



Daring to Be Different?

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I've been researching the impact that e-business is having on the consulting industry—no mean task given the current pace of change. I've spoken to partners in around 25 leading firms worldwide, and I've been struck by the breadth of knowledge and depth of innovation I've encountered. But what I haven't encountered is *differentiation*. Yes, each firm has got something a little bit different to add, but nothing jumps out at you screaming SUSTAINABLE COMPETITIVE ADVANTAGE.

Yet here we are, living through one of the greatest periods of upheaval in our economic history, when a newly formed dot-com can apparently outmaneuver long-standing corporations. How is it that the consulting industry doesn't seem to have been similarly revolutionized? "Out there in some garage," says strategy guru Gary Hamel, "an entrepreneur is forging a bullet with your name on it." But which garage? What entrepreneur? Is there, in fact, going to be a bullet—magic or otherwise—that will transform the consulting industry, just as other industries have been transformed?

Some firms—especially the new-entrant Internet specialists that have appeared over the last couple of years—are trying to change the industry. Whether they will succeed is debatable: I'd argue that, for all the talk about flexibility, the consulting industry has been

remarkably change resistant. Opportunity for transformation does exist, I think, but only by stretching the bounds of what we have traditionally meant by *consulting*.

One of the distinguishing characteristics of the more successful new entrants into the consulting industry is their sense of self-identity. While established consulting firms have been notoriously reticent about defining their role in private or in public, these new entrants are very articulate in terms of the value they can add to their clients. Chris Lochhead, Chief Marketing Officer at Scient, claims

[The firm has] created a new category of company, one that looks like a consulting firm but whose financial performance is more in line with that of a software company.

Equally, while most conventional consulting firms have shied away from revealing much about their clients, these firms are taking consultancy out of the shadows and into the limelight by linking their success to that of their high-profile clients. According to Stephen Zarrilli, CEO of US Interactive:

We are in a position to be able to pick and choose the clients we work with, and we're only prepared to work on projects that are ahead of the curve. We're not going to work with clients unless we think the project they're planning will succeed: our

reputation will be earned by the success of these projects.

But are these kinds of strategies really going to revolutionize the consulting industry? One of the essential problems of being a consultant is that it's very difficult to be different, at least on an ongoing basis—develop a new service, give it a three-letter acronym, and before you know it all your competitors will be offering it too. But the real origin of this problem lies in the relentless homogeneity of this industry. Unlike, say, manufacturing, there is no tangible product in consulting: you can't make it bigger and better. The CRM

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(customer relations management) approach that your firm develops, for example, has to bear some resemblance to the CRM approaches of your rivals if it is to deserve the name. Homogeneity in the consulting industry is like entropy in the universe: however differentiated you may start out, there's an ineluctable force that's gradually driving you to become the same.

It's an issue that worries the new entrants, and some have begun to look at how they can retain the special qualities with which they started out—either by institutionalizing their culture or by continuing to work with specific types of clients, even if they are not always the most profitable. Says Lochhead:

We want to retain the mentality that we set out with by continuing to act as though we have nothing to lose, rather than by thinking that we have something to protect. What this means in practice is that we'll continue to work with high-risk dot-com startups. These companies are the petri dishes of innovation in e-business.

But the temptation for these firms to acquire the credibility of more established ones by replicating their look and feel will be hard to resist. There are already signs that they're investing in the kinds of methodologies and old-economy skill sets that will bring each one closer to its rivals. Ironically, this is happening at a time when established firms are doing their best to look like the new entrants, by ditching their hierarchical structures along with their business suits. The overall effect is one of convergence: most firms are gravitating to the hybrid middle ground between the old and new economies.

So how can a consulting firm really differentiate itself? With all the flurry of activity to provide consultancy for e-commerce and e-business clients, consulting firms have paid very little attention to what could be their killer

asset: their client networks. *Exploiting these intelligently will be the single most important source of sustainable competitive advantage in the industry in the future.*

These networks will be crucial for two reasons:

- Within the consulting industry proper, they will provide the most significant way in which consultants can add value to clients. Most of the e-business clients I talked to were skeptical of the ability of consultants to do anything more than add warm bodies in an area where even semiskilled resources are scarce. Not surprisingly, this skepticism rose in direct proportion to the extent to which clients saw themselves as leading edge: thus, dot-coms were far less likely to use consultants than corporate clients launching e-ventures. But what both groups of clients found immensely valuable was the ability of some individual consultants to use their networks of contacts (venture capitalists, portals, other dot-coms) to help create e-businesses.

- If consultants can exploit their networks on behalf of their clients, there's nothing to stop them from doing so for their own benefit. Indeed, some are already doing this. Ernst & Young and Andersen Consulting have both launched venture divisions that are focusing on investing in new-economy opportunities. PwC has played the aggregator card by launching a business that enables small- to medium-sized enterprises to buy office supplies, exploiting the firm's own economies of scale. So far, the vast majority of these ventures have been in areas tangentially related to the consulting industry: Ernst & Young has, for instance, launched Net-Strike Worldwide, which aims to take advantage of the free-agent market in IT skills by putting highly qualified individuals—who, for a variety of reasons, do not want to work full-time—into temporary positions with Fortune 1000 companies and dot-coms. Launched in the fall of 1999,

Net-Strike employs 400 people and already has a turnover of more than \$100 million. According to John Nackel, the managing director of New Ventures at Ernst & Young, the original idea for the company came from an Ernst & Young employee who saw the need within the firm itself. Asks Nackel:

Why do we always try to manage to maximum capacity in the consulting industry when there is a pool of talented labor that we can draw on when we need it? Net-Strike gives us the chance to change the balance of fixed to variable costs, so that we can be much more flexible.

But there'll come a time when this won't be enough. Consulting firms that combine a deep understanding of a specific issue or industry with a wide network of related contacts are already finding that they're as capable as their clients of generating ideas to exploit the potential of Internet technology. And they'll be more capable of realizing them because, while clients have deep industry knowledge, they lack an equivalent network. And as new, more interconnected business models emerge that genuinely exploit the potential of the Internet rather than simply replicate the old economy on it, these networks will determine success. Consulting firms will therefore find themselves positioned to take a lead in the new economy—creating and running new markets, rather than simply advising their participants.

I'm in no doubt that the consulting firms that choose to exploit this opportunity—and for some, the potential risks will be too great—will all look very different. Whether they will look like consulting firms is another matter. ■

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