Reinventing consultancy

Consulting firms will have to rethink their business strategies in order to survive the current industry climate. Fiona Czerniawska reports.

"THERE'S A lot of unfinished work around the consulting industry," says Alan Buckle, the chief operating officer of KPMG's consulting practice in Europe. The pricking of the e-business bubble, imminent recession and now a potentially prolonged and inconclusive war have all combined to turn the eyes of consultants inwards, to their own businesses. "To survive, let alone thrive, in the future," agrees John Kerr, the managing partner for business consulting, Western Europe, at Andersen, "consulting firms are going to have to redefine what business they're in — they're going to have to reinvent themselves."

Much of this rethinking will be focused on the organisational models and skill sets of consulting firms. The pure-play e-consultancies may be disappearing fast, but they are not without a legacy. "Just because we now know that all those kids in garages aren't going to replace large corporations doesn't negate the fact that the pace of technological change is increasing," argues Philip Evans, senior vice president at The Boston Consulting Group and the co-author of *Blown to Bits*. "As the philosophers of the French Revolution noted, every revolution devours its own children — we saw that with the railroads. But, just because the revolutionaries are the earliest victims, doesn't mean that the revolution stops: the recent carnage shouldn't make us underestimate the significance of what's going on."

According to Ron Farmer, the co-leader of McKinsey's global business building practice, the e-consultancies had an impact at a conceptual level: "They took a more creative approach to organisational design, and introduced new business models, which the industry is still in the process of evaluating and assimilating. Like the development of any new product, there's been an inevitably high failure rate, but that doesn't mean that nothing of value has been left as a result."

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Pressure has been building in the consulting industry for some time. When one talks to clients about what they want from consultants — as opposed to consultants about what they think their clients want — it is access to highly specialised knowledge. Why? Because specialised knowledge is one of the most visible areas in which consultants can add value. Yet one of the attractions of e-consultancies lies in their ability not just to nurture specialist skills, but also to then integrate them. "I'm not talking about end-to-end consulting here," said one client, "but the ability to take people with highly specialised skills and put them in a room together from the outset. I'm convinced that the strategy we developed doing the latter was far better — and easier to implement — than if we'd gone through the conventional, sequential process of working out what we wanted to do with a strategy consultancy; working out how to get our customers to buy it with a marketing agency; and then working how to make it happen with a systems integrator."

The irony is that this may not be a legacy the consulting industry wants. The ex-human resources director of an ex-e-consultancy explained the issue: "It's a very tough model, and, on the evidence to date, I don't think it's going to work. The more we positioned ourselves as an end-to-end services provider, the more people with different skills we had to recruit, often for very specific pieces of work, and the harder it became to keep everyone occupied. I like to think that we did crack integration on a project-by-project basis: we got people to work together very effectively at the micro level. What we didn't manage to do was apply the same principle on the macro scale — firm-wide — and utilisation rates fell as a direct result. If we were to start all over again, we wouldn't try to have all the skills internally: we'd form far more relationships with other specialist firms and let them — and the market — sort out utilisation."

Developing — and maintaining — in-depth expertise poses the consulting firm with three problems. First, specialised labour can be inflexible labour. If one has spent two years exposing someone to — for example, setting up call centres for financial services clients — and the bottom drops out of that market, then the effort involved in retraining that person will be significantly greater than it would be for someone who has spent the same period moving from project to project and sector to sector. Second, the payback on investment in specialist expertise is very uncertain. Highly qualified (and therefore valuable) individuals are prone to leave; downturns in the market can occur with little notice — as the last couple of years have demonstrated. From the perspective of the consulting firm, there is a trade-off to be made: one can either build a niche workforce that is capable of earning high-margin fees in the short term, or develop more generalist people who may not be able to command the highest rates but are more easy to re-orientate as clients' needs change. Third, even if one can succeed in growing distinct specialisms, one may create as many problems as one solves, ending up with an organisation that cannot talk to itself in any cost-efficient manner. The first challenge for the consulting industry in the future is to develop new organisational models capable of squaring this circle — keeping clients and investors happy at the same time.

In fact, it is not just a question of balancing the needs of these two sets of stakeholders, but re-examining the role of the collective organisation that is a consulting firm. Part of this process is already under way, as part of the industry migrates toward public ownership. Yet, from the client's point of view, the issues are even more fundamental. One senior purchaser of consultancy interviewed asked: "What value does the firm have? It helps me track down the world-class expert in the area in which I'm interested. But, once I've found that individual and built a relationship with them, what's the role of the firm?" The "firm" is a route map, a navigator, an intermediary: its single, most important asset is its telephone directory. Like any other intermediary, the firm may find itself being disintermediated, and re-intermediated.

