



## THE NEW BUSINESS CONSULTING LANDSCAPE

I guess there's a natural, human desire to know where you belong, but that seems to have been compounded by something of an identity crisis in the consulting industry. Can a strategy firm also be a change management firm? When does an IT company become a "solutions provider"? Segmenting the consulting industry isn't just about giving us a sense of who we are, however, but also about showing how we fit in. Who are our competitors? Which firms should we be collaborating with? What are the fundamental characteristics that will define not just distinctive positioning but also competitive advantage in the future?

One reason for the confusion is genuine complexity. Consulting is a broad church, and the traditional ways of segmenting the industry—by size or services offered—fail to capture increasingly stark differences at other levels: in the type of interaction and relationship consulting firms have with their clients; in ownership structure; in the way in which consulting firms organize themselves to deliver their services; and in their approach to global clients. Putting these together may create a more realistic and meaningful way of understanding the differences we find in today's consulting industry.

### Revenue: Relationships Versus Annuity Income

At one end of the consulting spectrum are long-term relationships in which individual consultants become "trusted advisors" to their clients, working for them on a continuing but irregular basis as and when their input is required. At the other end of the scale are transactions—large-scale, one-off pieces of work where there is no commitment from the client to use the firm once the contract has finished. Falling between these two extremes are consulting "products." These resemble transactions in that they are discrete pieces of work, but they are smaller in scale: auditing a bank's exposure to regulatory risk or implementing a particular software package, for example. Having a relationship with a client can be important when it comes to selling products, as it helps to know what products will be appropriate to which people in an organization, but it is depth of specialist expertise that counts most.

Relationships and transactions determine the predictability of a firm's income stream. Reacting to clients' needs as they arise can make it more difficult to predict income more than

three months ahead. Both the volume and value of the projects they undertake varies. Product firms generally have a better idea of the average value of

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their projects (even where they are managing a portfolio of several projects) but find it harder to forecast the volume of work. Transaction firms,

FIONA CZERNIAWSKA (*FionaCz@arkimeda.com*) is the founder and managing director of Arkimeda, a firm that specializes in researching and consulting on strategic issues in the consulting industry.

which are signing contracts for as long as ten years, have “annuity income”: they know how much they will be billing and when they will be billing it.

Greater predictability of income also paves the way for the single biggest organizational change a consulting firm can make: the transition from private to public ownership. Historically, the overwhelming majority of consulting firms were private partnerships, but a combination of factors—the need for capital in consulting and outsourcing work, mergers and acquisitions, the desire for a corporate decision-making structure, and transparency—has meant that private partnerships have become limited to strategy or new niche firms.

### Delivery: Integrated or Orchestrated

Consulting firms traditionally organized themselves along similar lines, with pyramid structures in which the valuable time and experience of the most senior people were leveraged through less valuable and less experienced junior people. There are, however, serious problems with this model, all of which have been highlighted during the past few years. Clients have never liked feeling that they have been palmed off with junior staff for most of the day-to-day work, seeing more senior people only at occasional meetings. They are increasingly looking for world-class input, and they want it from the horse’s mouth. But at the same time the pyramid is getting wider in the middle, it’s also getting narrower at the base, as the work historically done by junior consultants is offshored to low-cost economies.

But the diamond-shaped firm has its own drawbacks. Although it reduces the costs and increases the overall level of expertise a firm can field, it lacks flexibility. For this reason, we’re seeing firms experimenting with different delivery models—forging alliances and

joint ventures in which other consulting firms, specializing in different areas, supply specific skills in a project; take on the role of prime contractor; subcontract work to individual consultants; and even act as a broker, coordinating the work done by a variety of other firms rather than delivering any itself.

Thus three distinct delivery models emerge: *traditional*, integrated firms, which have almost all the skills they

parties (individuals or firms) to deliver their services to clients; and *integrators*, which have a wide range of skills internally but also subcontract to, or partner with, other suppliers in order to deliver an end-to-end service. The difference between the way in which hub-and-spoke firms and integrators deliver their services lies in the size of the center. Transaction firms have a much larger “core” and are more likely to play the role of a prime contractor than that of an equal partner in a consortium.

