WHY CHOOSE A BOUTIQUE FIRM OVER THE LARGE FIRMS

7 Factors to Consider When Hiring a Consulting Firm

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INSIGHT
SOURCING GROUP

Acknowledgement of Hopeless Bias:
You have read enough white papers to know that all of them have some sort of solution bias, and this one is pretty obvious. The audiences for this paper are companies considering our firm versus the big guys so our motivations are clear. We promise, however, to focus on facts and logic. The goal of this paper is to provide a few points for consideration along with the underlying rationale. You can decide if it makes sense for you or not.

Introduction

You are considering hiring a consulting firm and you have options. You can go with one of the big brands or a smaller, specialized firm. There are some obvious differences, but there are a few nuances you should consider that might not be immediately evident.

A boutique firm is typically defined as a high-quality, small firm. It is typically specialized and is usually led by alumni of the larger firms. Both are true for Insight Sourcing Group.

In the past, going with a big brand has always been assumed to be the safe play. There is no arguing that a well-known brand is easier to present to your CEO and board. However, as the largest consulting firms have gotten much larger, dynamics have shifted and the big brands may be more recognized but are not necessarily the safest or most likely to produce the best results.

Here are seven reasons to consider a Boutique Firm over a Large Firm.

#1: The Power of Focus

Clearly, the value proposition of a specialized firm includes its focus. But how does this really play out and what does that mean to you?

As an exercise, explore the website of the largest consulting firms and look for the procurement section. If you examine the menu items, you will see as many as up to 50 to 80 different submenus representing service offerings, one of which might be procurement. Often the service offerings are "matrixed" across different industry verticals, and behind the scenes, these are then layered across a large number of geographic regions.

In short, large, diversified consulting firms have a lot on their mind, and although they often have lots of resources, their investments are diluted across many, many different offerings. Suffice it to say that procurement, as a service line, is rarely a top priority for the senior leadership of the firm. And if the firm is first organized by geography, then by industry, and then finally horizontal service offerings, then all bets are off as the matrix has hundreds of leaders and there may not be a global procurement lead to fight for resources.

Simply determining how to structure large consulting firms is a major challenge. One large firm, for example, recently decided to take its procurement service line, which was consolidated across industries and geographies, and break it up. The new method pushed the procurement resources into industry groups, meaning the aerospace and consumer products verticals had procurement specialists within them reporting to the leader of those industries.

According to insiders, this resulted in challenges as there was no longer a central hub for best practices, sharing of market data, and the development of unique tools and analytics. They created a "Center of Excellence," of course, that was supposed to fulfill this purpose, but the center was perceived as politically irrelevant, and none of the leading experts wanted to be part of it.

The decision to focus exclusively in one niche creates an imperative for innovation within the boutique firm.

This is not the case for a specialized boutique that lives and dies by its niche. Consider the imperative for excellence this creates. If a large firm stumbles in procurement for a year or two, delivering lackluster results, it can shift its focus to other disciplines and count on its overall reputation to persevere over a bloody nose in one area. This same stumble would crush a boutique firm and possibly put it out of business.

In addition to forcing boutiques to be the best, the "burn the ships at the shore" decision to focus exclusively in one niche also creates an imperative for innovation. And since boutiques tend to be more entrepreneurial than larger firms, it is a great environment for new product and service development.

At Insight Sourcing Group, this 100% focus on procurement has led to multiple innovations such as SpendHQ, our SaaS-based spend analytics solution that was named one of the Top 100 Most Innovative Technologies in the World by Red Herring. In addition, we have created InsightGPO (a group buying program), ISG Energy Management Solutions (a managed service focused on both energy rate savings and demand reduction, including green energy), and ISG Category Analytics (a technology-enabled managed service focused on savings sustainability).

#2: No Conflicts of Interest

When it comes to strategic sourcing specifically, large firms tend to have some serious limitations. Several well-regarded firms prefer to be behind the scenes during vendor negotiations and instead put your employees in the lead. This sounds good initially, as it is a training and knowledge transfer opportunity for your team. However, the main driver for this is that large firms do not want to negotiate with their customers and often the supplier on the other side of the table is the large firm's customer or prospect. It is rare for smaller consulting firms to have this complication.

Imagine a scenario where your consultant is in the midst of intense negotiations with a vendor who is also one of your consulting firm's large "enterprise" customers. It is not hard to envision the awkward phone call someone very senior at the consulting firm might receive from an angry vendor CEO (and a panicky vendor account partner). One large consulting firm touts that "80% of the Fortune 500 companies are our clients." And of course, their client base extends well beyond the 500 largest companies, as does your supply base.

