

MANAGEMENT CONSULTING NEWS

all things consulting . . .

Meet the MasterMinds is an exclusive interview series brought to you by [Management Consulting News](#). Feel free to distribute this interview to others, but please respect our [terms of use](#).

If you'd like to subscribe to our free, monthly email newsletter, sign up at www.ManagementConsultingNews.com.

Comments are welcome, so please send them along to the [editor](#).

Enjoy the interview!

.....

Meet the MasterMinds: Fiona Czerniawska on Trends in Consulting

MCNews is pleased to welcome back Fiona Czerniawska, an author and recognized authority on the consulting industry. Her books include *Value Based Consulting*, *Management Consultancy in the 21st Century*, *The Intelligent Client* and *Management Consultancy: What next?* She's also co-author of the recent report, *Offshore Consulting: Benchmarking Future Success*.

She is founder and managing director of Arkimeda, a research and consulting company that focuses on the challenges facing consulting firms and their clients. Czerniawska is also the Director of the Think Tank for the Management Consultancies Association (MCA), where she is responsible for research on trends in consulting.

MCNews talked to Czerniawska to get her take on the past year in consulting and what she sees on the horizon.

MCNews: Looking back over the past year, how would you characterize the state of the consulting industry?

Czerniawska: It's a bit like we've landed on a strange planet. We're getting out of the spaceship, blinking in the sunlight and wondering how much the landscape around us has changed over the last two years and whether it will go back to what it was. We're learning what the new world of consulting looks like.

The year 2003 was an interesting one. The first six months of the year were about maintaining equilibrium between supply and demand for services. Confidence in the industry rose slightly in the summer. But I think people were concerned that their hopes were going to be dashed again and we were going to have another demoralizing round of redundancies and cuts like we had in 2002.

But certainly in Europe things seem to have made a significant turnaround since then. Consultancies are recruiting more and more work does seem to be available, perhaps because more clients are making decisions to spend on projects again. I think that a degree of pent up demand for consulting services is surfacing.

MCNews: When you consider the trends in the industry, what are the three most interesting ones that you see?

Czerniawska: The first one is multi-sourcing. I see a growing trend amongst clients to switch away from the mega-deal with one consultancy, and pressure to get multiple firms to collaborate on projects.

Clients may feel that no one firm can handle either the scale or complexity of their large projects, and they may want a partnership with five or six firms. Or clients may cut projects down into small pieces that they give to specialist firms.

The message is that clients want consultants to work together. They don't expect one firm to supply everything.

It's going to be interesting to see how this trend plays out. And it raises questions about how good consultants are, in fact, at working together. It sounds like a nice ideal to get three experts from different firms who are brilliant in their fields, but can they actually work together? The individuals may get on okay, but it's complicated at the firm level.

MCNews: How will this trend impact individual consulting firms?

Czerniawska: I think it has huge ramifications for firms. Why bother having a consulting firm if clients are pulling the best people from different firms to create project teams? What role does the firm play? It's about quality, consistency and brand assurance, of course, but how much do clients really want to pay for that? The firm could become just a flag of convenience.

MCNews: So what's the second trend you see?

Czerniawska: The second trend is about pricing strategies. One question that needs to be addressed is how much can a consulting firm shift the payment a client owes them out over a period of years, either amortizing it or simply deferring payments? When do we get to the point that consulting firms are acting as banks? They may end up with the equivalent of a bank's bad debts.

MCNews: Don't some of the outsourcing firms already have this problem?

Czerniawska: Absolutely. But it's now affecting more than just outsourcing companies. It's rolled up with the consulting that often goes with outsourcing, but I can see it expanding into other areas. For example, some firms price services at a lower rate with a guaranteed volume over a period of years. That's financing a lot of work for the client.

And then you've got the notion of utility consulting—clients paying for what they want when they want it, rather than agreeing to a price up front. That has ramifications for software and hardware suppliers, which are used to annuity licenses. Now they have to plan on upfront license fees rather than annuity income. So everybody's going to be affected by this in some respect.

If clients say we will only deal with consultants and suppliers who can do this kind of financing, everybody must start thinking about pricing strategies to be remain part of that value chain.

MCNews: Is that kind of pricing strategy becoming more prevalent because of clients' view of consultants and the value they provide, or is it simply a financial convenience for clients?

