THE RISE OF THIRD CATEGORY CONSULTING
THE CONSULTING INDUSTRY IS TRANSFORMING.

Influenced by technology disruption, greater spend visibility, subject matter expertise, knowledge transfer, execution focus and supplier rationalization, this transformation is being pushed and pulled by three industry levers: Consultants’ wants, companies’ needs, and consulting firms’ abilities. To better understand the changing landscape and the future of consulting, RGP surveyed a number of companies for their views on what they look for in a consulting partner, how they select companies, and how their needs are being met. Our findings revealed a gap between what clients need and what has traditionally been offered.
There is a natural delineation of consulting tiers, with companies falling into one of two broad categories. The First Category consulting firms provide high level, strategic advisory services and command high fees due to their pedigree. The Second Category represents the reality of the commoditization of certain services and encompasses large scale work flows with well-defined processes (using armies of consultants) as well as staff augmentation. These firms tend to compete on price.

However, as companies rationalize their consulting suppliers to reduce costs and improve the quality and effectiveness of the services, it becomes apparent that specific needs are not consistently met by the current two-tier system. Hands-on subject matter expertise and complete knowledge transfer back to the business are two of the most common unmet needs. The traditional two-category dichotomy of consulting firms is not addressing the gap. We believe another category is emerging.

The Rise of the Third Category

The Third Category, is based on engaging experienced subject matter experts to advise, help plan and, most importantly, execute a specific project in a way that complements an organization’s existing resources and business plans. Third Category Consulting provides agile resources - unbundled services, allowing companies to select customized and specific expertise needed to achieve objectives with variable or specific solutions.

For example, imagine that an organization decides to stand up an enterprise PMO and needs supplemental expertise in doing so. However, the organization does not want or need any type of assessment, nor does it desire a large consulting team to tell them what to do or control the initiative. This challenge could be solved by using a mix of internal and external resources where the consulting firm provides the building blocks for the PMO design, delivers tailored tools and templates to help the organization build the PMO structure and, most importantly, bakes in sustainable knowledge (e.g., utilizes a train-the-trainer approach). While the organization has engaged external help, it can still rely on its internal employees to execute some or all of the work moving forward.

The Third Category fosters a symbiotic partnership between a consulting company and the organization it serves. No longer is it about merely providing recommendations. Rather, it is a ‘help us and train us’, and ‘leave us with something we can leverage’ model.

The Third Category approach is substantiated by the following four findings from our survey1.

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1. A total of 472 respondents participated in our survey between November and December 2016. Survey participants were primarily decision-makers from Fortune 1000 and mid-market companies, representing a range of sectors including consumer goods, financial services, construction, pharmaceuticals, manufacturing and conglomerates.

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Companies are increasingly seeking more agile, tailored practical consulting support, rather than a large team of consultants, commodity players, or a high-priced brand name.

Subject matter expertise combined with the ability to deliver is the primary driver for hiring consulting firms. Organizations are looking for collaborative help around specific needs, rather than consultants who follow only prescriptive methodologies or who are more instructive (strategy-only) and less participative.

A key attribute sought is the ability to not only execute, but provide attentive and tailored solutions to the client. Looking deeper into the attentiveness attribute, consulting firms need to position their subject matter specialty into meaningful business results. For instance, in addition to having source-to-report experience, a consultant on a process improvement project should also possess the ability to build internal capabilities by addressing organizational constraints related to people, process, and technology. A subject matter expert recognizes that, at some point, additional resources may result in diminishing returns.

Today, companies are more knowledgeable about what they want done – not just what someone else tells them needs to be done. Although companies may not have the bandwidth to attend to all aspects of the initiative, they do have enough information to define the need, but seek external help with experience and judgment (i.e., a precise solution or problem solver) to supplement the company’s own internal talent to execute initiatives.

**Attributes ranked ‘most important’ when engaging a consulting firm.**

1. Subject matter expertise
2. Specific industry skills
3. Project management & execution
4. Attentive client service
Finding 2: The Trend Towards Segmenting Consulting Providers by Expertise

The majority of respondents rated the ability to deliver value and competitive cost as the most important attributes. Increasingly, savvy companies are looking into segmented pools of consulting partners by solutions (e.g., transaction services, process optimization, change management) to leverage the best talent for a particular need. There is an emerging trend in identifying and selecting the highest quality suppliers around specific solutions via a Request for Proposal (RFP). This is a departure from using the RFP process to identify preferred providers of general services, or from floating an RFP based on just-in-time needs. By pre-vetting service providers by discipline or solution, the selection process provides for a pre-qualified pool of consulting options.

