



ESSAY

Outsourcing: Death Knell for Consulting?

Fiona Czerniawska

Is outsourcing good or bad for the consulting industry? The evidence appears to go both ways.

Conventional wisdom has it that outsourcing and consulting are countercyclical. During periods of economic growth, organizations have been willing to spend some of their profits on consultants to help them develop new strategies, address new markets, or build the operational platform needed for future growth. But in downturns, clients shy away from paying expensive consultants and turn to outsourcing companies to take problems off their hands.

In the last few years, we've seen outsourcing suppliers grow quickly while their consulting rivals have gone through successive rounds of layoffs. But for every consulting firm that has been cannibalized by outsourcing, another has responded to the need for developing sourcing strategies by helping with supplier selection and contract negotiation, change management, and process reengineering. What's been poison for the geese has proved to be sauce for the ganders.

These contradictory trends are coming to a head with the emergence of two new steps in the evolution of outsourcing. On the one hand, we have transformation outsourcing, a new model that promises greater flexibility and more dramatic benefits than old-style outsourcing. Transformation outsourcing aims to deliver more radical improvements to a business than conventional outsourcing and calls for new governance structures and a mix of expensive consulting and cheaper outsourcing skills. On the other hand, we have business process outsourcing (BPO), in which an entire process, rather than a particular form of technology, is contracted out to a third party.

Both business transformation outsourcing and business process outsourcing may involve using resources located around the world. The commoditization of some services will move some of the work done by onshore consultants a few years ago to locations such as India or China. But both models have other implications for the supply side. For the biggest suppliers of outsourcing, transformation

outsourcing is nirvana, reenergizing demand just at the point where it may have peaked and providing a mechanism for overcoming the long-standing divisions between their consulting and outsourcing practices. The name of the game in BPO is specialization. Clients have to view their organizations as modules, components in a value chain: some parts have to be retained in house, but others—HR administration, finance, even customer services—can be outsourced. Suppliers will have to match this; indeed, we're already seeing outsourcing firms start to focus on particular markets, and consulting firms will end up having to follow suit.

It's therefore perhaps not surprising that the market has seen a rash of new books on outsourcing. What do they tell us about the relationship between outsourcing and consulting?

If you know little about outsourcing, Elizabeth Anne Sparrow's book, *A Guide to Global Sourcing*, is a good place to start: it's a clearly written and jargon-free introduction. By including thumbnail sketches of a host of outsourcing projects, she brings home just how prevalent this way of working has become. Somerfield, for example, is a little-known and comparatively small UK supermarket chain: that it has split its application development between England and India shows that offshoring is as accepted among medium-sized enterprises as it is among larger ones. But the drawback to covering so many organizations as Sparrow has is that none of them is covered in much depth.

For that depth, we turn to Michael Corbett's excellent *The Outsourcing Revolution*: "While outsourcing's impact is expanding rapidly, outsourcing itself is changing in very basic and important ways . . . Outsourcing is at an inflection point" (p. xiv). Corbett knows a lot about the 1,500 compa-

nies his book is based on and sees BPO as the next logical step for business process reengineering, as well as outsourcing. "When process thinking is applied to outsourcing, it becomes business process outsourcing . . . BPO shifts the focus of traditional outsourcing and the way the relationships with outside specialists are defined and implemented—within discrete departments—toward a process-centric, end-to-end view of the business's activities" (p. 23). Corbett is perhaps overly optimistic about the results of BPO, suggesting that increases in productivity of 10- to 100-fold are possible if outsourcing is approached from a more strategic standpoint. But this is an articulate and thoughtful book which argues that the need for specialist skills will cut across the internal divisions among suppliers and, by implication, that suppliers (or parts of them) will find themselves having to work together.

In *The Black Book of Outsourcing*, Douglas Brown and Scott Wilson believe that outsourcing will—ultimately—make the world a better place, despite the pain of transition: "By pursuing profit maximization, firms remain competitive, and the result is cheaper goods and services and a higher standard of living, at lower cost for consumers" (p. xiv). They cite a plethora of research studies backing this up and provide a wide array of checklists for managers considering or pursuing the outsourcing option. Like Corbett, they see BPO as the new incarnation of outsourcing, but their analysis doesn't stop there. By bringing conventional IT outsourcing and BPO together, they argue, organizations will be able to "productively and quickly catch up with and even leapfrog a competitor's existing BPO and IT advantages" (p. 125).

