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Introduction: Where Are We Now?

The Big 'E': 1999 – March 2000

'E-business changed everything', said one senior consultant I talked to. 'We had to refocus everything we did. It challenged who we were and what value we could bring to clients.'

The late 1990s saw the emergence of a whole new generation of consulting firms – firms like IXL, Sapient, Scient and Razorfish – all of whom were growing phenomenally fast, even by the generous standards of the conventional consulting industry. They were walking through a door thrown open by clients dissatisfied with the level of e-business expertise on offer from the majority of their existing advisers. What these clients wanted was in-depth, specialist knowledge of e-business and hands-on, practical experience of implementing e-business ideas. What they didn't want – and this is what they largely saw themselves getting – were ERP consultants, who'd received token e-business retraining and whose services were little more than a firm's existing portfolio, with an 'e' stuck on the front. 'Pigs with lipstick' is how one person put it in retrospect. By contrast, these new firms appeared to offer fresh ideas, a new way of doing things and, above all, a dedicated focus on the new economy.

The impact of such firms has been considerable, whatever the level of their stock price in 2001, but it lies less in their speed of growth or in the inroads they were able to make into the consulting market. Instead, I'd argue their significance lies in the extent to which they self-consciously set out to redefine the meaning of consulting. Remember Andersen Consulting's (now Accenture) advertisements in the early 1990s? 'Metamorphosis in a world of change.' The meaning was far less important than the message they sent out to the firm's clients, competitors and employees: that this was a firm that was capable of and willing to take the high ground. The same was true of the e-specialist firms that emerged at the end of the 1990s: much of their significance lay in the fact that they were willing to talk about the consulting industry and their role in it. In an industry which had historically prided itself on working invisibly, behind the scenes, facilitating the success of clients rather than broadcasting their own, it was talking like this, rather than the content of what was said, that was genuinely revolutionary.

The e-specialist firms changed the rules and raised the stakes. Their position demanded a response, and they got one. By mid-1999, established firms were starting – slowly but relentlessly – to change course.

They were led by the strategy firms: not surprisingly, as strategy was the area in which e-business first made its presence felt and, by early 2000, the level of e-business work undertaken by such firms was typically between 35 and 40 per cent. It was a market that most firms believed played firmly to their various strengths. 'E-business', said Chris Zook, the head of Bain & Co's e-commerce practice in the spring of 2000, 'is a huge factor in the consciousness of the firm.'[1] As he saw it, the demands of e-business clients matched perfectly with Bain's entrepreneurial culture: 'we're accustomed to taking risk and delivering results. And the world is going our way: clients are more and more looking for and rewarding entrepreneurialism in consultants. A firm like Bain has never been at its most effective operating in highly bureaucratic organisations.' McKinsey & Co took the same stance, although they saw e-business playing to a different strength. 'Our real strength', commented Ron Farmer, again in early 2000 when he was jointly responsible for @McKinsey, McKinsey's e-business practice, 'lies – as it has always done – in the depth of understanding we have about specific markets … The sheer volatility of the e-business environment makes domain-specific knowledge absolutely essential if a company is to make the right investment decisions. Analysis, judgement and experience are all as important as they used to be – if not more so.'

What changed, then, was not so much the content of what was delivered by strategy consultancies, as the process and manner in which it was delivered. Faced with the apparent imperatives of 'Internet time', many strategy houses found themselves compressing assignments which would have taken several months to complete in the past, into as many weeks. They also had to rethink the nature of their deliverables: detailed strategies were replaced by more dynamic approaches in which the short-term means to the end could shift in line with rapidly changing market conditions.

The technology-based consultancies also enjoyed an immediate benefit from e-business. While lengthy ERP implementations of questionable value and the level of expenditure on Y2K work had severely tarnished the reputation of this sector, e-business helped to repair it. Clients, who were unsure whether web-related technology was simply an enabler for their business or was a genuine driver of change, became willing, once again, to listen to technology experts. Technology itself, which had fallen from most board-level agendas in the 1990s, suddenly became a strategic priority. As a direct result, technology consultants, who had previously found that the level in an organisation at which they had their key relationships was inexorably declining, found themselves talking to the CEO and IT director. And they used this opportunity to sell to clients a far wider range of services (notably strategy, branding and marketing) than would have been the case in the past. Thus, e-business opened up at least a temporary window in which technology-based consultancies could – really for the first time – reposition themselves successfully.

