WHEN TO HIRE— OR NOT HIRE— A CONSULTANT

Getting Your Money's Worth from Consulting Relationships

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Introduction

Why Write a Book on Whether or Not to Hire a Consultant?

If you don't like what's being said, change the conversation.

—Don Draper, *Mad Men*

Consultants can be both grim reapers and angels at the same time. Some people hate them; some people love them; and some people are indifferent. While specific, run-of-the-mill examples of failed consulting engagements are hard to find, due to their private nature, there abound urban legends of consultants who simply were ineffective to those who were flat-out unethical.

Example A (the unethical consultant): The Enron/Arthur Anderson scandal. In 2000, Enron paid Arthur Anderson $25 million in auditing fees and $27 million in consulting fees essentially to cover up its fraudulent reporting practices.[1] Anderson's collusion in Enron's fraud ultimately led to Enron's bankruptcy, the destruction of $60 billion in shareholder wealth, $2 billion lost in the pensions of long-serving employees, and the first-ever criminal conviction of an accounting firm. Enron and Anderson's agreement to steal money from millions of people is perhaps one of the most famous examples of unethical consulting.[2]

Example B (the incompetent consultant): The McDonald's "hot coffee lawsuit." Nearly everybody has viewed the McDonald's coffee-spill lawsuit in the context of overzealous litigation. However, the basis of the case lies in bad

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[1] FindLaw; http://fl1.findlaw.com/news.findlaw.com/cnn/docs/enron/senpsi70802rpt.pdf.

[2] Ibid.

consulting advice. Documented in court transcripts, legal documents, and online summaries, the case involved a woman who had bought coffee at a McDonald's drive-through and then spilled it on herself, incurring third-degree burns. She sued McDonald's and was awarded over half a million dollars, though the amount was significantly reduced in later appeals.

What many people do not know is that, at the time of the incident, McDonald's guidelines dictated that coffee be served at a temperature between 180 and 190 degrees Fahrenheit.[3] In fact, liquids at this temperature will cause third-degree burns of human skin in just two to seven seconds. In contrast, coffee served at home and at other restaurant establishments is typically 135 to 140 degrees Fahrenheit.[4]

A consultant had recommended the high temperature as a way of maintaining optimum taste and, more important for McDonald's, of increasing return on investment.[5] According to legal transcripts, the real reason for the high temperature had nothing to do with a higher-quality product; instead, it was to slow down consumption of the coffee, thereby reducing demand for free refills. Apparently, more than 700 claims had been made against McDonald's, and many of the victims had suffered third-degree burns similar to the widely publicized incident.[6] Yet the company had refused to change its policy, supposedly because a consultant said that it was better for business and had backed up his advice with some return-on-investment analyses that showed how the savings in coffee refills exceeded the projected legal expenses.[7]

Now let's look at how consultants can help businesses.

Example C (the revenue-increasing consultant): If done right, consulting can lead a company to great success. In one such experience, a small manufacturer of automotive components sought credible advice on increasing the capacity of its sales force. We worked with this manufacturer to create a sales training program that had a total cost of slightly over $20,000. A large component of this training focused on handling buyer objections and selling value. The sales force learned that price is seldom a legitimate objection and were able to counter any hardcore negotiators objections with quality and value responses. Not only were buyers no longer able to haggle with sales reps until they reduced prices, but the company actually was able to increase prices across

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[3] The famous/infamous "McDonald's Coffee Spill Lawsuit"; www.slip-and-sue.com/the-famous-infamous-mcdonalds-coffee-spill-lawsuit-r.

[4] Ibid.

[5] The Lect Law Library, "The Actual Facts About the McDonalds' Coffee Case"; www.lectlaw.com/files/cur78.htm.

[6] Ibid.

[7] Consumer Attorneys of California, ATLA Fact Sheet, 1995, 1996.

the board by 10 percent! An investment of $20,000 in consulting yielded the ability to increase pricing across the board for a company with $12 million in total sales. That is a significant return on investment.

Example D (the skill-building consultant): When a small injection-molding firm had problems with inconsistent process control, the general manager decided to research consulting firms that could help build internal capability. He selected RJG, Inc., of Traverse City, Michigan, to develop a training plan geared toward teaching engineers and technicians the process of scientific molding. Although neither consultant nor company calculated an ROI for the work, RJG created a new skill level within the organization.

This increase in capability, along with some process-improvement techniques like Lean Manufacturing and Six Sigma, additionally reduced internal waste and improved customer satisfaction. This ultimately contributed to greater profitability because the molding company could prove that it had a higher skill and more consistent quality than many similar firms. Salespeople were able to convince potential customers to give more work to the company.

Why We Wrote This Book

Although almost all business leaders interact at some point with consultants, many regard the interaction as a routine convenience, on a par with dropping off the dry cleaning. It's supposed to be simple, quick, and not require special tools or skills to enter into and manage the relationship. Yet nothing could be further from the truth. The decision to hire a consultant is in many ways harder than that of hiring, retaining, reviewing, and compensating employees. Sound decisions should mobilize all human resources skills, strategic mindsets, root-cause analyses, and statistical abilities—to name just a few of the factors affecting the executive–consultant relationship that we examine and teach in this book.

Similarly, many organizations become dependent on consulting relationships—to the point of its being an addictive relationship. Resistant to building internal capability and dedicating full-time resources, they choose to overpay for external resources that will ultimately still require internal resources. Indeed, this is one of the hidden costs of a consulting relationship. The skills and experience to execute culture-changing activities often exist within the organization; however, managers who hire consultants either do not know about those internal abilities or do not believe that the skills are robust enough to employ in the change effort. This approach is like having a reliable and well-maintained car in your garage, but deciding to call a taxicab every time you want to go somewhere.

In contrast, no organization that makes a decision to downsize its workers in order to improve profitability should justify the external consulting expenses to do so. This is especially scary when experienced people are available in house and would likely do a better job of sustaining gains than could anyone offering external advice. Many companies suffer what should be called "consultant addiction." Ultimately, it reflects a conscious decision to do what is bad for the company. This addiction is damaging in both the short and long term. Yet we have found that organizations do this all the time, and desperately need the help we can provide managers in deciding to end this addiction.

