

# **A STRATEGIC ANALYSIS OF A CONSULTING FIRM'S MARKET EXPANSION PLANS**

by

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PROJECT SUBMITTED IN PARTIAL FULFILLMENT  
OF THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

In the  
Faculty  
of  
Business Administration

Executive Master of Business Administration Program

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SIMON FRASER UNIVERSITY



Summer 2005

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## **ABSTRACT**

This Master's project examines the world of management consulting and the challenges facing a small firm. From an overview of how the industry operates and a brief look at the history of how today's market has been shaped by past events and the market dynamics this shaping presents to incumbent and new entrants alike, the project proceeds to look at the value chain of both the industry and the specific firm and assesses the strategic fit of the firm to the industry. The market expansion plans of the firm are examined, issues that affect the industry and those that are unique to the firm are identified and a series of recommendations is presented.

## **EXECUTIVE SUMMARY**

CCI Management Consultants is a small firm providing undifferentiated project management services in a market space consisting of principally primary industries. Secondary industries in this market are limited almost exclusively to government and related organizations. As a result, CCI Management Consultants faces a number of noteworthy issues.

The Canadian management consulting industry is estimated to have 5,000 firms and up to 17,000 practitioners although the large accounting firms with consulting practices have long dominated the industry. In the past seven years, the major firms have either separated or sold off their consulting practices. The change in the top tier will not lessen CCI's competitive pressures in the short term. This is due primarily to the NAFTA treaty opening the borders to American firms and the recent offshoring activities extending that competitive range into India and other locations.

There is intense rivalry between competitors for project management consulting engagements. This results from the composition of the industry and the ease with which new competitors can enter the market. In addition, there is a small number of buyers and the use of structured competitive bidding mechanisms is prevalent. The perishability of the consulting hour also puts downward pressure on billable rates.

Other challenges faced by CCI include high transaction costs for finding and securing engagements and a limited availability of qualified consultants, which poses

high costs in hiring and retaining those consultants. The buyers expect more industry-specific knowledge and experience in engagements so consultants with general knowledge may not be qualified for specific engagements. This demand for specific knowledge limits the firm's ability to transfer its core competencies to new market segments and clients.

As the status quo is not an acceptable option, CCI is presented with four options to expand its market and fulfil its strategic goals. The goals are to increase profit margins, expand its inventory of skills, achieve a compounded annual growth rate (CAGR) of twenty percent for the next three years and leverage its existing client relationships. The options are:

1. Differentiation of existing project management consulting;
2. Differentiation within market sectors;
3. Develop an executive-level business management consulting practice; and
4. Diversification through strategic alliances.

The strategic options are not mutually exclusive and it is recommended that the firm focus on two of the strategic options for expansion: differentiation by specific market sector; and strategic alliances for diversification of services offered.

For both options, CCI should seek to improve its perceived credibility and legitimacy, expanding upon the current certifications of its consultants. The firm should consider joining a management consulting association such as the Canadian Association

of Management Consultants and encouraging individual consultants to attain the Certified Management Consultant (CMC) designation offered by this association.

By focusing on local industries that have specialized needs, such as health care or provincial and municipal governments, CCI is able to offer services that do not have to rely on global breadth.

To expand upstream in the value chain and engage the firm earlier in the overall consulting engagement cycle, CCI should use strategic alliances and rapidly extend both the footprint and the skills inventory of the firm. Alliances also enable CCI to offer a client a fuller range of solutions and potentially assist the client to avoid its own transaction costs in searching for and securing additional resources to complete an undertaking. By drawing resources from its alliance chain to assist the client, CCI may be able to capture some of the savings through bundled pricing. For downstream expansion, however, CCI should continue to rely on spot market contracts.

With industry growth projected to reach 55% between 2002 and 2012, CCI must act now to capitalize on the opportunities.

## **DEDICATION**

This is dedicated to my family – to my wife, Lyla, as we journeyed together through this Master’s Degree voyage of discovery, and to our sons, Jason and Lee, who, as they struggled with their own post-secondary educations, found the resilience to face the challenges of an empty refrigerator, a cold stove and a silent laundry room.



## **ACKNOWLEDGEMENTS**

To the professors of Simon Fraser University who selflessly shared their knowledge and their enthusiasm and to the program area staff who tirelessly kept the program on track and were always there to solve a problem, no matter how trivial. Your warmth and sincerity has been greatly appreciated.

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## GLOSSARY

<b>ADDIE</b>	Analysis, Design, Development, Implementation and Evaluation
<b>BCSC</b>	British Columbia Systems Corporation
<b>BPO</b>	Business Process Outsourcing
<b>CAGR</b>	Compounded Annual Growth Rate
<b>CMC</b>	Certified Management Consultant
<b>EDS</b>	Electronic Data Systems
<b>IDEAL</b>	Initiation, Diagnosing, Establishing, Acting and Leveraging
<b>ISM</b>	Information Systems Management
<b>ITQ</b>	Invitation to Quote
<b>NAFTA</b>	North American Free Trade Agreement
<b>NAICS</b>	North American Industry Classification System
<b>NASA</b>	National Aeronautics and Space Administration
<b>NASSCOM</b>	National Association of Software and Services Companies (India)
<b>PMI®</b>	Project Management Institute
<b>PMP®</b>	Project Management Professional
<b>REI</b>	Request for Expression of Interest
<b>RFP</b>	Request for Proposal
<b>RFQ</b>	Request for Quote
<b>SDLC</b>	Systems Development Life Cycle
<b>SEC</b>	Securities and Exchange Commission (United States)
<b>SIC</b>	Standard Industrial Classification

# **1 OVERVIEW OF THE MANAGEMENT CONSULTING INDUSTRY**

## **1.1 Introduction**

CCI Management Consultants, hereafter referred to as CCI, was established in 1996 as a boutique consulting firm operating in the greater Vancouver region. From the beginning as a privately owned one-person corporation, the firm has provided project management and related services for mainly information technology based projects by leveraging a network of sub-contracted consultants, adjusting the skills base to meet the needs of each particular contract.