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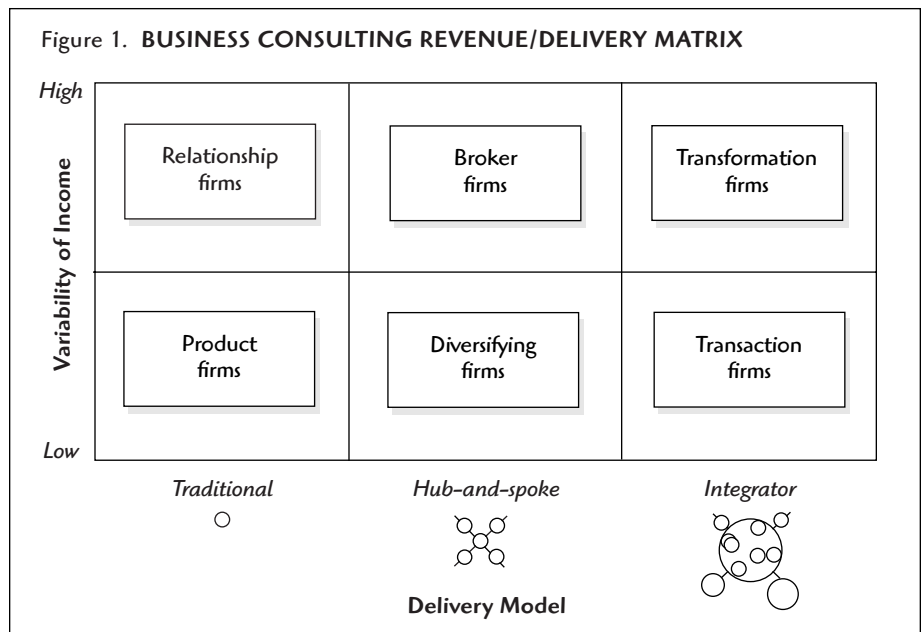
require in-house; what could be termed *hub-and-spoke* firms, which specialize in a particular field or function and rely heavily, sometimes exclusively, on third

### The Revenue/Delivery Matrix

Combining revenue and delivery gives six distinct types of firm in the business consulting revenue/delivery matrix (see Figure 1).

#### Relationship Firms

As their name suggests, these firms survive and thrive on the basis of their client relationships. Their work—and strategy consulting is the best example—focuses on conceptual problems, finding the right answer to a question, and developing a high-level view of



how to act on it rather than becoming involved in the minutiae of implementation. Although a plethora of tools exists to ease the process of finding the right answer, the way in which they are applied will differ from project to project. Industry knowledge is more important to relationship firms than product knowledge precisely because the process of finding the right answer cannot always be mapped out in advance.

The key to understanding relationship firms is their unpredictable income streams: both the average value and the average duration of assignments vary widely. As uncertain revenues sit uncomfortably with shareholder expectations, most of these firms are privately owned. As the name suggests, the most important way in which relationship firms mitigate the risks they face is by developing and maintaining personal relationships with senior executives in client organizations. Relationship firms do not feel under pressure to collaborate. The combination of strong brands and deep relationships in their niche, large or small, means their clients are familiar with the scope of their services and that they are less likely to be asked to undertake other types of work. Indeed, collaboration—becoming more involved in delivery—might easily appear to compromise a firm's independence.

### **Product Firms**

Simon-Kucher is the world's leading pricing consultancy. "Our core business is improving profitability through top-line growth," says cofounder Hermann Simon. "A typical project would be our work on Mercedes A Class. Mercedes initially suggested one price, but we recommended a higher one based on analysis that showed the potential market for the car was smaller than Mercedes had envisaged but less price-sensitive—and we were right."

Although the firm may have a continuous stream of business with its

largest clients, companies like Pfizer and Siemens, it does not have relationships in the conventional consulting sense. "These are discrete projects, and the decision to hire us is made by different people in the organization," says Simon. "Repeat business is based on past performance, not wining and dining."

As their names suggest, product firms generally specialize in one or a small number of areas. Unlike relationship firms, they are less dependent on who they know than on what they know: they win business on the back of their technical expertise, not on the strength of their relationship. Because they are more specialized, their income streams are more predictable. The crucial challenge they face is how to grow and whether to diversify.

### **Broker Firms**

Another way of coping with the ups and downs of income is for a consulting firm to increase the variability of its cost base either by using associates, through alliances with other firms, or by having a distributed structure, allowing it to link several product firms without being dependent on only one. Broker firms depend on their "core"—which might be a collective brand or a small number of employees—to forge relationships with clients. But they have no aspirations to use that core as the main channel for service delivery.