Czerniawska: I think it's a mixture of both. It's partly convenience. Clients' budgets are tight, and this is how they ensure better value for money. This wouldn't be happening if clients were completely comfortable about the value that consultants provide or were sure of the return on investment they would obtain.

It's quite clear that consulting firms haven't stepped up to the mark in terms of defending the value they deliver. Of the two strategies consultants could have adopted to respond to price pressure, they chose to discount rather than stand their ground and argue the case for value.

With the economic downturn, clients have been trying to manage the variable cost side of their businesses, including consulting. The growth of consulting is going to be constrained unless consultants can find a better way for clients to account for their expenditures on consultants.

MCNews: Does it seem to you that consultants have educated clients to focus on price rather than value?

Czerniawska: I think that's absolutely right. The conversations have started with consultants saying, we'll knock 5% off rather than, hang on a second, this is what we can add to your business. And I think it is very difficult if one firm goes the discount price route for the others not to follow suit.

MCNews: The last time we talked, you said value-based pricing hadn't really gone anywhere. What's going on with this pricing strategy these days?

Czerniawska: I'm not sure value pricing is going anywhere at all. Consultants haven't made a good enough case for their value and therefore can't shore up the price using it. I see a fair amount of experimentation with different pricing mechanisms, but I think at least 50% of pricing is still based on time and materials.

MCNews: Shouldn't small firms or independent consultants be better able to price based on value?

Czerniawska: That's a fair point. I think the more specialized you are, the greater the possibility that you can make value pricing work. It's much harder for larger firms.

It's complicated for consultants to forecast a project's value, and clients, too, find it complicated. Faced with choosing between bids competing on price and one that proposes a value-based approach, clients will probably feel it's less risky to select one of the discounted bids.

MCNews: You said there were three trends to watch. What's number three?

Czerniawska: The third item on the agenda is offshoring. The issue is not so much about doing work in different parts of the world or high-cost economies versus low-cost economies, but about the balance of costs firms should have going forward. How many high-paid people do you need and how many less expensive people? Do they have to be in the same firm? If not, how do you join them together?

With the higher profit margins of five or six years ago, you could get away without asking these questions. But now the balance of high-cost and low-cost resources is going to be fundamental.

MCNews: Do you think the rush to offshoring will continue, or is it a bubble that will burst?

Czerniawska: Well, I honestly think it's too soon to tell for sure. But if you look at all of the scenarios that are likely to evolve, three out of four of them involve quite radical changes to the nature of the consulting industry and the consultant-client relationship. And only a very small number of consulting firms would do well under all the possible scenarios.

If you look at one scenario, though, offshoring does look like a bubble. If consultants jump on the bandwagon without doing the proper business cases, the result might be similar to what happened in the late 1990s with the dot-com's—lots of negative coverage, people pulling out of deals and a lot of bad press for the consulting industry.

MCNews: You mentioned potential changes to the consultant-client relationship. How is the nature of that relationship evolving these days?

Czerniawska: Clients tend to be clear about the value of consulting projects that fall into two categories: big, transformational projects and very small projects. Clients are sometimes reluctant to buy consulting services for big projects, but they have little choice because of the level of resources and the complexity involved. For small projects, clients know what they want and they hire specialists to give them exactly that.

It's all the stuff in the middle that clients are less sure about. They are much more skeptical about the value they will get from consultants on medium-sized projects that entail a medium level of change.

In talking to clients, I hear a common theme, which is that they want to take control of what's going on. That's part of the impetus behind multi-sourcing. Clients seem to be saying well, we know it will involve more overhead but we want to pick and choose who works together. And that's interesting because we genuinely don't know if that's the right way of doing things. Can clients—or their proxies—really pull together a variety of consulting firms and make a collaboration work?

Another aspect to clients wanting to take control is how they realize the benefits consultants bring. Clients need to be able to understand and measure consultants' contributions. So I think there should be more hard conversations with clients about how clients can determine benefits.

MCNews: Are clients now choosing consultants based on the individuals rather than on firms and brands?

Czerniawska: Clients still use both to a degree, but in different ways. They use brands to shortlist consultants. So undoubtedly there's a real issue about how clients find out what individual consultants do in firms. And they still find it very hard to distinguish between firms at the corporate level. They also find it hard to find specialist who are in smaller, more focused firms.

MCNews: Is that because clients won't make the effort to find them?