As e-business moved through the consulting value chain, it hit the operationally-based consulting firms next. At roughly the same time that the strategy firms were estimating that between a third and a half of their fee income was e-business related, the operationally-based firms claimed that around a fifth of their work was generated in this way. E-business was perhaps slower to take off for this particular segment of the consulting industry because it bore the brunt of the client dissatisfaction with generalist business or IT consultants who were perceived to have little of specific value to add so far as e-business was concerned. That these firms apparently resembled the large, hierarchically-based corporations of the old economy also counted against them. 'It's not just that we want to buy e-business related services', explained one client at the time. 'We also want to work with consulting firms that offer us a fresh model for doing things – a different culture, a new set of values.'

The incumbents reacted in two ways. Some chose to stick to their knitting, believing that their most effective, long-term positioning would be to reconfigure their existing services for the new market, rather than launch suites of new services. But other firms saw e-business as an opportunity to redefine their role in the wider economy. Such firms were haunted by the explosive growth enjoyed by technology companies during the 1980s and 1990s: while their own business may have grown at around 15 per cent per annum, companies like ERP supplier SAP were growing at many multiples of this at their peak. Never again did they want to miss out on opportunities for growth that dwarfed their own time- and materials-based earning potential. Some consulting firms chose to enter the new economy in their own right.

Sometimes such moves took place in markets adjacent to their core business: Cap Gemini Ernst & Young, for example, launched Netstrike Worldwide, an internet-based company designed to match resource gaps in Fortune 1000 companies with talented individuals who – for a variety of reasons (family, other business commitments, and so on) – had chosen not to enter the full-time workforce. As such, Netstrike provided both a service to CGE&Y's clients and a pool of additional labour that the firm itself could draw on during periods of peak demand. On other occasions, the ventures took the consulting firm well beyond the bounds of which might be traditionally conceived to be consulting. PricewaterhouseCoopers launched E-conomy, offering low-cost office supplies to small and medium-sized enterprises. In doing this, PwC was able to pass on to these companies the bulk discount it was able to negotiate on its own behalf, due to its size. But E-conomy also gave the firm an opportunity to build relationships with companies which, while they had high growth potential, would not be capable of paying for PwC's professional services. In effect, E-conomy has provided PwC with an entry point into a market from which it was largely excluded in the past: it can be no accident that its services were initially aimed at companies in Silicon Valley.

The potential for such ventures was thought to be considerable: CGE&Y, Accenture and PwC were all quoted as saying that they believed that between a fifth and a third of their income would come from non-consulting sources by 2005.

But such strategies weren't simply the seizing of an opportunity. They were also a reaction to the increasing competitiveness of the consulting industry and to the perennial problem – which e-business complicated, rather than resolved – of how consulting firms differentiate themselves.

Consulting firms were essentially competing along one of two axes. The strength of the new e-consultants lay in their in-depth understanding of the new economy: where they were comparatively weak was their brand – something which placed them at a considerable disadvantage, especially where risk-averse clients, facing an uncertain future, were concerned. 'Why should we increase the risk we face,' said one, 'by hiring a firm no one in our organisation has ever heard of, let alone worked with? Our e-business projects are quite high-risk enough, without incurring this extra level of uncertainty.' The imperative for the e-consultancies, therefore, was to increase their familiarity in clients' eyes, to build trust and long-term relationships.

For the incumbent firms, the problem was the reverse: high in terms of brand recognition, many were perceived by clients to be insufficiently specialised. 'We want to work with world-class experts,' explained one client, 'and we just don't believe that a firm which is offering to do everything – one-stop-shopping – will have the depth of expertise we require. They may have some leading thinkers, but they won't have a monopoly of them.' There was a fear of dumbing-down, that such firms did hire experts only to use them on a range of different projects, thus diluting, rather than concentrating, their expertise. Thus, for incumbents, the challenge was internal – to foster specialist skills without losing the operational homogeneity of the firm as a whole. As a result, e-business, rather than leading to greater long-term differentiation in the industry, became a force for convergence, with the majority of firms converging on the same conceptual space (Figure 1.1).

Only the strategy firms seemed immune from the process, already combining high brand recognition with a reputation for being able to field specialists.