It became apparent to us that there is no good book providing guidance to managers on how and when to work with consultants. There is also no adequate book on how to quantify and correct the many costly misconceptions about the consulting relationship. The absence of books on how to use consultants effectively is conspicuous and strange, especially given that the $149 billion consulting industry in the United States is increasing the number of consultants at an astonishing rate of 83 percent a year.[8] The books that focus on consultants either help individuals to become consultants or, frequently, bash those who have entered the field.

In short, this book is for business leaders wanting to improve profitability and efficiency, whether that's through consultant use or not. Between us, we have two decades of experience both working independently as consultants and also working alongside many other types of consultants. This book provides a unique prospective to the market. Although we both occasionally consult each year, neither of us makes our living in the consulting industry. We are a full time professor and a full time executive. Thus, we are writing this book to benefit ourselves In particular, we have spent our time helping companies become better companies and want to pass this knowledge along to you.

How We Wrote This Book

In writing this book, we combined our own experiences with qualitative research on the popular press books and academic journal articles on the subject. Our aim is to provide managers and executives both insight into the consulting industry and a pragmatic guide with flowcharts and decision-tree worksheets on deciding whether to hire a consultant.

We undertook our qualitative research because much of the academic research on consulting, which was conducted in the 1970s and 1980s, is not applicable to today's business environment. We developed a survey that asked

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[8] Arlene Dohm and Lynn Shniper, "Occupational Employment Projections to 2017," *Monthly Labor Review* (November 2007): 86–125.

open-ended questions designed to avoid predisposing respondents to implicit assumptions. Despite the unconstrained nature of the answers, nevertheless we found significant commonality among responders. We surveyed 61 executives in various industries (including healthcare, utilities, tele-communications, food service, retail, and manufacturing), at various levels (ranging from CEO to business analyst) and in various departments (including information technology, strategic development, and human resources). The respondents had an average of 15 years' (between 1 to 30 years) experience in their field. Of these 61 executives, 44 were from companies that focus on business-to-consumer sales, and 17 were from companies that focus on business-to-business sales.

In the group of executives, 37 were from companies that provide services and 24 were from companies that sell goods (9 of which sell durable products and 15 of which sell nondurable products). The companies ranged in size from 1 employee to 350,000 employees, with an average of 23,000 employees. The firms also had operations in a multitude of countries, including but not limited to the United States, United Kingdom, India, Saudi Arabia, and Cameroon. Our sample was skewed in favor of Fortune 500 companies rather than small firms, which reflects a greater use of consultants by large firms. (Large firms often have more resources to devote to consultants, and therefore, the large firms use them more often.)

Of the executives, 22 (36 percent) worked with IT consultants; 8 (13 percent) with operations consultants; and 7 (11 percent) with project management consultants (Figure 1-1). The statistical breakout in Figure 1-1 of the expertise areas of the consultants used by our respondents is fairly representative of the overall composition of the consulting industry, as we show in Chapter 2.

By validating that this sample of qualitative responses represents similar proportions in the overall consulting industry, we assume that the responses are useful in explaining the challenges organizations face when deciding to work with consultants. The average length of the consulting experience (in months) was 16.25 (roughly 1.5 years). Of the consultants they used, 57 percent were from small consulting firms, and the rest were from large consulting firms.

Figure 1-1. Types of consultants used by the executives surveyed in the qualitative study.

The Outline of the Book

We reference this qualitative study throughout this book to help support some of our conclusions and opinions. Because this is a comprehensive guide, we start in Chapters 2 and 3 by describing the current state and history of the consulting industry, referencing the work of some other authors who have done research in this area. This background is necessary for a few reasons. For example, say your first consulting relationship was with someone hired to help install an enterprise resource planning (ERP) system in your organization. This initial experience would be drastically different from an experience with a business management system or business process engineering consulting firm. So, the more you know about the consulting industry, the more you can make productive use of consultants and not run down blind alleys or led astray.

By explaining the industry, we also hope to lay the foundation for the rest of the book, describing different consulting models. As part of the history discussion, we also explain what it takes to become a consultant. It may be surprising to some readers that it requires little in the way of credentials to begin consulting.

After the foundation is set in Chapters 2 and 3, we start discussing how to make decisions about when to use a consultant and how to hire one. In Chapter 4, we show how to calculate the potential return on investment associated with a consulting relationship. Our research and personal experience reveal that many organizations do not calculate ROI, either in selecting a consultant or in evaluating the outcome. It seems simply irrational to make a business decision without conducting an ROI, yet this seems to be the norm with companies who hire consultants. This is why a whole chapter is devoted to this subject. We also provide worksheets in the Appendix for doing such calculations.

In Chapter 5, we examine the situations in which you should *not* use consultants. As you'll see, companies often hire consultants for the wrong reasons, leading ultimately to project failure. These unsuccessful consulting relationships taint the image of the industry overall. If you search for "when to use a consultant" online, for example, you will receive a host of blog-type pages, written by consultants that make it seem as though consultants are needed for just about any business decision or process.

We do not wish to present the impression that all consultants are bad. Consultants hired for the right reasons can be highly effective tools for driving performance improvements. In Chapter 5, we provide a decision tree to help you decide rationally whether you should or should not use a consultant for a given purpose. Our goal is to help you understand when to use or not use a consultant, and how to use one when you decide to go ahead. In Chapter 6, we explore the positive aspects of the industry and define the conditions under which you can benefit by reaching outside of your organization. It is just as important to understand the reasons to hire a consultant as it is to understand the reasons to avoid hiring one. Such knowledge will help ensure the success of projects.

In Chapter 7, we examine how to select the right consultant and set up the best relationship for success, including the nuts and bolts of the hiring process and the negotiation of contracts. In Chapter 8, we focus on techniques for managing these consulting relationships and troubleshooting common problems, such as project schedule slippage, no buy-in from staff, lack of communication, and inadequate review processes. You will see that proper review processes need to be applied at every point to ensure a project's success.