In order to avoid this scenario, some large consulting firms have changed the way they deliver strategic sourcing services as noted above. In our view, this potentially reduces the outcomes for the client. In most cases, our consultants are directly involved in negotiations with vendors. This enables your team to see deep experts in action and also optimizes outcomes. As the saying goes, every plan goes out the window with the first shot fired, and negotiations are similarly hard to predict from outside of the room.

We also believe that the "third-party effect" is real and impacts results. This is the concept that having a third party at the negotiating table beside your team changes the dynamics in a good way. It signals the vendor community, including non-incumbents, that this is not business as usual, and that your company takes this process seriously. It indicates that there is a very real opportunity to gain or lose business, which inflames competitive rivalry. It also forces the vendors to rely on facts, logic, and the strength of their bid versus an overreliance on personal relationships and history. Conversely, it preserves future relationships by insulating your team from the more intense negotiations.

There are other types of conflicts that impact some large firms. Consulting firms that also have audit practices often face regulatory issues that can constrain their ability to perform certain projects or the way they charge for their services, among other things.

#3: Sourcing 101

Sourcing 101 would tell you that if you can get equal or better quality with a more efficient cost structure, you should consider it. In most cases, the leaders of a boutique firm previously worked at the larger firms, so you are hiring essentially the same talent. Consulting projects and outcomes are far more dependent upon the individuals on the project than the name recognition of the firm.

Our executives, for example, have worked at Deloitte Consulting, KPMG, Accenture, McKinsey, AT Kearney, IBM, and others. We compete against the largest consulting firms for our entry-level talent at some of the nation's top universities. In our case, our unique culture, lower travel model, and entrepreneurial environment attract young consultants who typically also have offers from the major strategy and operations consulting firms.

Given that we hire the same people, and regularly recruit from the larger firms, we know that our cost per resource is roughly the same. So, what drives the typical cost differential between a large firm and a boutique firm, if the largest cost input—salaries—are the same? What are you getting for this additional cost?

Here are a few potential culprits:

- **Marketing.** Large consulting firms typically have massive marketing budgets and even sponsor professional athletes, if not entire golf tournaments. This can make for some fun client outings, but what value does it create? Marketing at a boutique firm typically consists of a few conferences and the CEO writing white papers….

- **Pensions.** The "Big Four" firms are among the last companies that still offer pensions or similar programs. Retired partners typically make 50-60% of the average of their last five years, which are typically their highest earning years, plus they receive healthcare benefits for life. Given the relatively young mandatory retirement ages (~60-62), there is likely close to one retiree per active partner, creating a 50% "tax" on partner earnings that must be funded somehow. So, the next time you pay your bill to one of the large firms, an old guy on a fishing boat that you have never met says, "Thank you!"

- **Subsidies - Part I.** Firms with both audit and consulting practices often find that the consulting partners generate higher revenue, which often flows, in part, to the audit partners. Indeed, in the 1990 Accenture split from Arthur Anderson was largely due to the 15% transfer payment" the consulting group was required to pay the audit partners.

- **Subsidies - Part II.** Although it is hard to get data on this topic, it is not hard to imagine that core geographies, such as North America, subsidize global expansion and the development of new services for large consulting firms. Certainly, acquisitions, opening new offices, or launching new services, such as BPO (business process outsourcing) results in multiple years of losses that must be funded by someone.

- **Organizational Complexity.** Partners in large consulting firms have to spend tremendous energy focused internally. This inherent complexity, jockeying for credit, organizational politics, and general bureaucracy, creates friction and can be a major distraction. It siphons off energy that could otherwise be focused on producing results for clients.

A well-run boutique should not have these large costs or face these stressful distractions. Politics are minimal or nonexistent, and decisions are made quickly. In a boutique firm, the vast majority of everyone's time is spent facing the market, instead of turned internally with their back metaphorically to the customer. In part, executives in boutiques left the large firms for precisely these reasons. The result is that more of the money you spend with a boutique firm goes to the people responsible for delivering your results.

The higher cost structure of the larger firms, and particularly the strategy firms, results in an additional negative beyond a higher cost for the same service. When a consulting firm proposes strategic sourcing projects, they look at the total spend in each category and the potential savings. They then determine what the cost will be to perform each category project and estimate an ROI. If they are doing their job correctly, they only propose projects with a healthy return on investment. Due to higher fees, many projects with high potential savings are simply not doable for some of the high-cost firms, as their fees mitigate the returns.