### **Diversifying Firms**

Some product firms take the slower route of organic growth, usually because they have no desire or pressure to move beyond their existing niche; but others are looking for a faster track, seeing their specialist heritage as the launch pad for larger, more diverse businesses.

That is certainly how Tom Dolan, president of Xerox Global Services, sees it. "We're bringing Xerox into the world of professional services, where consulting becomes our common front end,"

he says. The company had the classic, product-focused approach. "We had accounts and sold them products. We did not try to understand their business." Growth will come partly from increased specialization and partly through ensuring that these specialist offerings fit into a broader set of services. "We have a three-pronged strategy for growth. Obviously, we intend to grow organically, via direct recruitment, but we are also planning to expand the number of alliances we have, not only with the largest, most established consulting and outsourcing companies, but also with small consulting boutiques where we think there are specific opportunities. Some of these may be candidates for acquisition in the future."

Diversifying firms often have more problems with brand than product or broker firms. For product firms, brand will be built on their reputation in a specialized field. For broker firms, brand strength lies in the hub and the spokes: the hub may provide the name that secures client relationships, but the spokes have the reputation for delivery. Diversifying firms, as they move away from the single focus that previously defined their identity, have to challenge clients' existing assumptions. In Xerox's case, it is hard to find a better-known corporate brand, but it is not a name that managers will immediately link with consulting.

### **Transaction Firms**

Transaction firms have products, too, but they are much, much bigger. This is consulting as corporate finance: income is derived from a small number of very large deals. But unlike corporate finance, the actual income stream is spread over a period of years, sometimes unevenly, so that the consulting firm may earn less in the early years when it has improvements to deliver and more in later years when the situation has reached a steady state. As this implies, transactions are focused on

large-scale systems delivery or outsourcing. There may be an advisory component to the project, such as change management, but it forms only a small proportion of the overall deal. Transaction firms are therefore much more geared toward implementation and delivery than are relationship or even product firms. “Transaction firms do not do consulting for consulting’s sake,” says Bjorn-Erik Willoch at Capgemini. “It is not their function. They want to use their consulting practices to create opportunities for outsourcing and technology. Business process outsourcing (BPO) and transformational outsourcing are both symptoms of this. The best BPO suppliers will take over a client’s messiest processes, fix them, and then run them on their behalf.”

Transactions have four drawbacks from the consulting firm’s point of view:

- They are almost exclusively either consulting, technology, or outsourcing deals.
- They are one-off deals that effectively focus on moving from A to B and then stopping; steady-state rather than continuous improvement.
- Payment is based on the completion of the transaction (timely delivery, for example), rather than on business outcomes.
- They reduce the opportunities to establish a long-term relationship with a

client, which allows the consulting firm to stay in touch even while not carrying out work for the client.

### **Transformation Firms**

Two firms—IBM and Accentor—are unquestionably leading the way in changing this model, shifting their attention from transactions to transformation.

“We talk about business performance transformation,” says Eric Pleader, a partner in IBM’s Business Consulting Services (BCS) and responsible for its strategy and change practice globally. “It is an expanding market, driven by clients who want to achieve a radical improvement in performance and who realize that they need a combination of consulting, outsourcing, and technology services to help them do this. Looking at the speed with which big businesses have switched from trying to do everything themselves to relying on external parties, we estimate the business performance transformation market is worth something like \$500 billion per year.”

### **Positioning in the Business Consulting Revenue/Delivery Matrix**

The revenue/delivery matrix is a new way to map the new business consulting landscape. While some firms sur-

vive, indeed thrive, in the conventional relationship model, many more occupy positions that are radically different, in terms either of their more predictable revenue streams or of their delivery model. Inevitably, firms will try to gravitate toward those cells in the matrix where profits and/or long-term growth seem highest. For some, this may involve returning to their traditional consulting roots; for others, the challenge will be how to diversify without compromising their specialist reputation and cost base; and some will be seeking to graduate from focusing on transactions to enjoying a more transformational relationship.

Each cell has its advantages and disadvantages. Each represents a sustainable business model, although never one without challenges. Success for consulting firms lies in understanding their position within the matrix, and the specific threats and opportunities this brings. ■

*This article is an edited extract from Fiona Czerniawska’s new book, Business Consulting: A Guide to How It Works and How to Make It Work, coauthored with Gilbert Toppin and published by The Economist.*

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