

Consulting on the Cusp of Disruption

By Clayton M. Christensen, Dina Wang, and Derek van Bever

After years of debate and study, in 2007 McKinsey & Company initiated a series of business model innovations that could reshape the way the global consulting firm engages with clients. One of the most intriguing of these is McKinsey Solutions, software and technology-based analytics and tools that can be embedded at a client, providing ongoing engagement outside the traditional project-based model. McKinsey Solutions marked the first time the consultancy unbundled its offerings and focused so heavily on

hard knowledge assets. Indeed, although McKinsey and other consulting firms have gone through many waves of change—from generalist to functional focus, from local to global structures, from tightly structured teams to spiderwebs of remote experts—the launch of McKinsey Solutions is dramatically different because it is not grounded in deploying human capital. Why would a firm whose primary value proposition is judgment-based and bespoke diagnoses invest in such a departure when its core business was thriving?

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Excerpts from “Consulting on the Cusp” by Clayton M. Christensen, Dina Wang, and Derek van Bever in *Harvard Business Review*, October 2013

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Big consulting is also questioning its sacred cows: We spoke to a partner at one large firm who anticipates that the percentage of projects employing value-based pricing instead of per diem billing will go from the high single digits to a third of the business within 20 years. Even McKinsey, as we have seen, is pursuing innovation with unusual speed and vigor. Though the full effects of disruption have yet to hit consulting, our observations suggest that it’s just a matter of time.

Consulting: Three Business Models

The traditional solution-shop model is at risk of being disrupted by other models. Here are the main differences among them.

SOLUTION SHOP

- Structured to diagnose and solve problems whose scope is undefined
- Delivers value primarily through consultants’ judgment rather than through repeatable processes
- Customers pay high prices in the form of fee-for-service

Examples: McKinsey, Bain, BCG, IDEO

VALUE-ADDED PROCESS BUSINESS

- Structured to address problems of defined scope with standard processes
- Processes are usually repeatable and controllable
- Customers pay for output only

Examples: Motista, Salesforce.com, McKinsey Solutions, Accenture, Deloitte (both moving toward solution shop)

FACILITATED NETWORK

- Structured to enable the exchange of products and services
- Customers pay fees to the network, which in turn pays the service provider

Examples: OpenIDEO, CEB, Gerson Lehrman Group, Eden McCallum, BTG

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When Knowledge Is Democratized

Kennedy Research estimates that turnover at all levels in prestigious consulting firms averages 18% to 20% a year. McKinsey alone has 27,000 alumni today, up from 21,000 in 2007; the alumni of the Big Three combined are approaching 50,000. Precise data are not publicly available, but we know that many companies have hired small armies of former consultants for internal strategy groups and management functions, which contributes to

the companies’ increasing sophistication about consulting services. Typically these people are, not surprisingly, demanding taskmasters who reduce the scope (and cost) of work they outsource to consultancies and adopt a more activist role in selecting and managing the resources assigned to their projects. They have moved more and more work in-house, such as average costing analysis, an exercise that once racked up billable hours.

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Companies are also watching their professional services costs, a relatively new development that was triggered by the 2002 recession. Ashwin Srinivasan, an expert on procurement practices with CEB, says that C-suite executives are the “worst offenders of procurement best practices, but when spend is aggregated and they see the full impact of their individual decisions on the expense line, it wakes them up.” In other words, cost pressures force clients to abandon the easy assumption that price is a proxy for quality.

Their growing sophistication leads clients to disaggregate consulting services, reducing their reliance on solution-shop providers. They become savvy about assessing the jobs they need done and funnel work to the firms most appropriate for those jobs. We spoke to top managers of Fortune 500 and FTSE 100 companies who were once consultants themselves; they repeatedly described weighing a variety of factors in deciding whether the expensive services of a prestigious firm made sense. As one CEO (and former Big Three consultant) put it, “I may not know the answer to my problem, but I usually roughly know the 20 or so analyses that need to be done. When I’m less confident about the question and the work needed, I’m more tempted to use a big brand.”

