. While the projects seem to match the expected quality objectives, the cost and time requirements are met slightly less often.

Project performance seems to particularly differ between local and international firms – with the latter firms having a significantly higher project performance in terms of meeting deadlines and quality – as well as across consultancies from different regions. Consulting firms from the Nordic countries have a significantly higher project performance than those from Western Europe and particularly than those from CEE; the latter have the lowest performance (see **Figure 38**). Interestingly, these differences are consistent across all measures of a firm's project performance.

**Figure 38: Project performance by region (n = 291)**

**Please assess the performance of your client projects (on average) over the last year and indicate to what extent the following objectives are met:**



## Detailed Results

### Future outlook on consulting firm economics – mean comparison

Category	Group	Planning our resources (i.e. employees, finances) will become more difficult		Clients will increasingly measure the success of our projects through quantitative measures		Formal project evaluations will be gaining importance		A high ratio between junior consultants and partners (leverage) will be difficult to maintain		In economically challenging times, we will consider undertaking projects free of charge (not including charity/pro-bono projects)		We will include a success fee in our pricing approach	
		mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.	mean	sig.
<b>OVERALL</b>		2.92		3.31		3.18		3.20		2.11		2.99	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	2.78		3.23		3.16		3.26		2.28		2.98	
	<b>Procedure (P)</b>	2.87		3.49		3.16		3.06		2.04		2.98	
	<b>Grey hair (G)</b>	3.00		3.28		3.11		3.05		2.10		3.03	
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	2.83		3.20	p	3.07		3.32		2.10		3.09	
	<b>Process (P)</b>	2.96		3.49	s	3.28		3.10		2.19		2.95	
	<b>Other (O)</b>	2.96		3.28		3.18		3.18		2.07		2.95	
<b>INTER-NATIONAL</b>	<b>Local (L)</b>	2.92		3.43	I	3.17		3.07	i	2.13		2.92	
	<b>Inter-national (I)</b>	2.91		3.19	L	3.17		3.29	I	2.09		3.07	
<b>REGION</b>	<b>W. Europe (W)</b>	3.06	N	3.32		3.19		3.30		2.11	N;C	3.07	N
	<b>Nordic (N)</b>	2.52	W	3.08	C	3.13		2.98		1.69	W;C	2.37	W;C
	<b>CEE (C)</b>	2.77		3.54	N	3.19		3.00		2.53	W;N	3.29	N
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	2.58		3.13		3.19		3.17		2.29		2.80	
	<b>2-9 FTE (S)</b>	2.90		3.47		3.15		2.89		2.23		2.97	
	<b>10-49 FTE (M)</b>	2.93		3.35		3.20		3.20		2.05		2.73	L
	<b>&gt;=50 FTE (L)</b>	2.93		3.24		3.18		3.44		2.07		3.24	M
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	2.77		3.34		3.21		3.00		2.08		2.83	
	<b>1-2.99 (L)</b>	2.88		3.39		3.13		2.93		2.11		2.93	
	<b>3-4.99 (M)</b>	2.92		3.29		3.17		3.22		2.11		2.81	
	<b>5-10 (H)</b>	2.98		3.38		3.15		3.38		2.15		3.00	
	<b>&gt;10 (VH)</b>	3.11		3.16		3.14		3.36		2.16		3.44	

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent). Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level.

## Average performance of client projects – mean comparison

Category	Group	Ability to meet set objectives							
		Meeting budgeted costs		Meeting planned deadlines		Meeting client quality expectations		Meeting predefined objectives (overall)	
		mean	sig.	mean	sig.	mean	sig.	mean	sig.
<b>OVERALL</b>		4.04		4.13		4.36		4.22	
<b>BUSINESS MODEL</b>	<b>Brain (B)</b>	4.06		4.13		4.35		4.25	
	<b>Procedure (P)</b>	4.06		4.18		4.35		4.29	
	<b>Grey Hair (G)</b>	3.93		3.94		4.29		4.09	
<b>CONSULTING FOCUS</b>	<b>Strategy (S)</b>	4.07		4.11		4.49	p	4.27	
	<b>Process (P)</b>	4.10		4.13		4.26	s	4.19	
	<b>Other (O)</b>	3.98		4.16		4.32		4.20	
<b>INTER-NATIONAL</b>	<b>Local (L)</b>	4.01		3.97	I	4.27	I	4.17	
	<b>International (I)</b>	4.08		4.29	L	4.44	L	4.26	
<b>REGION</b>	<b>W. Europe (W)</b>	4.02	N	4.11	N;C	4.34	N	4.20	n
	<b>Nordic (N)</b>	4.34	W;C	4.56	W;C	4.61	W;C	4.44	w;C
	<b>CEE (C)</b>	3.84	N	3.80	W;N	4.16	N	4.08	N
<b>COMPANY SIZE (FTE)</b>	<b>1 FTE (XS)</b>	4.27		4.07		4.47		4.10	
	<b>2-9 FTE (S)</b>	3.96		3.90		4.30	L	4.14	
	<b>10-49 FTE (M)</b>	3.88	L	4.12		4.27		4.27	
	<b>&gt;=50 FTE (L)</b>	4.22	M	4.35		4.39	S	4.27	
<b>LEVERAGE</b>	<b>&lt;1 (VL)</b>	4.07		3.94		4.37		4.06	
	<b>1-2.99 (L)</b>	4.08		4.09		4.25		4.19	
	<b>3-4.99 (M)</b>	3.86		4.09		4.38		4.24	
	<b>5-10 (H)</b>	4.05		4.29		4.44		4.35	
	<b>&gt;10 (VH)</b>	4.22		4.14		4.29		4.27	