Finally, in Chapter 9, we consider the alternative principles and methods for deciding whether to use consultants. The Appendix provides many items, including project checklists, a Request for Proposals template, a contract template, and a sample confidentiality clause.

When you have read this book, you will have gained a deeper understanding of the consulting industry, the criteria for deciding when to hire a consultant and for picking the right one, and the tools for successfully managing and benefiting from a consulting relationship.

The Industry

The Growth of Consultants and the Consulting Industry

Consulting: If you're not part of the solution, there is a lot of money to be made in prolonging the problem.

—Despair.com

Consulting is one of the fastest-growing professions in the United States. The Bureau of Labor Statistics (BLS) projected in 2007 that employment in this industry would increase by 83 percent over the next decade.[1] Also, salaries for the industry are among the highest paying of the groups that the BLS tracks. According to the U.S. government, there were 719,000 consultants in the United States in 2010, and the number of consultants is expected to grow to 993,000 by 2020.[2] Forty percent of all MBA graduates attempt to enter the consulting industry.[3] This figure becomes a daunting statistic, considering the growth rate of MBA programs. The number of MBA degrees awarded annually has increased from 26,000 in 1970 to 168,000 in 2009.[4]

Once upon a time, in the 1960s through the 1980s, MBA programs were management training grounds for large Fortune 500 companies. It seems that now, instead, they are large breeding grounds for consultants. Figure 2-1

[1] Arlene Dohm and Lynn Shniper, "Occupational Employment Projections to 2016," *Monthly Labor Review* (November 2007): 86–125. Vol. 130, No. 11.

[2] Ibid.

[3] P. K. Milne, "Consulting Career Choices"; March 2009, http://ezinearticles.com/?expert=Pk_Milne.

[4] Ronald Yeaple, "Is the MBA Obsolete?," *Forbes*, May 30, 2012, http://www.forbes.com/sites/ronaldyeaple/2012/05/30/is-the-mba-obsolete.

shows the worldwide growth of the consulting industry since 2007 while Figure 2-2 shows the recent growth in the United States alone.

■ Just "Management" Consulting ☐ Additional - Tax Prep and Accounting
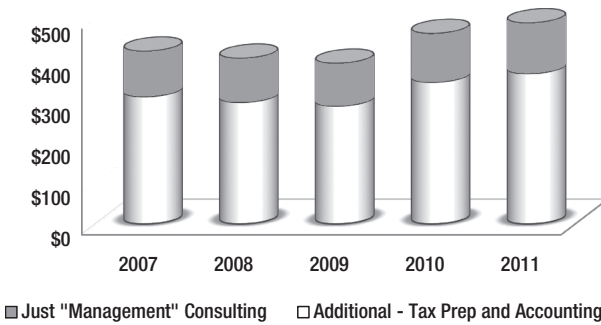
Figure 2-1. Annual worldwide revenue of consultants (in $billions). The line segmenting the cylinder shows general consulting (below) and general consulting plus tax preparation and accounting. SOURCE: Plunkett Research, Ltd., *Consulting Market Research – Industry Trends* (Plunkett Research, 2010). http://www.plunkettresearch.com/consulting-market-research/industry-trends.

Nearly every employee and manager interacts with a consultant at some point in his or her career. It is hard to find anyone who has never hired, fired, or worked with a consultant. Yet consultants are in no way like "normal" employees. They are not hired in the same way, not compensated in the same way, and not subjected to the same review and retention processes as are regular employees. Negative and positive predispositions about consultants abound in the business arena. Some business leaders think consultants are worthless and unethical. Others go into consultant relationships with the blind belief that an external resource can save a troubled firm. Given the billions at stake, such costly decisions should never be taken blindly.
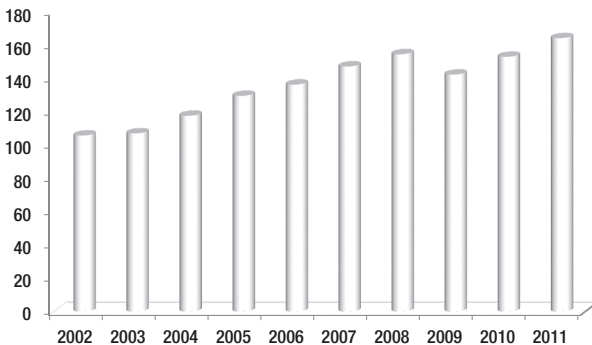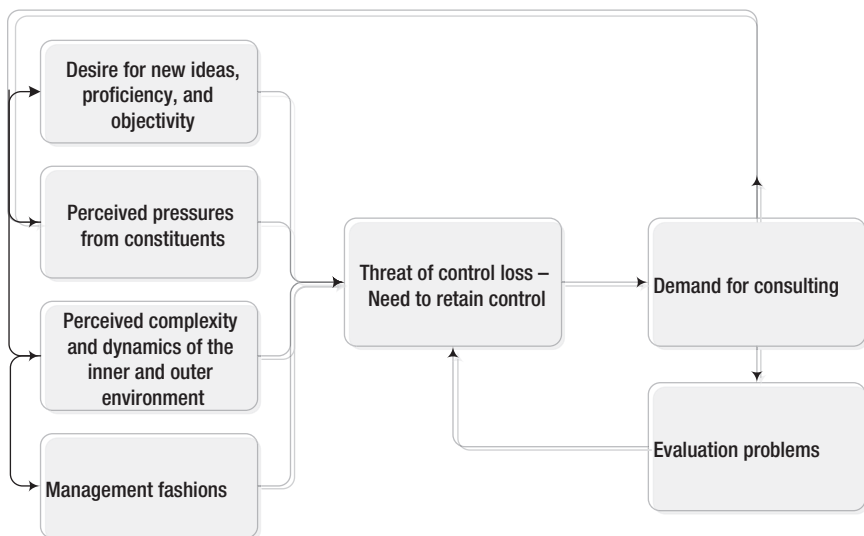

Figure 2-2. United States consulting spending (in billions). SOURCE: Plunkett Research, Ltd., *Consulting Market Research – Industry Trends* (Plunkett Research, 2010); U.S. Census Bureau, 2010 U.S. Census, 2010; http://www.census.gov/services/sas/data_summary54.html.