Value is also defined by a consulting firm’s proven ability to work effectively with client teams and with other consulting firms that the client has engaged. The reality is that today’s projects are more complex and require various experts (advisors, integrators, executors) who can work together and partner to deliver the best outcomes for the client. Consulting firms will have to demonstrate that they have this capability and the track record to serve as an integrated partner.

“Clients no longer want to pay fat fees for a bit of strategic advice from a senior partner and a lot of humdrum work from neophytes.”
- The Economist

SURVEY RESULTS

Top three factors that influence decision making.
1. Ability to deliver results
2. Cost to complete a project / objective
3. Selection from existing consultants who have proven themselves

“Although price is always a factor, executing with high quality and delivering on-time results are most important.”
- VP & Controller of a $100B healthcare company
Finding 3: The Unmet Gap Between Buyers and Providers

Our survey

revealed a disconnect between what companies want and value from their consulting partners, and what they are actually getting. Almost one-third of the respondents cited cost, delivery of results, and knowledge transfer as the greatest sources of dissatisfaction.

Top Values Expected from Consulting Partners

1. Deliver results
2. Transfer knowledge
3. Bring specific expertise
4. Provide competitive pricing

Areas of Dissatisfaction with Current Consulting Partners

1. Low delivery value
2. Lack of knowledge
3. High prices
4. Gaps in tools / methodology

When

considering the premium placed on subject matter expertise and linking it to knowledge transfer, it is logical for companies to connect the value they receive from their consulting partners with the knowledge transfer delivered to their teams.

Undeniably,

companies are placing an emphasis on sustainable results – delivered by subject matter expertise combined with ongoing knowledge transfer back to the business. Companies don’t want a “binder of information” with the consultant walking away with valuable knowledge. Critical to a company’s sustainable results and effectiveness is thoroughly embedding consultant knowledge (pre-existing and gained from the project) within the organization.

Survey results
The majority of larger companies ($50B+) surveyed purchase consulting services through their preferred provider programs. However, most preferred provider programs do not accommodate the Third Category trend. Developing a new or revised method for identifying and categorizing preferred providers is recommended. Careful consideration needs to be given by each company to implement a new preferred provider program, which incorporates plug-and-play solutions, and delivers the value and services desired.

**Finding 4: Segmented Preferred Provider Programs are the Future**

Implementing a Third Category Structure as Part of Preferred Provider Programs

A procurement organization, PMO or any other department that considers solutions requires a unique set of selection criteria when identifying preferred consulting providers.

The direction of the future entails pre-qualifying consulting firms based on a company’s known and planned initiatives and needed disciplines. Based on our survey’s findings, companies should consider the following example of key attributes (chart below) used to assess the capabilities of consulting providers. A weighted average calculation could then be applied to identify the best-fit providers. By pre-selecting these partners by solution, it is possible to shorten the time frame required to identify the optimal skills for a given need and better meet the business need.

**Sample Evaluation of Third Category Consulting Firm**

<table>
<thead>
<tr>
<th>Rank of Firm’s Attributes</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depth of Subject Matter Expertise</td>
<td>3</td>
</tr>
<tr>
<td>Transfers Knowledge</td>
<td>4</td>
</tr>
<tr>
<td>Executes Rapidly w/o on the Job Learning</td>
<td>2</td>
</tr>
<tr>
<td>Risk Reduction</td>
<td>3</td>
</tr>
<tr>
<td>Pricing for Segmented Needs</td>
<td>2</td>
</tr>
</tbody>
</table>
The Third Category, Signifying Practical Consulting, is the New Norm

There are two considerations that companies need to address to effectively maximize the benefits to their organization of pre-qualifying consulting partners.

First, many existing preferred provider models do not allow for a third path to consulting, as their models typically encompass only the First (advisory) and Second (commoditized) category consulting firms. Companies, therefore, have an opportunity to alter their preferred provider programs beyond the First and Second Categories to allow for engaging the Third Category – practical expertise at a lower cost and with specific solution choices.

Second, buyers’ perceptions need to be realigned with business reality. Companies may not know where Third Category consulting firms fit within their existing two-tier structure, mistakenly placing such firms in the Second Category where price, not expertise, is the primary driver. As a result, companies may not be taking advantage of solution efficiencies.

It is clear that the trend toward the Third Category type of consulting is taking hold as companies are increasingly looking for pre-qualified and just-in-time expertise. They no longer have an appetite for large, bundled and branded consulting services and the associated premium fees. However, companies still value attentive, tailored client service. Companies should maintain such expectations and consulting firms need to deliver.

We leave you with an analogy: The consulting industry is transforming in a similar manner to the dining industry. No longer are we limited to just two dining categories (fast food and fine dining). Now, a third category exists – fast, casual – quick healthy cuisine with an upscale décor.

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