#4: Senior Executives Engaged in the Work

Since executives in boutique consulting firms are not dealing with the organizational issues associated with big firms, what do they do with all of that extra time? Typically, they are more involved in the actual consulting work. Often executives gravitate to smaller firms because they love the consulting work itself and, dislike, or are simply not good at navigating challenging big-firm environments. We believe that this greater access to the most experienced resources is a significant benefit for clients.

#5: Low Turnover

Large consulting firms typically have 15-20% turnover, meaning the entire staff theoretically turns over as frequently as every five years. This is driven, in part, by the “up or out” philosophy of the big firms, but also by the intense travel schedule that is common in consulting. Many great consultants grow weary of airports and hotels and often leave the industry to raise a family or simply to gain greater work-life balance. Not only does turnover dilute expertise and cohesiveness, but it can lead to disruptive departures in the middle of your project and, in general, create a pessimistic environment.

In 2016, at Insight Sourcing Group, our consulting practice had 0% voluntary turnover, and throughout our history, it has been under 8% every year. As a boutique, we are able to offer our team members a “Smart Travel” model that enables them to stay in consulting without sacrificing their families and personal lives. We certainly travel a great deal as we have clients all over the world; however, procurement consulting includes a large amount of analytics and vendor discussions, which can be performed anywhere.

This low turnover means, for example, that we have a large cadre of managers who joined us out of undergraduate programs 8 to 10 years ago and are still with us today. They have an extraordinary amount of sourcing experience within our specific system. Keep in mind, we only do procurement consulting, so they are incredibly deep in our niche. This also means that clients who did a project with us in 2011 and are interested in doing another project in 2017 can often get the exact same resources, preserving valuable organizational experience. Low turnover also means we spend less time recruiting and a lot more time focused on delivering client results.

Note that in 2017, Insight Sourcing Group was named the #1 Boutique Consulting Firm to Work For in the country by Vault.com and the #1 Medium Sized Firm to Work For in Atlanta among all types of companies by the Atlanta Business Chronicle.

#6: Surprisingly, Big Doesn't Always Mean Big

As of 2017, we have about 85 dedicated strategic sourcing and procurement consultants and will add more this year. We have performed over 4,000 projects in our history and 100% have been in this space. While researching the competitive market, we were surprised to discover that we likely have one of the top 10 largest teams of dedicated sourcing athletes in the United States, at a single consulting firm, and are by far the largest procurement boutique firm.

Although many big consulting firms do very large volumes of procurement consulting work, they tend to have relatively small numbers of dedicated specialists. Instead, they place just a few experts on a project and supplement them with generalists or consultants who might have done two or three procurement projects in their careers. This makes good business sense, as managing supply and demand becomes a nightmare in consulting if you have a generalist sales focus, but your resources are highly specialized. If you exclude offshore and BPO resources, procurement software implementation teams, and other practices that are ancillary to strategic sourcing and procurement transformation, it appears that the largest consulting firms have dedicated sourcing teams at their command ranging from 50 to 300 people in North America.

Boutique firms bring equal or greater depth in their niche compared to the big firms.

Our data comes from the athletes we hire from the big firms, and from our broad network of colleagues in the procurement universe. As an example, one of the Big Four firms only has 50 dedicated sourcing specialists according to one of the 50 who just joined our team. They may have hundreds of people who can claim to have procurement experience, but those people are as likely to be on an ERP implementation project as a sourcing project. And their teams are often supplemented by the same contractors and outside subject matter experts we have access to, although we seldom need their services.

We believe that focus and dedication have a direct impact on results. The point is simply that executives should not be seduced by overall size alone, as many boutiques bring greater depth in their niche.

#7: Avoid Misalignment of Goals

Consulting firms today are much larger than they were just a decade ago. Many have more than 250,000 employees globally. The challenge with professional services is that in order to grow, a firm has to resell most of the prior year's revenues and then sell even more to achieve growth. Outsourcing and large-scale ERP implementations skewed the average engagement size upward dramatically in recent years and sales quotas followed suit.

At the big firms, growth requires a tremendous amount of new revenue, which leads to intense pressure to sell large deals. One large consulting firm, for example, has a policy where partners are force-ranked annually based on the revenues they produce. The bottom 10% are automatically demoted or terminated (even if they achieve their goals, which seems counterproductive, but is true). Bonuses are distributed based on this ranking with uneven distributions for the best producers. This Darwinian process is "top of mind," to say the least.