Why the Growth?

Business guru Peter Drucker said that there are two main reasons businesses hire consultants. The first is that management skills, techniques, and knowledge are best learned through exposure to and experience with many different companies in many different industries.[5] Typically, executives lack this wide exposure. They may work at only a few organizations—or even just one—throughout their career. In contrast, consultants continually get exposure and experience across organizational and industry boundaries.

The second reason businesses hire consultants is that executives value objective insights into their management problems. Because all businesses have problems, it is logical to believe that an expert who has worked with multiple businesses has been exposed to a problem similar to the one that the client is currently facing and, therefore, can offer some solutions that will work.

The research of Gattiker and Larwood from 1985 confirms that businesses turn to consultants primarily for three deliverables: new ideas, proficiency, and impartiality/objectivity.[6] Figure 2-3 shows a model that helps explain some of the other reasons the consulting field has grown.

Desire for new ideas, proficiency, and objectivity

Perceived pressures from constituents

Perceived complexity and dynamics of the inner and outer environment

Management fashions

Threat of control loss – Need to retain control

Demand for consulting

Evaluation problems

Figure 2-3. Factors leading to the growth in demand for consultants.

[5] Steven H. Appelbaum and Anthony J. Steed, "The Critical Success Factors in the Client-Consulting Relationship," *Journal of Management Development, Vol. 24, Issue 1,* (2005): 68–93.

[6] U. E. Gattiker and L. Larwood, "Why Do Clients Employ Management Consultants?," *Consultation* (Summer 1985): 119–29.

Another factor leading to an increase in the consulting business is the perceived pressures from constituents. The public nature of large companies forces them to focus on stakeholder needs and short-term growth, not necessarily on what is best for the company as a whole and for long-term growth. This limited, short-term focus drives many companies to seek creative solutions from external consultants as a way to promote quick, measurable growth. Likewise, the competitive environment, types of products, and customer demand are factors that change so rapidly that managers need out-of-box, up-to-date, creative thinking that external sources can best provide.

Also, for better or for worse, managers seek to keep up with fads and fashions. According to the work of Crandall and colleagues, "management fashion refers to popular programs used in organizations to improve performance."[7] The authors tend to categorize a management theory as a "management fad" based on how long it remains in the academic literature. For a theory to be a fad, generally, there is a huge amount of research on the subject all of a sudden, but then the research dissipates rapidly after three to five years.[8] The term "management fad" carries a negative connotation, implying that the organizational process changes are simply the "thing to do," not because there is real internal need. Numerous examples of management fads and fashions have been heavily utilized by consultants, including management by objectives (MBO), quality circles, empowerment, benchmarking, sensitivity training, sales closing techniques, and learning capabilities. Many of these fads come out of the universities, and so managers think they need external help from academics who advocate these latest trends.

Finally, with all of the pressures that executives are under, there is a constant need for help in many other aspects of business. Managers must satisfy employees, customers, stockholders, and the community at large. Simply put, the harder and more aggressive the competition gets, and the more turbulent the environment gets, the more help executives need.

Trends in Consulting Growth

Even though the consulting field has grown faster than many other industries, its growth frequently follows business cycles. For this reason, consultants must prepare for cyclical business. An increase in business prosperity leads to

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[7] William Crandall, Richard E. Pembroke, and Mohammad Ashraf. "The Perilous World of Management Fashion: An Examination of Their Life Cycles and the Problem of Scholarly Lags," *Proceedings of the Annual Meeting of the Academy of Management* (2006).

[8] Leonard J. Ponzi and Michael Koenig, "Knowledge Management: Another Management Fad?," *Information Research* 8, No. 1 (2002), paper No. 145.

an increase in the demand for consulting services, while recessions often lead to a decrease in demand for such services.

This is an illogical trend if you assume that businesses hire consultants to help improve performance. Seeing this trend at a macro level, however, shows that many organizations hire consultants for the wrong reasons: they cut the budget for consulting services when money is tight, and they hire consultants when there is extra money on hand. This is ill advised. Consultants should be used in two broad instances: (1) when there is a need for a special product or service within a company (ERP implementation, ongoing sales training), and (2) when business is bad (sales training to counter a loss in sales productivity).

International Expansion

While consulting is growing around the world, it has grown at especially high rates in Asia, as businesses continue to prosper in those economies. In particular, Japanese companies use more consultants than do businesses in other Asian countries. This Asian demand has created a huge need for local consulting firms. Large consulting firms with international offices tend to fail, due to a general lack of cultural competency and international business acumen, leading to misunderstandings and unsuccessful relationships.

Any person who has traveled or worked extensively around the world has likely seen how easily people may be offended, or become less cooperative, when there is a basic lack of familiarity with the local culture. For example, a firm in Afghanistan realized it was in need of both strategic and IT consulting in order to grow and to better integrate its business with the rest of the world. They agreed to consulting services with a large consulting company from Sweden. The Swedes came in and started running meetings and making decisions, without consideration of the Arabic culture. The employees, luckily, were not offended; rather, they found it humorous to watch the consultants continually hit brick walls and not bother to think about why they were not succeeding and why the employees were not doing what was asked of them. Eventually, the consultants realized their mistakes and took time to learn the local culture, and they eventually succeeded.

Another problem can be a lack of understanding of the local language. In some areas, people who can speak English will nonetheless refuse to communicate in English. Asian attitudes regarding consultants differ tremendously. In Asia, hiring a consultant may be seen as a reflection of failure for a chief executive officer, leading to reluctance to reach out for help. This, of course, is in direct contrast to the United States, where use of consultants is part of the business culture.

