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Meet the MasterMinds: Fiona Czerniawska on the Present and Future of Consulting

MCNews welcomes back Fiona Czerniawska, one of the world's leading authorities on the consulting industry. She's the founder and managing director of Arkimeda, which specializes in researching, analyzing, and consulting on the challenges facing consultants and their clients.

Czerniawska is also the Director of the Management Consultancies Association's (MCA) Think Tank, the Consulting Editor for MCA's journal, *Spectra*, and the Editor of the MCA Book Series.

She's the author of eight books, including *Business Consulting*, *Management Consulting in Practice*, *The Intelligent Client*, *Value Based Consulting*, and *Management Consultancy in the 21st Century*.

MCNews: A couple of years ago, we talked about the new world of consulting. What do you think we've learned about our new environment since then?

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Czerniawska: Well, although I may see this more from a European perspective, one lesson for consultants is that demand is going up but prices aren't. So the old idea that as soon as the good times returned we'd be able to raise prices doesn't seem to be playing out in the way that people expected.

MCNews: Is that because the rules of supply and demand aren't working as we thought they would?

Czerniawska: That's right. Perhaps that's the result of central procurement people who are still very heavily involved in the decision to use consultants. Maybe it's that clients are accustomed to lower prices and they're very reluctant to allow consulting firms any room to maneuver. Maybe it's that there are now more options for clients in terms of off-shore players with a much lower cost base.

Whatever the reasons in each particular situation, there are no sign of prices going back up. And that's interesting because the industry is definitely growing.

MCNews: Besides pricing, are there two or three other trends consultants should pay attention to?

Czerniawska: Yes. First of all, although demand is increasing, what I find very striking is the indications that we haven't quite got the right sort of services for this new market.

People are positive about demand when they think of it in terms of sectors and markets. They'll say the financial services sector is going through the roof, or utilities, or telecoms are all doing very well. But they're less positive when I ask them about the services that they provide for those sectors. There seems to be a disconnection between the opportunities consultants find and what they have in their briefcases to offer in response to those opportunities.

Demand for HR consulting, for example, is clearly growing. But the growth isn't coming from traditional areas like compensation, benefits, remuneration, and not really that much from organizational redesign. It tends to be coming from areas like effective teamwork, particularly for the executive team or leadership issues. Clients are looking for a different set of services than they were in the 2001-2004 period.

MCNews: Are consulting firms prepared to meet those demands, or are they a little bit behind what clients want?

Czerniawska: Well, I think that's an interesting question. Despite quite a booming market, some firms are not doing very well and I think that's because they don't have the right kind of service mix. They have not spent enough time in the last two or three years thinking through exactly what services they should be providing or maybe the markets haven't been clear enough to them.

I think some firms have got this right and are pushing new services. But I think we're seeing a whole raft of new entrants coming into the market, not necessarily huge firms but smaller ones with good ideas that don't carry the baggage that some of the more established firms do.

MCNews: Is that because smaller firms are proving to be more agile in bringing new services to the market?

Czerniawska: I'm hesitating at that...I wasn't trying to say large firms in particular are not doing well because some of the small firms aren't doing so well either. It's not to do with size but more to do with the mix of services.

Some large firms have proved themselves to be quite agile. Perhaps they've used the last two or three years to go through a long, but ultimately successful, decision-making process. And for small firms obviously it's harder to change because it's a bigger leap for them to make if they realize that the market for one of their key services may be reaching a point of decline.

MCNews: What other trends do you see?

Czerniawska: The second trend that is of interest to me is an increase in the client-side advisory market. There is more need for consulting that is not tied into the systems integrators or the outsourcing companies but is genuinely about giving clients the right advice.

To some extent, it's about risk management and the degree of program management around big projects. I've certainly heard clients bemoaning the fact that there isn't enough independent help for them. Yes, they can go to a big firm and get input on how to build a new system, and they can get somebody to outsource a project. But when they want somebody to sit by their side and be wholly working in their interests, it's hard to find firms willing to do that.

This is being talked about for two reasons. You've got three of the Big Four accounting firms reentering the consulting market. Deloitte, of course being the honorable exception, kept its consulting practice. But the others are, I think, targeting some of the traditional consulting, the relationship-based activity which, on this side of the Atlantic is being termed client-side advisory.

I see demand for it to some extent from clients, but I think there's an even bigger push on the supply side from all of these reentrants needing to create distinct markets for themselves.

MCNews: Does it feel to you like a throwback to maybe twenty years ago in terms of how consulting was actually done then?

Czerniawska: It does smack of back to the future. I wonder to what extent it will work in the current environment. I can see the supply side putting a lot of investment and pressure in that market, but at the same time they will encounter central procurement teams who don't like the idea of relationships, who are a barrier to relationships. I'll be very interested to see whether that market takes off in quite the way that firms are talking about it at the moment.

I also wonder whether the kind of trusted advisor relationship that Big Four firms are stressing is something that the procurement department itself aspires to have. Perhaps there's a kind of competition there that will form. Anyway that's the second issue.

The third trend is commoditization—or the race to the bottom. To what extent is the consulting industry creating a long-term problem for itself by continuing to compete heavily on price? In a sense it's the result of some of the points I mentioned earlier, competition on price plus not always having the right kind of services. And perhaps firms are not making sufficient investment in innovation. So will we continue to see consulting services commoditized?