Yet, while some facets of e-business consultancy drove firms to become more, not less, alike, others created an opportunity for genuine differentiation. One of the inherent problems about the consulting industry is that it is very hard for any individual firm to resist the

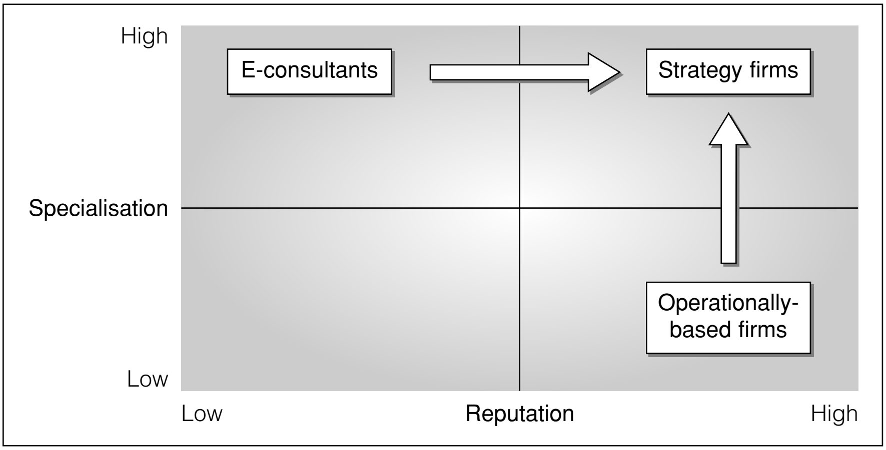

Figure 1.1 *The axes of competition within the consulting industry*

pressure to look like its rivals. Makers of manufactured products have the freedom to produce many product variations precisely because that product is physical, visible, tangible. Thus, a car is still a car, irrespective of its colour, engine power, or high-tech gadgetry. But a consultant who looks very different from other consultants might – in clients' eyes – not be a consultant at all. Make a consulting service unique, and clients might not see it as that service, but something else. It's the invisibility and intangibility of much consultancy that means that, in order to be credible, it has to look the same.

E-business didn't – indeed, couldn't – change this: what it could do is offer a way out. One of the most significant changes in client thinking that e-business has crystallised, if not initiated, is that clients want consulting firms to have put their money where their mouths are, to walk the talk. 'If consultants come to you to sell you a customer relationship management project, then it's legitimate to ask them whether their own firm uses the same package and processes. Why, if they're so confident about the benefits to us, haven't they implemented it for themselves?', was how one client summed it up. It's hard to overstate the significance of this shift: for decades, consultants have been seen as peddlers of theory, going from one company to the next, taking and applying new ideas. But, in the eyes of e-business clients, this was not enough: faced with almost overwhelming uncertainty, they wanted consultants who had actually done something – implemented packages, run e-businesses. It was an attitude reinforced by the plethora of consultants who left the industry to work in dot.coms: 'I've learnt more in three months of running this company', said one, 'than I did in three years with a consulting firm.'

Faced with the need to be e-businesses themselves, consulting firms had three options. They could transform themselves internally, and, like IBM, use the story as proof that it understood the practical issues involved. They could position themselves as creators of entire businesses, rather than specific services. According to Chris Locheed, then Chief Marketing Officer at Scient, 'rather than offering individual services, we wanted Scient to focus on building complete e-businesses, and we became the first movers into a marketspace which we term 'systems innovation'. Our clients ask us: what should my e-business model be? How can I build a new e-business very quickly? How can I innovate sufficiently rapidly to gain a first-mover advantage? What Scient does is bring everything together: we don't decouple strategy from delivery; we don't write a report and walk away. We either build an e-business with a client or we don't work with them: we either engage with the CEO or we walk away. It's the only way we are prepared to work'.

Setting up their own e-businesses has been the third option explored by consulting firms – as ventures like NetStrike and E-Conomy demonstrate: there could be no better proof that a firm was capable of exploiting the potential of the networked economy. Consulting firms cease to be mere spectators on the economic stage and become prime movers in their own right. In *Blown to Bits*, Philip Evans and Thomas Wurster suggest that there are three criteria which will mark out successful companies in the future: their richness (their depth of expertise in their chosen markets); their reach (the breadth and diversity of their customer base); and their affiliation (the extent to which they can overcome the traditional supplier-consumer divide in order to champion their customers' causes). Ironically – given that both Evans and Wurster are consultants with The Boston Consulting Group – it's a model that captures perfectly the opportunity for consulting firms. A good consultant will know as much as, if not more than, his or her client about a specific industry or process ('richness'), but the consultant will have the added advantage of having a far wider range of contacts whom he or she can call on ('reach'). When, last year, I researched a consulting company that had won an industry award for its e-business work, I asked the client what made them so special in their eyes. 'They picked up the phone and corralled their acquaintances on our behalf', said the client. Consultants are far better positioned than their clients to bring together the kind of eclectic eco-systems of companies that will be the prerequisite of success in the networked economy. The only part of the picture so far lacking is 'affiliation' – a reflection of the fact that most consulting firms have chosen to spread their risk by servicing multiple markets simultaneously, rather than ally themselves to any one sector. While becoming more affiliated does expose a firm to changing market conditions, the returns may justify the risk: by seizing the initiative, consulting firms may well turn out to be the holding companies of the future. As such, there's no doubt that this trend has the potential to transform the competitive landscape of the industry.