Culture also plays a part in the available consultant pool, especially in Asia. When Asians are choosing careers, they often prefer engineering and medicine, which are more respected fields than consulting. Therefore, those who do pursue consulting may be less talented than their counterparts in North America. Due to this attitude, among other factors, and despite the apparent stigma associated with hiring a consultant, the demand for competent consultants in Asia exceeds the supply, and this international demand will likely continue. Given the consulting field's international growth potential, it is critical that consultants and executives alike recognize that hiring a consultant is like hiring an employee, and cross-cultural issues must be considered.

Size of Consulting Firms

The large consulting firms that dominated the industry in the 1980s and 1990s are becoming smaller. New, smaller firms and individual consulting businesses are growing. The exceptions are large consulting firms that possess a strong information technology (IT) department. IT consulting is growing as a reflection of the organic growth of technology and the reluctance or inability of managers to keep up with current technology. If you compare the services available from the top ten firms, those with strong IT backgrounds, such as IBM, SAP, or Oracle, continue to gain market share while those focused on the finance sector have only seen very modest growth.

Though the large consulting firms are slowly shrinking, ten large ones still dominate the industry with over one-third of the business (Figure 2-4). Nevertheless, as the industry continues to grow and the number of private consultants continues to grow, their percentage of market share will decrease. Companies are seeing the clear advantage that niche firms have over the large shops with no distinct specializations. The advantages and disadvantages of specialization are discussed in Chapter 9.
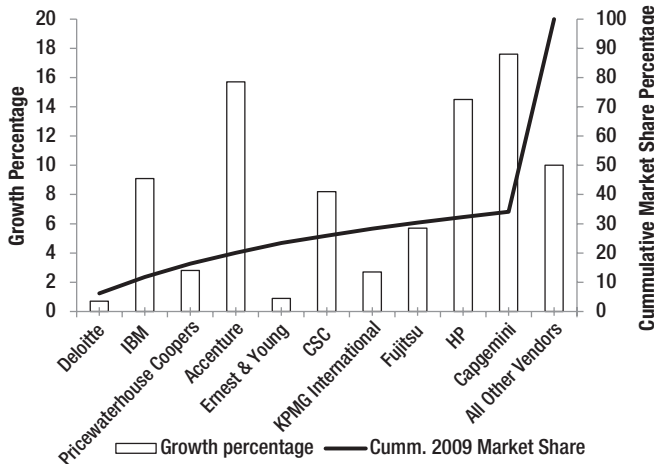
Figure 2-4. Top 10 Firms Growth. Source: Von Uechtritz, "Market Share Analysis: Top 10 Consulting Providers' Revenue, Growth and Market Share, Worldwide and Regional 2009," (Gartner Dataquest Research Note, 2010).

Types of Industries that Use Consulting

The types of businesses that use the most consultants say a lot about why consulting services are needed. For example, according to the data presented in Figure 2-5, the finance industry was the second largest user of consulting services in 2008 and 2009. Given the industry's continuing woes, the finance sector is likely to move to the third spot soon.

The rest of these industry categories are discussed in the sections that follow.
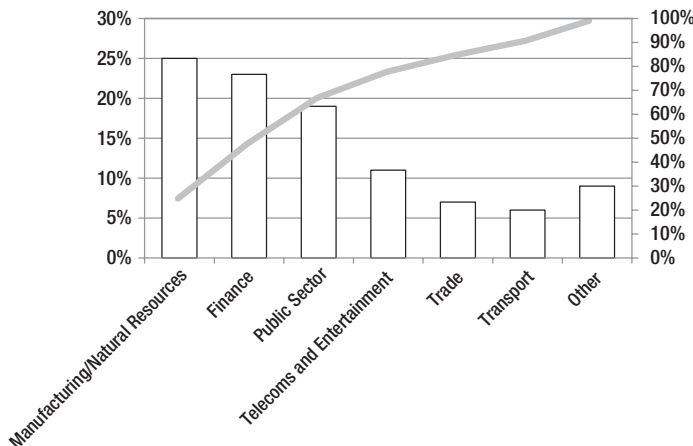
Figure 2-5. Global end users of consultants in 2008 and 2009. Source: Joe O'Mahoney, *Management Consultancy*, (Oxford, UK: Oxford University Press, 2010).

Manufacturing

As Figure 2-5 shows, the manufacturing and natural resources sector uses more consultants than any other sector. In manufacturing areas, speed to market or total product-development time are key metrics for companies that invent new products. They hire consultants to analyze the company's ability to develop new products compared with the abilities of their direct competitors. This is especially true for manufacturers of products that sell either directly to end users or to other companies.

The race here is to incorporate the best technology or design while staying ahead of the competition. In more customized manufacturing scenarios, the consultant focus may be on the process of taking purchase orders for new products through to the product-realization phase in the shortest time feasible without increasing total development costs. The term "product" may refer to a service that either is new to the market or has been introduced by a competitor. Often in a service industry, the work to develop the product includes more coordination, so that it is of high quality from the moment it is offered.

Another key consulting area in manufacturing may be to review techniques to maximize income. This may involve pricing, distribution channels, and customer demographics. Likewise, it could include ways to bundle services or products or to cross-sell into different markets. This category of consulting will likely grow in America, as manufacturing begins to return to America and companies work to grow to meet these new market needs.

Public Sector

As of 2008, the public sector accounts for around $57 billion of the world economy.[9] This figure mostly excludes healthcare, especially U.S. healthcare. However, in some countries, healthcare is so intertwined with the public sector that the figure does reflect healthcare expenditures. Public-sector spending on consultants has seen monumental growth. For example, in the United Kingdom, between 2002 and 2005, expenditures for consulting grew from £600 ($956) million to £1.58 ($2.52) billion.[10] There are many reasons for this increase, including cost-cutting objectives and attempts to combat resistance to change by public-sector workers.

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[9] Joe O'Mahoney, Management Consultancy, (Oxford, UK: Oxford University Press, 2010).
[10] Ibid.

As we will discuss in chapter 5, consultants are often part of change management since they can be used as an excuse for the change. In government especially, it is helpful to "make a change" via having someone else to blame.