But there's one area where Brown and Wilson don't think the bundling

of services is appropriate: "Many companies concurrently position themselves as offering both consulting and outsourcing services. Unfortunately, they don't clearly distinguish between the two, and in the process confound the situation. The difference would seem to be clear-cut: Consultants advise companies on how to do something; outsourcing providers 'just do it'" (p. 27). Although they acknowledge that consulting firms will sometimes deliver a service or product and that an outsourcing provider will sometimes give advice, theirs is essentially a compartmentalized view of the world: consultants advise, outsourcers do. By default, they start to limit consulting to one small part of the value chain.

The same is true of *Business Process Outsourcing* by Rick Click and Thomas Duening. Here, too, BPO is regarded as an unstoppable force, and the authors do a good job of highlighting how issues such as broadband access, abundant data storage, and analytic software have created an environment in which BPO can flourish. Again, this is a well-researched book with plenty of good examples and is particularly welcome because it tries to evaluate the data in a circumspect light. BPO is something managers have to consider, but not necessarily adopt. "BPO is not right for every company, nor is it right for every process in a given company, but its promise makes it imperative that managers seek out BPO opportunities and exploit them where possible" (p. 47).

Consultants feature here, but only during the precontract stage to help with the analysis of the BPO market. Indeed, Click and Duening warn clients against making too much use of consultants during implementation: "overreliance on consultants can lead to additional project costs throughout the implementation" (p. 75).

Jane Linder in *Outsourcing for Radical Change* defines transformation outsourcing as “using outsourcing to achieve a rapid, sustainable, step-change improvement in enterprise-level performance” (p. 23). The scope is wider, and the impact deeper, than the conventional approach to outsourcing. It follows that Linder prefers to cover a smaller number of case studies, but in much more detail, and her book is an excellent source of information on the practical side: contractual arrangements, payment schedules, and governance structures. My main gripe is that she doesn’t always name the companies concerned.

Linder comes from Accenture, so we might expect her to talk about consulting and about the relationship between outsourcing and consulting. Accenture is, after all, one of those large suppliers that has to grapple with the challenges of having consulting and outsourcing people under the same roof. She doesn’t grapple with the same issue; well, not explicitly, although a lot of what she does talk about sounds suspiciously like consulting. If BPO pushes consulting into a corner, transformational outsourcing will consume it altogether.

Does this matter? You could argue that clients want both advice and help

with implementation. The fact that, ten years ago, both were labeled “consulting” but today implementation is being relabeled “outsourcing” could be just another example of the old wine/new bottles problem that dogs the supply side. But I think this would miss the point. In a future world where BPO and business transformation take off in a sizable way (and despite recent growth, they haven’t done that yet), consulting will, at best, be marginalized, limited to an advisory, quasi research role. At worst, it will cease to exist altogether, subsumed into the larger “transformation” model.

Edward Yourdon has something to say on this. *Outsource: Competing in the Global Productivity Race* concentrates on offshoring and is more of a macroeconomic view of outsourcing than a self-help manual for executives. Yourdon argues that India had a deliberate and highly successful strategy of creating an environment that encouraged offshoring and points out, for example, that China will be able to match the United States’ quality and volume of IT-related research within a decade. The attractions of offshoring, according to Yourdon, go way beyond simple wage differentials: workers and employers need to prepare for a difficult future.

And consulting firms? These will be at risk, not just because their rates are comparatively high, but also because their offshore competitors will “show up on the scene, providing quantifiable details on their level of quality (which [the consulting firms] probably never did) and promising that their quality is substantially higher” (p. 149). Consulting firms should lower their costs and their prices, but because simple cost-cutting is of limited value to knowledge-based organizations, Yourdon tells consulting companies to get their own houses in order. “Whatever the acronym or buzzword, the idea is the same: reorganizing, reinventing, and dramatically improving the time, quality, and cost associated with the key business processes within the organization” (p. 152).

The current, uneasy truce between outsourcing and consulting won’t last. Consulting firms need to equip themselves to fight back.

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FIONA CZERNIAWSKA (fionacz@arkimeda.com; www.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.