The Bubble Bursts: April 2000 and Beyond

The pendulum of hype has swung back. At the start of 2000, the column inches dedicated to e-business were seemingly limitless:

unprecedented years of growth suggested that we had entered the 'goldilocks' economy – neither too hot nor too cold, but just right. A year later, the same column inches are full of blow-by-blow accounts of the latest dot.com failure, the latest IPO to be shelved.

And the consulting industry has been caught up in this: the latter half of 2000 saw billions of dollars being wiped from the value of those aggressive, new e-specialists. For most of these firms, retrenchment has become the order of the day. This is taking two forms. First, externally: the level to which the stocks of these firms has dropped is partly connected to the extent to which their business appears to be dependent on dot.coms (who are clearly in no position to buy consultancy). Thus, firms with a greater foothold in the large corporate market have suffered less. Not surprisingly, most of these new entrants are trying to increase their penetration in this sector and have been repositioning their services as a result. Clearly, this threatens to compromise their 'new' economy credentials: how much 'old' economy work can you take on before you cease to be an e-specialist?

The second change is an internal one. Scratch below the surface and it's not hard to find stories from large corporations who have found their dealings with the e-specialists challenging – to say the least. One company I spoke to remembers being hugely impressed by the quality of thinking and innovation brought by one of these companies in the first phase of a project: 'it really was very exciting. They made us question who we are and what we are in business for. The strategic vision they produced was excellent.' What was less excellent was the firm's ability to implement its vision: 'it wasn't so much the technical know-how that was at fault', recalled the client, 'as their lack of process. At one stage, they actually went out and bought some project management books and software. And, when we told them we weren't happy with the situation, they didn't have a process whereby we could escalate the problem internally.' One of the key strengths of the new entrants had been their lack of bureaucracy and the fact that individual consultants were encouraged to take responsibility for their actions, not pass decisions through a long chain of command. But, by the latter part of 2000, this strength was rapidly becoming a weakness in clients' eyes. 'You can get away with not having much in the way of client handling skills or processes in a growing immature market', said another client, 'but these are the kind of things you really need once the environment becomes more complex and difficult.' As a result, many of the new entrants found themselves trying to acquire some of the facets of their more established rivals, by investing in account management processes and by hiring experienced client managers. Again, compromise threatened: how far could you go in replicating the good aspects of your competitors' businesses before you began to mimic their faults?

For the incumbent consulting firms, by contrast, the change offered new possibilities: the world was going their way. While dot.com failures dominated the headlines, large corporations – those behemoths of the 'old' economy – had begun to invest millions of dollars in e-business projects. Many were internal (e-procurement projects offered – and continue to offer – enormous savings); most had a very low public profile; all of them offered opportunities for consultants, especially those firms that could demonstrate that they could bring the best of the new and the old together – innovative thinking implemented with 'old' economy discipline. 'People thought that the new economy heralded the death of process', commented one consultant, a beneficiary of this sea change, 'in fact, e-business projects are so complex and the technology involved is so new, that process matters more than ever.'

The big question now is: what next? E-business has changed the consulting market, but will these changes stick? Are we seeing the beginning of the end of the 'new' economy firms and the resurgence of the established players? Or will at least some of those new firms deliver on what they promised – the redefinition of professional services? Will e-business be the 'big thing' for the consulting industry over the next ten years? Or is there a 'next big thing' out there, waiting to happen?

The aim of this book is to answer these questions in two ways. Like its precursor, it's split into two parts. Part I (What Next?) analyses the short-term future of the consulting industry and looks specifically at the legacy (if that is the correct term) of e-business – its impact on the client-consultant relationship and the strategic challenges it poses for the consulting industry. Part II (And Then What?) is based on interviews with leading management consultants around the world, and takes the process a step further to ask that truly billion dollar question – what comes after e-business?

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[1] Interviewed by the author and originally quoted in *E-Business: Winning Strategies for the New Economy* (Fitzwilliam, NH: Kennedy Information, 2000). The core