Healthcare

In 2008, the healthcare consulting industry was worth $34 billion, according to O'Mahoney.[11] As mentioned above, healthcare does not show up as a separate category in Figure 2-4 because it often gets lumped into the public sector. However, the use of consultants in the healthcare field helps drive reform; and as inefficiencies in healthcare continue to increase, so will the percentage of the consulting market that is devoted to this area.

Current regulations have helped support the growth in IT consulting area. For example, providers have used consultants to help conversions to electronic medical recordkeeping. In fact, compliance with electronic medical record-keeping has started a boom in healthcare IT firms.

Thanks to Obamacare, healthcare providers will be responding to changes in regulations and newer methods of care. As organizations scramble to catch up to these new standards, consultants will be offering services such as process improvement, IT implementation, care redesign, strategy development, and quality and patient safety initiatives. The need for hospitals to reduce cost per case, errors per case, length of stay, and over-utilization will drive the need for process redesign activities. Clinical workers who have transitioned to consulting guide some of the redesign work. Engineers who specialize in waste elimination and process design may facilitate other activities.

Universities have also jumped on board with new healthcare MBA programs and healthcare IT programs. Many of these new MBAs decide to become consultants, aware of the overwhelming market demand for their skills. As healthcare reform continues to progress, the demand for healthcare consultants as well as healthcare professionals in general will increase.

Telecommunications and Entertainment

At the turn of the 21st century, increases in broadband and 3G license sales helped lead to an increase in telecommunications marketing. There will likely still be a steady need for telecommunications and communications consulting in the future as the technology continues to progress in this field. It is likely that some of the same skills to support the demand for IT consulting will be

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[11] Ibid.

used to meet this demand. Firms that have a technological edge are well positioned to participate in two major markets for consultants.

The entertainment industry's need for consulting has grown due to the growth of digital content, including films, music, and documents. The new digital world means that managers must keep up with the challenges. When the digital revolution began, it seemed most of the battles were going to be in the legal arena, in terms of copyright and other legal safeguards. However, Google very much rewrote the book in terms of how business is conducted by making it all free, with very few legal ramifications. Businesses once again scrambled, thinking that they were not going to be able to make money on any entertainment content. We know now that this is not true. Consumers are willing to pay for good-quality films, music, and books. However, the industry has unique marketing, advertising, and strategic needs that must be met to succeed in this rapidly changing world. Consultants will likely continue to be needed in this area.

Other Industries

Other industries also use consultants, but it is important to mention here that these other industries have increased their use of consulting for a few key reasons. One is new-product and new-process consulting—what products the organization should provide. Even the process that is used to create and innovate may be a focus of a consulting contract. Product life cycle and portfolio management are two other areas where executives reach beyond their company's capability. To meet these perceived needs, executives may hire consultants to perform market research, provide training, or perform competitive analyses.

Many consultants make money by offering cost-cutting methods. Skills such as Lean or Six Sigma are applied as cost-cutting measures. Though internal experts may have taken the training, relatively few have the varied experience to use these techniques successfully to implement enough change to meet cost-cutting goals. For this reason, after initially failing to save money through Lean or Six Sigma using internal resources, companies will often reach out to external experts in these tools. The experts can then guide business leaders through the Six Sigma processes and help them improve financial results.

Consortia of purchasing organizations offer to consult for members on how to manage suppliers to minimize purchasing expenses. The techniques offered include customized pricing analyses, data normalizing, memberships in group-purchasing organizations, reviews of current contracts, and on-site coaching for purchasing decisions. Some of these consultants tout themselves as experts within certain industries, thereby giving them greater credibility

among employees when changes are required. Other consultants focus on a particular area of expertise, such as supply chain, which can span multiple industries. They serve to optimize warehouse layout, develop logistics, increase fill rates, and reduce variation in order fulfillment, all of which lead to more efficient shipping and receiving activities.

Types of Consulting

There are multiple ways to categorize consulting companies.[12] For example, consultancies can be considered either hybrid or pure. *Pure consultancies*, like McKinsey, Bain, BAD, and Arthur D. Little generate roughly 10 percent of the total consulting revenue. These organizations claim that, since consulting is all they do, they can be trusted to have better consulting skills. Even with this proclaimed advantage, however, these organizations are part of the industry that is declining in size and will soon be taken over by hybrid consultants. This decline is likely because you do not want a consultant who is good at consulting per se. Rather, you want a consultant who is good at fixing or improving business issues. In essence, the big consulting firms are large sales organizations that exist to sell consulting. Unless the firm is in a niche market (like ERP implementation or ISO auditing), these pure consultancies rarely offer true advantages.

Hybrid consultancies include firms like IBM, PWC, Accenture, KPMG, and Deloitte. They often have a core competency in a particular industry. This sometimes causes regulatory issues, however. The SEC has forced some of these firms to sell off their consultancy divisions, due to perceived conflicts of interests.

Consultancies can also be categorized as niche or generalist.[13] *Generalist consultants* like Accenture offer multiple services and have a network of independent consultants they call upon when specific skills are needed. Clients often benefit from the wide and varied experience accumulated by these consultants. The same disadvantage exists here as pertains to pure consulting firms, however: businesses want consultants who are good in their product/ service category, not just good at selling consulting.

Niche consultants offer specific services to specific markets. These consultancies are more reliable, and often more successful in their work, than generalist consultancies due to their concentrated experience. Some generalists bid for a consulting job, then hire people with the necessary skills. Due their greater versatility, generalists tend to have the upper hand when compared to niche

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[12] Ibid.

[13] Ibid.

consultants, although if clients value the quality of their consultants, niche consultants are often a better choice.