This disaggregation is also explained by a theory—one that describes the increased modularization of an industry as client needs evolve. As the theory would predict, we are seeing the beginnings of a shift in consulting’s competitive dynamic from the primacy of integrated solution shops, which are designed to conduct all aspects of the client engagement, to modular

providers, which specialize in supplying one specific link in the value chain. The shift is generally triggered when customers realize that they are paying too much for features they don’t value and that they want greater speed, responsiveness, and control.

The rise of alternative professional services firms, such as Eden McCallum and Business Talent Group (BTG), is another chapter in the modularization story. These firms assemble leaner project teams of freelance consultants (mostly midlevel and senior alumni of top consultancies) for clients at a small fraction of the cost of traditional competitors. They can achieve these economies in large part because they do not carry the fixed costs of unstaffed time, expensive downtown real estate, recruiting, and training. They have also thus far chosen to rely on modular providers of research and data rather than invest in proprietary knowledge development.

Although these alternative firms may not be able to deliver the entire value proposition of traditional firms, they do have certain advantages, as our Harvard Business School colleague Heidi Gardner has learned through her close study of Eden McCallum. Their project teams are generally staffed with more-experienced consultants who can bring a greater degree of pragmatism and candor to the engagement, and their model assumes much more client control over the approach and outcome. We expect these attributes to be particularly compelling when projects are better defined and the value at risk is not great enough to justify the price of a prestigious consultancy. As BTG’s CEO, Jody Miller, puts it, “Democratization and access to data are

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taking out a huge chunk of value and differentiation from traditional consulting firms.”

Eden McCallum and BTG are growing quickly and zipping upmarket. While it’s fair to question whether they will need to take on some of the cost structure of incumbents as they expand, their steady growth suggests that they’ve been successful without doing so. For example, Eden McCallum launched in London in 2000 with a focus on smaller clients not traditionally served by the big firms. Today its client list includes Tesco, GSK, Lloyd’s, and Whitbread, among many other leading companies. In addition, some of its contacts at smaller companies have moved into more-senior positions at larger companies, taking the Eden McCallum relationship with them. That dynamic is one that the consulting majors have long used to drive growth.

Modularization has also fostered data- and analytics-enabled consulting, or what Daniel Krauss, a research director at Gartner, calls “asset-based consulting,” of which McKinsey Solutions is an example. This trend involves the packaging of ideas, processes, frameworks, analytics, and other intellectual property for optimal delivery through software or other technology. The amount of human intervention and customization varies, but in general it’s less than what the traditional consulting model requires, meaning lower expenses spread out over a longer period of time (usually through a subscription or license-based fee). Certain tools can be more quickly and efficiently leveraged by the client, and teams don’t have to reinvent the wheel with each successive client.

This approach is most pertinent for consult-

ing jobs that have been routinized—that is, the process for uncovering a solution is well-known and the scope of the solution is fairly well defined. Often these jobs must be repeated regularly to be useful, and many of them deal with large quantities of data. For example, determining the pricing strategy for a portfolio of products is no small feat, but experienced consultants well understand what analytics are needed. The impact of such projects, which involve copious amounts of data, can erode quickly as circumstances change; the analysis must be updated constantly. In such projects a value-added process business model would be most appropriate.

Scores of start-ups and some incumbents are also exploring the possibility of using predictive technology and big data analytics to deliver value far faster than any traditional consulting team ever could. One example is Narrative Science, which uses artificial intelligence algorithms to run analytics and extract key insights that are then delivered to clients in easy-to-read form. Similar big data firms are growing explosively, fueled by private equity and venture capital eager to jump into the high-demand, high-margin market for such productized professional services.

Only a limited number of consulting jobs can currently be productized, but that will change as consultants develop new intellectual property. New IP leads to new tool kits and frameworks, which in turn lead to further automation and technology products. We expect that as artificial intelligence and big data capabilities improve, the pace of productization will increase.

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