Notes: Analysis based on a scale from 1 (to no extent) to 5 (to a very great extent). Average ratings (mean) per group and pairwise statistically significant differences between groups (sig.) are presented. Lower case letters denote significance at the 10% level, and capital letters at the 5% level.

## Appendix: Business Model Classification

The respondent firms were categorized into different business models using Maister's (1993) classic distinction of three consulting firms project types: brain, grey hair, and procedure projects (see also, Maister, D. H. 1993. *Managing the Professional Services Firm*. New York, NY: Free Press).

Consulting firms with a brain business model typically work on projects that provide *pioneering solutions or techniques to highly complex problems*, which demand highly skilled and highly paid professionals. Thus, clients hire these firms because they *employ the smartest professionals*.

Consulting firms with a *grey hair* business model typically work on projects that involve less innovation and creativity than a brain project, but still require highly customized and client-specific services. The consulting firm provides *very specific experience focused on a certain type of project*, which is valued by clients because they *can benefit from their prior solution of similar projects*.

Consulting firms with a *procedure* business model typically work on projects that involve a familiar and well-organized issue, and even though *services are highly customized and client-specific*, such firms are hired because the consulting firm *can perform such services more efficiently than the client firm itself*.

We developed two representative questions for each of the three business models. The survey participants were asked to assess their firms for each of these six questions on a scale from 1 (to no extent) to 5 (to a very great extent). We determined a consulting firm's predominant business model with the following procedure:

- (1) We summed the scores of the two questions, determining each of the three business models.
- (2) We multiplied the summed scores (1) with the product of the arithmetic means of the two other business model types (arithmetic mean for brain: 6.77; arithmetic mean for grey hair: 7.33; arithmetic mean for procedure: 8.46):

$$A = \text{Score (Brain)} * \text{mean (Grey Hair)} * \text{mean (Procedure)}$$

$$B = \text{Score (Grey Hair)} * \text{mean (Brain)} * \text{mean (Procedure)}$$

$$C = \text{Score (Procedure)} * \text{mean (Brain)} * \text{mean (Grey Hair)}$$

(3) We assigned each firm to the business model with the highest value in (2). Thus, if  $A > B$  and  $A > C$ , a firm was assigned  $A = \text{brain}$  business model (see the example below).

Business Model	Questions	Example		
		Answer on scale 1–5	(1) Sum	(2) Product Score
<b>Brain</b>	1. We provide pioneering solutions for techniques to highly complex problems.	5	10	$10 * 7.33 * 8.46 = 620.12$
<b>Brain</b>	2. Clients hire us because we employ the smartest professionals	5		
<b>Grey hair</b>	3. Our experience is very specific and focused on a certain type of projects.	5	9	$9 * 6.77 * 8.46 = 515.47$
<b>Grey hair</b>	4. Clients hire us because we have solved similar problems before.	4		
<b>Procedure</b>	5. We provide highly customized and client-specific services.	3	6	$6 * 6.77 * 7.33 = 297.75$
<b>Procedure</b>	6. Clients hire us because we can perform such services more efficiently than they themselves could.	3		

It must be noted that the business model classification is based on a firm's management perception. Interestingly, while the three business model types do not differ significantly in size, internationality, leverage, or geographical region, strategy consulting firms are more often classified as brain business models than other consulting firms.

## Responsible Corporate Competitiveness (RoCC)

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Responsible Corporate Competitiveness



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