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At some point, this pressure can lead to a misalignment of interests between large consulting firms and their clients. We see this manifest itself when the big firms propose very large project scopes or complex procurement outsourcing deals when it is often overkill or simply the wrong strategy. These oversized projects carry significant execution risk and change management challenges, and are often destined to under-deliver.

At some large firms, nobody rings the bell anymore for a partner who brings home a small project, even if it is an opportunity to prove the firm's capabilities, which could lead to a much larger relationship down the road. There is simply too much pressure.

Boutique firms have the luxury of focusing on a client's interests first. If a boutique, in fact, has the advantages outlined in this paper, they probably deliver better-than-market results and maintain clients over many, many years. They can afford to "play the long game" even if it means investing in a small project to start a relationship that develops into something bigger over many months and years.

In the case of Insight Sourcing Group, we compete with the large firms on a weekly basis and have successfully executed very large projects that delivered several hundred million in savings for a single client. As an example, we are currently performing 14 projects for one of the 10 largest firms in the world with over $100 billion in spend, demonstrating that we have the firepower of the larger firms. In addition, we have many clients that are mid-market companies or are large companies with highly targeted needs. Our belief is that we need to earn the right to propose a very large engagement, and we are under no pressure to propose projects that are not in your best interest.

Summary

In 2003, when my firm consisted of my dog and me working out of my basement, I had the opportunity to compete for our second client against a large consulting firm that is most known for strategic sourcing. In fact, some say they invented it. We (Scout and I) won that customer. The other firm's presentation was largely based on their history and their thousands of clients, many of whom the person presenting had likely never met.

I only had one client, so that part of my presentation was short. But, I had asked for the client's spend data in advance, and I performed a full spend analysis. I created an opportunity roadmap with detailed EBITDA improvement targets along with analytics supporting my recommendations. The resulting projects were successful, and we over-delivered on the projections.

Over the years, the CFO who hired us, along with two other procurement executives at that firm, would bring us into over eight different companies as they migrated in their careers, including two new clients in 2017, 14 years later.

That experience formed the foundation for this white paper. Large firms can do great work and usually have thousands of great people (and in some cases, over 250,000). High-quality boutique firms also do great work and have great people. What really matters are the two or five, or ten or twenty, consultants who are actually leading your projects.

Large firms can be distracted or may have trouble getting out of their own way. Alternatively, the laser-like focus of small firms can lead to innovation, passion, extreme client-focus, and excellence in their field.

In the case of Insight Sourcing Group, our focus has led to many different business units that all contribute to improving our client's EBITDA. There is no firm of any size, that we know of, with capabilities in sourcing, procurement transformation, group purchasing, internally-developed spend analytics technology, category management services, and energy management - all under one roof. Trust me, I have done the research.

So, as you consider the right firm for your next project, take a good look at all of your options. As you compare the large firms to the boutique firms, at a minimum, you should try and understand what value you are getting for the name brand.

About Insight Sourcing Group

Insight Sourcing Group is the leading boutique consulting firm in North America focused exclusively on Strategic Sourcing and procurement-related services. The firm has developed a reputation for the collegiality and high caliber of our team, our tremendous focus on client results, our entrepreneurial and innovative approach to the space, and for our ability to consistently deliver strong outcomes.

Founded in 2002, the firm works with senior executives and procurement leaders to accelerate Strategic Sourcing savings, increase Spend Visibility, provide category intelligence, and implement procurement best practices. Insight Sourcing Group has worked with hundreds of corporate clients of all sizes and over 50 Private Equity firms.

Typical client results include 20% average savings per indirect spend category, 5 – 15% for direct spend categories, 400 – 600% first-year return on investment, and project payback periods measured in months.

To learn more, visit **www.insightsourcing.com**.

About the Author

Tom Beaty is the founder and CEO of Insight Sourcing Group. He has over 20 years of strategic sourcing and management experience. Prior to founding the firm, Tom worked with Deloitte Consulting and ICG Commerce (later renamed Procurian and acquired by Accenture in 2013).

Early in his career, Tom led the turnaround of a 120-employee construction company, converting substantial losses to profitability in under a year, primarily through cost optimization. This experience contributes heavily to his focus on delivering measurable results and high ROIs for clients.

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