GUEST VIEW

Business consultants face an inflection point of their own

Technology-enabled practices could disrupt the consultancy market just as they did other services

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Predicting the end of traditional management consulting has been something of a cottage industry for a while now, but so far, this market's leaders have retained their allure despite a shift of the ground beneath them. Here we are in 2020, and strategy consulting is still thriving, with some firms enjoying double-digit expansion.

A leading Indian conglomerate awarded its multimillion dollar strategy work among four competing firms, after 18 months. This captures numerous undercurrents that are harbingers: New forms of work and terms, long decision-making processes, transient relationships, hyper competition and a diminished fascination for global marques. It seems like an inflection point for the consulting business, ripe for disruption.

Despite grim predictions, dominant firms, like McKinsey, BCG and Bain, have responded with agility. Their "up or out" employment systems confer several benefits, among them the creation of a rich pool of alumni with contacts at potential clients, while keeping their talent young and fresh. Even as strategy work has declined as a proportion of total effort, other kinds of advisory activities have taken its place.

Historically, the big firms have successfully created a flywheel—getting engagements that teach them a great deal about complex situations, then reusing that learning in future engagements. These firms have also acquired allied service units for their clients.

Tried and tested consulting models, however, do show some vulnerability. It starts with the fact that consultants are embedded in the world as it is, not the world to come. It's very difficult to offer advice that would disrupt your own leadership. One pain point for clients is that consultants get paid no matter what the outcome of their engagement is. Executives at big corporations have expressed frustration with this model.

Irrespective of the type of consulting work that large firms do, their core business model is based on leverage. The more junior people they can staff at a client relative to senior people, the more profits they can make. This means that the digital-enabled productivity gains that have revolutionized other industries like banking have not been brought to bear in consulting.

The kind of work a firm does determines how much leverage it is able to achieve. "Procedures consulting" means the main job-to-be-done is to obtain capacity and know-how to achieve a well-understood outcome. Installing an enterprise resource planning system would be an example. "Grey hair" consulting is all about accumulated expertise. The client's job is largely based on the consultant's reputation and its accumulated expertise ("Don't worry about this, we won't steer you wrong"). "Brains" consulting involves focussing the best minds on new-to-the-world problems.

New consulting services generally begin in the "brains" area, move to "grey hair" as firms gain experience, and eventually become understood so well that they end up in the procedures space. Here's the problem for many consultancies: While clients may want a "brains" type of outcome, it's difficult to get a lot of leverage out of an engagement like that. And, as innovations, technology and sources of competitive advantage change faster than ever, we can expect the proportion of traditional consulting work to move more into the "brains" space.

What we can anticipate is that firms able to offer specific expertise in an area, even if their individual consultants are pricey, will begin to capture some business that might have previously gone to an established firm. We will see some large firms engaging such individual experts on project-specific basis and charge clients even more, a win-win for experts and firms. We can also expect that smart firms will continue to build strategy capability internally to wean themselves away from a dependency on long-term consulting relationships.

The trend towards accessing assets rather than owning them has been disruptive in many industries today (think Uber, Airbnb, etc). As "brains" work becomes more important, and deeply specialized expertise is necessary, innovative upstarts may credibly be able to offer an alternative. This will impact consultancy firms. Entities such as GLG make it possible for clients to simply buy a bit of a world-class expert's time for a real-time conversation. Firms such as Toptal are creating markets for high-end technical talent that prefers a freelance environment over being tied to a firm. Legacy companies in need of digital tools have turned to traditional consultancies in droves. The results for many firms reflect digital disillusionment more than digital success.

We anticipate a market opportunity for an entirely different kind of consulting firm, one that uses digital technologies to do traditional consulting. This is not very dissimilar to what upstarts such as Dollar Shave Club did to the shaving and grooming industry, Wayfair and Pepperfry did to the furniture business, and SoFi did to financial management.

While there will always be a market for high-end consulting, you can expect a rising number of technology-infused alternatives which offer a combination of expert "brains at scale" and more clearly aligned incentives to put pressure on the traditional model.