MCNews: That seems to be a trend that's hard to reverse once it starts.

Czerniawska: Yes, exactly. And you can look at other industries and say precisely that. I don't know that we're in a completely irreversible position but I think we must be sitting on the edge of it.

MCNews: In addition to what we have already talked about, are you seeing any changes in client buying patterns?

Czerniawska: It does follow from what I said that there should be changes, but the answer is no—and that's what worries me. If demand is growing, then we should expect to see procurement teams being a little more modernized as power goes back to the end users who would go directly to consulting firms. And I'm not seeing that at the moment.

MCNews: Is it going in the other direction, that is, more towards central procurement?

Czerniawska: No, I think the pressures on both sides are now equal. But I think for big central government areas or multinational companies, the procurement people are pretty well embedded in the organization. Although I don't think that power is increasing, I certainly don't think it's decreasing.

MCNews: As consultants try to make their mark among these various decision makers, what's working for consultants in terms of marketing, and is that changing at all?

Czerniawska: I see a great deal of activity around thought leadership. I can't count the number of firms that seem to be investing heavily in revamping their thought leadership, both in terms of the internal process through which they develop content but also the extent to which they communicate effectively outside.

MCNews: Do you see that as a renewed effort?

Czerniawska: Yes. Quite a few firms canned their thought leadership teams in 2002, but are now rebuilding them. And they're by no means alone. When I say the words 'thought leadership' to virtually any firm, I get lots and lots of people sitting up and paying attention and saying, we're

putting millions of dollars into this. We don't know what we're getting, but we need to do something.

MCNews: Is it your sense that understanding the return on investment for thought leadership is important or is it something that firms just believe they need to do?

Czerniawska: Oh, I think they recognize that it's important. Maybe they've been down the road with the big expense of advertisements, which help build a firm's brand but don't really help clients short-list the firm for projects. It's an increasingly hard tool to use for differentiation. I think people see thought leadership as the key battleground at the present.

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MCNews: When we last talked, we touched on the trend of value-based billing and you didn't think it was moving very quickly. Is this something that is catching on?

Czerniawska: It's growing, but incredibly slowly. The use of value-based pricing in all of consulting went from 10 percent in 2004 to 12 percent in 2005. That's terribly small growth.

The difficulty is that not all projects fit this particular profile. And clients are quite cautious about going down that path because they don't want to pay too much, anymore than they want to tie themselves into a contract project.

The other obstacle for value-pricing is the increasing use of bundled fees or blended rates—however you want to term it. Consultants are saying we'll just charge you X number of days and the average fee rate will be this, no matter which people we use. So it'll be a range of different resources.

I think that model is a very attractive for big firms that can field expensive resources from New York with low-cost, off-shore resources and a whole host of different permutations in between. And they can obviously play with the different combinations involved and therefore the blended rate seems easy from a client's point of view. It seems reasonably transparent. But I think it's asking consulting firms to play around a lot behind the scenes. At the moment that's the big firms' preferred way of doing billing.

MCNews: In your opinion, who are the real thought leaders in the market and what have they done to distinguish themselves?

Czerniawska: It depends on how you define thought leader, of course, because one person's thought leadership is somebody else's thought following. So it's hard to be scientific or objective about this. But if I had to pick out a couple of firms to start with, I'd say IBM and, unusually, Wipro, both of which are producing a lot of thought leadership material. But it's also quite focused on practical issues.

There's an awful lot of thought leadership out there, perhaps 90 percent of which is very theoretical—ideas and models that are not particularly applied to any sector. What strikes me as different about IBM and Wipro is that they're focused on particular issues in specific sectors in a way that is more relevant to clients who can say that is what we need to do. I'm running a bank and I've got an issue with my cost per transaction. These are ideas I could actually use.

The other element that stands out is players who are making the best use of the different potential channels for thought leadership these days. I would pick out McKinsey as making very astute use of electronic channels as a way of getting the message across. It's not just having a journal like the *McKinsey Quarterly*, but that you can flick through to content via a whole host of

business Web sites. You can search that content more effectively than you can do for many other firms. It can be downloaded, and they do webcasts and podcasts.

The firm's thought leadership I like reading most is Booz Allen Hamilton, which publishes **Strategy + Business**. That always includes some very nice thinking and new ideas, but done in a way that's accessible, interesting. You actually want to read it. It looks good and is thought provoking. Much of it is not written by consultants but by professional journalists. The combination adds up to an intellectually stimulating package.

MCNews: As you look to the next two years or so, what's your view about what will happen with the industry? Are you optimistic, neutral, or pessimistic?

Czerniawska: I'd say for the next 18-24 months I'm pretty optimistic. We've seen a high level of growth in the last 12 months. I don't think it's going to continue at quite that fevered pitch, but I think there will be good levels of growth for the next two years.

I think there are some big questions thereafter, though, partly in terms of the commoditization issue. Also, if pricing doesn't change, what happens to the costs for consulting firms and what implication does that have for the shape of the consulting firm as an entity? So I'm positive in the near term, with a few more concerns if I look into the medium term.

MCNews: As always, this was very helpful. Thanks.

Read the 2006 edition of **WhiteSpace**, Arkimeda's definitive analysis of how consulting firms are positioning themselves for success in existing and emerging markets. Find out more about this special report and Fiona Czerniawska's books, articles, and services at arkimeda.com and mca.org.uk.