Czerniawska: It's partly that. But also because clients do a search on the Internet or wherever they start and find that the firms in a category are all saying the same things. So how do they work out which ones they might want to shortlist?

MCNews: They need a referral or something else to go on.

Czerniawska: Exactly. Referrals and brands help clients to shortlist the firms they want to talk to. But I think it's absolutely true that when it comes to who clients want to hire, the personal chemistry is the deciding factor. It's more like a job interview than a beauty parade.

I was at a forum recently and many audience members really just wanted to know which firms to go to; they wanted names and recommendations—some way to clear the fog of all the information out there.

MCNews: So consulting firms are not doing a good job of helping clients sort out their choices?

Czerniawska: No. Consultants have to start rethinking how they get their messages across. High level advertising, white papers and so on play a part, but have not solved the problem. It's just not clear enough what consultants are actually doing.

MCNews: In your opinion is there an approach that can bridge that communication gap?

Czerniawska: I haven't seen a real solution yet. We are already seeing people who claim to be experts at helping clients hire consultants. So now clients need another set of advisors to advise them on who they should hire as advisors. That's just exacerbating the problem in my view. How do these people find out about who's out there either?

MCNews: Consultants do seem more homogenous than ever. You'd think somebody would break out of the pack based on a brand. Why do you think that hasn't happened?

Czerniawska: I guess it's partly the economic slowdown, but consulting firms were hit by a degree of paralysis and have been unwilling to experiment or be innovative. The thinking has been we'll just stick to one thing—it's too scary out there.

An exercise I did earlier in the year on thought leadership reinforced the same point, which is that there is a lot of white space out there and nobody is trying to fill that space. Consultants could take the skills, techniques and tools that they've honed in one sector and apply them to another sector. And there are all kinds of issues that clients are concerned about that consulting firms are not addressing.

If consulting firms don't start to work on new approaches and be a bit more adventurous, someone's going to come and fill the gap. Maybe it will be some of the offshoring companies.

MCNews: Because they bring a different set of solutions or services?

Czerniawska: Yes, that's right. Obviously innovation can be about processes and the way of doing business as much as about intellectual capital.

And some of the offshore firms are quite large. Three of them are approaching the \$1 billion mark. Even so, of course, the top fifty added together have less revenue than IBM. But still I think we'll see the top ten offshore firms moving into higher-end consulting, trying to establish onshore positions and building client relationships.

MCNews: Is that to pursue a new profit opportunity or to protect their outsourcing businesses, or both?

Czerniawska: I think it's to gain direct access to clients. Many of the offshoring companies have worked through partners based in the West, and obviously that means they can't control prices, go after other clients or get out of the commodity category. So they have to go around their partners at some point if that's what they're going to try and do.

MCNews: As you look ahead in 2004, are you bullish, bearish or neutral on the consulting industry?

Czerniawska: I'm neutral to bullish. I'm bullish because we're seeing a bit of a recovery. However, I don't see any rocket fuel—big ideas or technology—that could power the market up to the performance we saw five or six years ago. So in my opinion, consulting will see growth, but it's going to be closer to 5% than 10%.

But it's also going to be quite patchy again. Some consultants are going to do very well and others will do less well. It may not be the same consultants in each category that we've seen over the last two years.

Most people agree that spending on information technology will go up, but not that much. I'm more bullish about strategy, which has been in the doldrums now for so long. Clients are facing some enormous issues about how they must change their businesses and improve performance.

Clients have been down the technology path, and have learned that technology itself is not the answer to all problems. So the pendulum is swinging back again to other solutions, like human resources and strategy, and no doubt it will swing back again at some point in the future. I'm a great believer, I'm afraid, in business cycles.

MCNews: So what's on your research agenda now?

Czerniawska: You can probably guess, given what I've been saying. I'm currently working on a report on multi-sourcing. I'm looking at the different strategies firms are adopting, what makes them work or not work, and therefore be able to rate firms on their ability to make options work. That promises to be interesting and thoroughly contentious. I'm expecting a fair amount of hate mail from the results!

MCNews: Then you'll know you've hit the target.

Czerniawska: Exactly. I'm also going to be doing something on pricing strategies. And, with a UK- specific focus, I'll be looking at public sector consulting and where that will go in the future.

MCNews: We'll look forward to hearing about those projects. Thanks for your time.

Find out more about Fiona Czerniawska, her books, reports and services at www.Arkimeda.com.