Clients are also pointing fingers of suspicion at the role that consulting firms play in creating management bandwagons.

The markets for intellectual capital increasingly resemble the markets for financial capital: consulting firms — with impeccable economic logic — are trying to call the market by investing in management ideas as they emerge. This immediately creates a "buy" mentality among competitors, afraid of being left behind. E-business was an object lesson in how long the large firms especially took to respond to a new management bandwagon. "Clients notice when a firm is last: it makes them less likely to use that firm when the next bandwagon comes along," said one partner. As with the financial markets, technology and greater availability of information mean that the collective reactions of the consulting industry can be both more instant and more comprehensive. Along with rethinking their organisational model, a second challenge for consultants is to resist this temptation, to think — and persuade clients to think — more individually. "Customised, proprietary strategies are even more important today than they were ten years ago," argues John Donahoe, Bain's worldwide managing director. "A decade ago, we were working in an environment of clear-cut industry boundaries. The strategies of the players within each sector were broadly similar: the winners were those who executed better than the rest. But, as the boundaries between industries collapse, no two businesses can define their strategy in the same way."

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Yet innovation, whether it is applied to their clients or to consulting firms themselves, means a changing attitude to risk. As Christopher Meyer, the director of Cap Gemini Ernst & Young's Centre for Business Innovation, points out: "Risk is a four-letter word in an industrial environment but… has positive value in a financial market. Every kind of business is going to have to become more comfortable with risk: the wires will be higher, so the nets need to be stronger… the consulting firm can't bear all of the risk."

It is likely, therefore, that the collapse of boundaries inside consulting firms will be matched by the crumbling of those outside, restructuring the intellectual value chain. "Some of that deconstruction will challenge some of the most accepted dichotomies of the industry — the separation of strategy from organisational change, and competition versus collaboration," argues Evans. "Traditionally distinct disciplines will merge to create new paradigms."

As the consulting industry reinvents itself over the next two to five years, in response to the twin pressures of client demand for greater specialisation and the disintegration of the intellectual value chain, it may begin to look more like the film industry.

A studio has an option on a particular idea; it discusses it on and off with a small number of executive producers with whom the studio has worked in the past, and at some point decides to make the film. A producer is hired, who, in conjunction with the studio and the executive producer, appoints a director. While the director then takes charge of hiring the cast and filming, the producer pulls together the highly complex logistics that go into film-making — hiring the crew, finding the locations, building the sets, etc. — as well as keeping control of the overall timetable and budget. The key feature about the way in which the film industry works is that a multitude of independent specialists come together for a short period of time, with a specific goal (making a film); some of these specialists play a very specific role and are only involved for a very short period; others — such as the director and producers — are involved from start to finish. Once the film is completed, the crew disbands.

The "incubator" style of working is significant because it has introduced methods like those of the film industry into the consulting industry. A client (the studio) has an idea: it may brainstorm that idea with a small number of consultants with whom it has a long-term relationship; it then hires a consulting firm to manage the development of the venture; this firm, in turn, orchestrates a whole host of specialist firms, each with a specific role.

The single most important difference between the film and the consulting industry is that films are created by a large number of very small companies and freelance specialists, whereas consulting projects have tended to be delivered by a single firm, calling on the varied resources of its worldwide network. As the pressure on consulting firms grows — to offer highly specialised people capable of collaborating with people equally skilled in very different disciplines, and to create more "unique" outputs — the film industry could well provide an alternative model. However, it is not an easy model, replacing the hegemony of very large firms with a more fragmented series of "city-states". To re-use the words — appropriately enough — of Orson Welles: "In Italy, for 30 years under the Borgias they had warfare, terror, murder and bloodshed — they produced Michelangelo, Leonardo da Vinci and the Renaissance. In Switzerland, they had brotherly love, 500 years of democracy and what did that produce…? The cuckoo clock." Or as Adam Gutstein, the chairman of DiamondCluster, puts it: "People businesses are the hardest businesses to run, although in many ways they're the most rewarding. I sometimes say that if I could come back in another life, I'd like to have at least a few physical assets as well — give me a bit of machinery or something!" ◆

Fiona Czerniawska's new book, Management Consultancy: What Next? *is published by Palgrave. Fiona can be contacted on FionaCz@arkimeda.com.*