Size is another categorization method. *Small consultants* represent 98 percent of all firms and 78 percent of all consulting employees. *Large consultants*, on the other hand, represent 50 percent of all the revenue. Small companies generally charge less and, therefore, generate less income per consultant.[14] Large consultancies obviously have stronger brands, allowing them to charge a premium for services that can likely be provided by a smaller company. Figure 2-6 shows the size of the overall consulting market by company size. As can be seen in this figure, the market is driven by small firms, which continue to gain market share from the larger organizations.
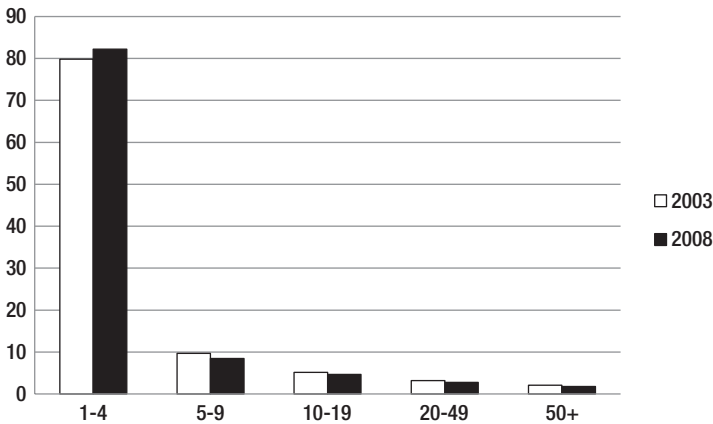
Figure 2-6. Market share by consultancy size (number of employees). Source: Joe O'Mahoney, *Management Consultancy* (Oxford, UK: Oxford University Press, 2010).

Types of Consultants: Different Business Models

Traditionally, businesses hire consultants from outside firms to work on a project. However, there are several other types of consulting business models. *Internal consultants*, for example, are people hired by organizations to act as consultants within the organization. This could include hiring a project manager for a year or employing someone for a couple of years to implement a new management system. Organizations hire internal consultants if they have the specific need that those consultants can serve. Internal consultants cost less than external consultants to employ per hour, so if the need is

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[14] Brett Howell Associates, *Financial Benchmarks: Management Consultants Survey;* http://www. a14bha.co.uk/control/product/~category_id=SURVEYS/~product_id=10000.

constant, this is a much better option than hiring a third-party consultant. There is also a greater commitment from internal consultants because they are, in essence, employees. There is a downside, too. *External consultants* may be incentivized by the promise of a performance-based bonus while internal consultants often are held to the same bonus programs offered to regular employees, which leads to less than optimum performance and a potential lack of drive.

Contractors and Interim Managers

Business executives often hire *contractors* to take on short-term assignments in order to provide them with specific skills. For example, some large clients might need basic work done for an IT project, but they do not want to pay a consultancy rate for the work. Therefore, they retain a contractor to work a couple of days per week to maintain an existing system. This might be more cost-effective than cross-training a current employee or hiring a full-time employee. This way, the company can have the skills it needs without hiring a full time employee.

Companies may also need staff for a short time, and contractors provide those skills without a long-term commitment. Recruiting for a permanent employee can cost as much as 30 percent of that person's salary; a business can avoid this expense by hiring a contractor. Other expenses, such as insurance, pension, 401(k) matching, sick pay, and holiday pay are also avoided by hiring a contractor. Contract relationships benefit the contractors, as well, because the pay rate is often higher than for a full-time position. A person making $113,000 per year as a full-time employee will gross $56.50 per hour, while a contractor may gross around $100 per hour.[15]

Finally, some companies bring in a consultant with the intention of hiring the person. This allows the company to test the consultant's skill levels and cultural fit before making a long-term commitment.

Interim managers are senior-management types brought in to fill a gap left by a departing executive. Temporary consultants, they are typically around for less than four months. They usually demand a higher salary due to the short-term nature of the assignment. Banking and finance organizations account for a high number of interim manager positions, although they are used in other industries as well, such as manufacturing or healthcare. The large banks used many interim managers in 2009 after they had fired a good portion of their staff and needed quick replacements during the recession-induced crises.

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[15] Joe O'Mahoney, *Management Consultancy*, (Oxford, UK: Oxford University Press, 2010).

Types of Consulting

There are a few types of consulting firms that are hired to meet a variety of company needs. The largest of these is the management-consulting type, as described below, with other major types following.

Management Consulting

The term "management consulting" embraces many areas of the consulting industry. According the U.S. Census Bureau, this category includes IT, operations, strategy, actuarial, human resources, financial, marketing, and other fields.[16] Figure 2-7 shows the revenue in the United States for each of these areas from 2005 to 2010. As could be predicted, revenue decreased with the recession in 2009. However, the industry has since rebounded as companies have looked for ways to improve their revenues in a period of diminished sales.
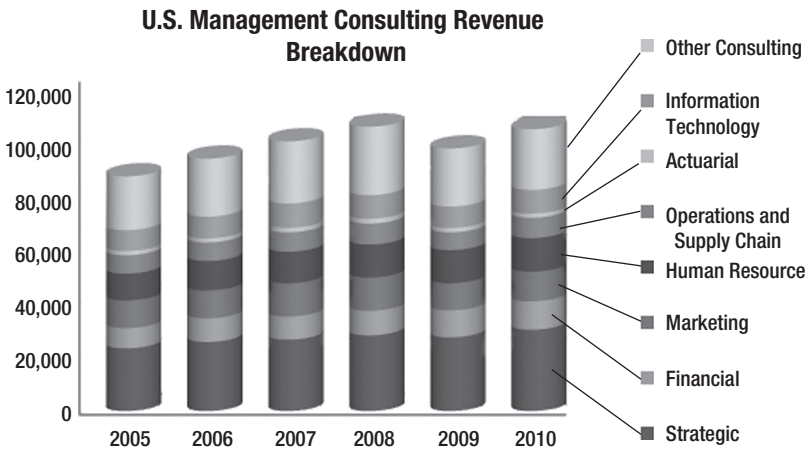
Figure 2-7. Management consulting revenue. SOURCE: U.S. Census Bureau; accessed 2010, http://www.census.gov/services/sas/data_summary54.html.

Information Technology

Information technology is one of the key areas in which consultants are used. Even companies that do not have their own consultants maintain relationships with consulting firms that specialize in the implementation of their products. Enterprise resource planning software companies, such as Oracle and SAP, use this model rather than having their own consulting divisions. Big

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[16] U.S. Census Bureau; accessed 2010, http://www.census.gov/services/sas/data_summary54.html.

implementations often have software and hardware needs that may require hiring a consultant to manage the project. That consultant in turn may hire other consultants to perform tasks related to smaller portions of the project.

For instance, a company may hire a contractor to be an internal project manager to manage a relationship with an SAP implementation firm. As part of the SAP project, it becomes apparent that the company's warehouse needs to have a wireless net built. So, the implementation firm hires a consultant group to set up the warehouse's wireless network. The project manager may also realize a need for consultants to analyze the processes within the organization and will hire them. It is easy to see how one set of consultant skills may drive the need to get other consultants to implement successfully new business software.

Despite some setbacks, such as the dotcom bust of the early 2000s, IT consulting continues to grow. It is currently worth over an estimated $150 billion. IT consulting is now rarely about coding or systems analysis, although these are components of the market. More often, it is about integrating business units within the organization or between divisions of an organization.

There are a few key reasons to hire IT consultants. These include growing the business through the use of Internet tools, cutting costs through ERP or outsourcing, improving service through things like customer relationship management (CRM), and developing business intelligence tools. There are many other reasons, like developing faster communication channels and integrating companies. As various software and cloud computing solutions are employed to help businesses solve operational problems; the need for consultants to support these solutions will grow.

Some organizations own hundreds of discrete software packages, each to meet a specific company need. As these companies mature, they need to work with experts in data integration and normalization to have the disparate systems communicate with each other. This, then, allows companies to have an overall real-time picture of organizational performance.

Two examples of tasks associated with IT consulting are configuring ERP systems to parallel business processes and developing customization to meet business needs. Helping with data transfers or setting up system interfaces are other tasks that may be performed. When organizations put in large-scale software and try to avoid customization expenses, they tend to bring in consultants to share best practices across their specific industry and provide training on the software use. This shows that, potentially, IT consultants may not be technical in nature, but are truly able to work with people through training and business process analysis.

Program and Project Management

Companies often need to manage large programs, but lack seasoned internal employees with program or project management skills. *Program management* involves coordinating several complex projects that may be related to each other. Examples of program management include starting up a new company division or developing a new product line. Because projects of this scope are not a normal part of business for most organizations, they hire consultants that specialize in program management. A consultant program manager can provide a strategic benefit due to the scope of their influence and control.

Project management is about managing resources to ensure that the project is completed on time and within budget. It does not require strategic representation or decisions, but it does require experience and a specific set of skills to complete a project successfully. Project managers use tools such as Gantt charts and budgets; they often present themselves with project management professional (PMP) certifications and a portfolio of projects successfully implemented. This allows them to show that they are capable of doing what is necessary to manage a project. A project manager is paid much less than a program manager and works only within predefined specifications.

Operations

Operations consulting is a diverse category of consulting, including areas that transcend industries, such as business process redesign, process improvement, rapid cycle innovation, cost reduction, quality improvement, and customer relationship management. Other areas focus on specific industries, such as patient safety in healthcare, banking best practices, and manufacturing logistics. Operations consultants often have longer tenure than consultants within other areas. These consultants may be retired leaders from the business world, in contrast to career consultants who may have started working for a large consulting firm right out of an MBA program.

Operations consultants can be very helpful, especially when a problem is not clearly defined. To justify their fees, consultants likely do a baseline analysis of the company and identify target improvement areas. Because of the specific skills associated with this type of consulting, it is important to ensure the sustainability of their suggested improvements and verify any claimed successes.

Outsourcing Advice

"Outsourcing" can mean a lot of things and encompasses many different business strategies to control costs. *Business process outsourcing* (BPO) involves

outsourcing standard company functions, such as human resources, payroll, and IT, as a means of avoiding the costly investment in infrastructure and skills required to perform these tasks. This is helpful for small to mid-size companies that may not have enough activity to justify dedicating resources to these functions. However, many large companies also use this method to turn fixed overhead into variable overhead, based on fluctuating staffing needs.

The outsourcing of IT infrastructure, and use of hosted solutions such as software as a service (SaaS) is called *infrastructure outsourcing.* For example, a company might not want to manage all its own servers, so it will hire a third party to manage the servers. *Application outsourci*ng includes developing software, and then managing its operation and improvement; examples include some SaaS models. This is a growing market, thanks to the prevalence of cloud computing. SaaS works very well for organizations that do not want to spend capital funds and labor and infrastructure to maintain their own programs. Many organizations avoid this type of consulting, however, due to concerns for data integrity and potential downtime on their applications.

Many outsourcing companies bundle their services to offer a complete package, and this can be a lucrative business for consulting companies. Accenture, for example, receives over 20 percent of its income from running outsourcing operations. The market is so large that Accenture's CEO believes that this may eventually reach 50 percent.[17] As the economy continues to become more global, and IT infrastructure becomes more stable, the companies that currently avoid outsourcing some of these common services will likely reconsider. At that point, there will be enough history to track the security of the data and the robustness of the systems.

By having up to 35 percent of their staffs in Asia, companies such as IBM, EDS, and Accenture can offer Western firms access to cheap, and increasingly highly skilled, labor in India and China to answer calls, host IT applications, and run business processes. Even with potential lingual, cultural, and time-zone challenges, this is a good model for certain companies to maximize profits, although it eliminates local jobs.

In recent years, Indian companies such as Tata, Wipro, and Infosys have increasingly taken the battle to the West, building up massive outsourcing contracts and buying up skills and assets in the United States. Although this business continues to grow, with margins getting tighter and the competition becoming more intense, the outsourcing market is not as profitable as it was in the 1990s. The high startup costs associated with outsourcing keep most

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[17] Accenture, Accenture Annual Report; accessed 2011, http://www.accenture.com/us-en/company/annual-report/Pages/annual-report-2011-ceo-letter.aspx.