With various portions of the company's administrative functions outsourced to other local providers, the executive of CCI concentrated on the operational delivery of services. Despite the business opportunities of web development and Y2K projects, the firm remained committed to its initial product offerings throughout the late 1990s, seeking to differentiate itself on the basis of its consultants' experience and recognized certification by the Project Management Institute (PMI®) and through building client references.

However, the firm suffered significant set backs in the worldwide consulting market downturn of 2002 and 2003 and a survival strategy was adopted, reacting to market developments and opportunities as opposed to carefully adjusting the initial strategy.

The business consulting industry, excluding consulting engineering and other construction related activities, can be thought of as consisting of two categories: accounting services and management consulting. Accounting services principally includes preparation and interpretation of financial statements and the provision of tax advice, either country specific or in the context of a growing global marketplace with international business activities. Management consulting, on the other hand, is a broader term that encompasses analysis of business operations, development of business strategy, human resource management and a host of computer systems analysis and integration services including project and change management among others.

In the 1980s and early 1990s, the business consulting industry was comprised of large accounting firms, such as KPMG, Arthur Anderson, Ernst & Young and PriceWaterhouse, large systems integrators, such as IBM, EDS and SHL, and a host of small firms and many independent consultants. At one time, there was a clear delineation of services between the large accounting firms and the systems integrators but this line began to blur. Anderson Consulting focused on computerized solutions to business problems and was an outgrowth of the accounting firm, Arthur Anderson. Both the accounting firms and the systems integrators offered a subset of services that focused on the management aspects of client firms and these services could generally be categorized as management consulting.

As CCI Management Consultants has focused on providing project management and related services, it participates in the management consulting industry and is one of the “host of small firms”. However, the management consulting industry has evolved significantly in the past five years, a process that began in the late 1990s, and parallels the

landscape changes within the global business environment. As a result, the historical base for CCI may be threatened and, if CCI is to have a future, a change in its market position and strategy must occur.

This paper focuses on the development and assessment of a market expansion strategy for CCI to determine if the expansion strategy will deliver a competitive advantage for the firm. The underlying components of the strategy will be examined to dissect the opportunities available to, and the threats facing, CCI including the composition and trends of the market (the buyers) and the competitors. It is in these two primary areas that the key drivers of the CCI strategy are found so these areas will be the focus of the assessment. The additional areas will include assessing the market entry threats, particularly with respect to the global trends relating to information technology services, and the availability and influence of suppliers of services. This will involve examining the business management consulting value chain and the portion in which CCI participates today.

## **1.2 Products and Services**

CCI offers consulting services in four categories as shown below in **Error!**

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CCI Management Consultants Consulting Services	
Project Management	Project Governance Guidance, Project Management, Change Management, Risk Assessment, Risk Response Planning, Conflict Management, Scope Verification Assessment, Post-Implementation Review Assessment
Business Analysis	Business Needs Assessment, Process Design, Data Analysis, Business Process Reengineering
Solution Selection	Request for Proposal (RFP) Design and Control, Software Package Assessment,
Support Services	Test Planning, Stakeholder Analysis, Team Building and Strengthening, Project Plan Review

**Table 1-1: CCI Consulting Services**

Source: Author

### 1.2.1 Project Management

The primary consulting service of CCI is that of project management within the realm of information technology. The Project Management Institute (PMI®) defines project management as the application of knowledge, skills, tools and techniques to project activities to meet project requirements (Project Management Institute, 2000, p.6).

Within project management, there are nine knowledge areas, or disciplines. These are Project Integration Management, Project Scope Management, Project Time Management, Project Cost Management, Project Quality Management, Project Human Resource Management, Project Communications Management, Project Risk Management and Project Procurement Management. CCI primarily offers project management as a broad spectrum service although CCI also offers each of the disciplines as a stand-alone service to clients depending upon the size and nature of the project undertaken. Although

experienced project managers typically have developed mastery in all nine areas, the ability to effectively deliver such a broad spectrum of services varies based on the complexity of the project. For instance, when developing a mid-sized application for a single firm the CCI consulting project manager would likely provide services across the full spectrum. In large multiple-firm projects, there is a higher degree of specialization required and several consultants, each addressing a subcomponent of the overall project management responsibilities, are involved.

Consulting in Project Governance Guidance was a strong service offering for CCI during its early years in the 1990s as many businesses were struggling with establishing Project Management Offices and implementing project management standards and procedures. In more recent years, this offering has atrophied primarily because of the success of local businesses in establishing internal programs. A second cause is the recent development and marketing of project management products that include some aspects of project governance guidance in the software.

Change management consulting services initially grew out of the opportunity to assist clients with developing the internal processes to recognize, estimate and control the impacts of changes that arose within their current information technology projects. These services were rapidly extended to include the management of change impacts within the business areas affected by the technology projects, as this was where the hidden costs of projects were occurring. These costs arose through the loss of productivity from poor expectation alignment and from minimal and often ineffective communications and training. In addition, an overall lack of understanding by the technology department of the business challenges hampered productivity as did the business department

unfamiliarity with limitations of centralized computing solutions. Change management consulting services have been gradually included into the overall offering of project management at CCI as the project process maturity of client organizations improves.

Risk Assessment and Risk Response Planning are also offered to clients. CCI usually delivers these services in support of an existing project that the client has staffed with a junior or intermediate project manager from within the client's organization. The ability to recognize risks and develop appropriate response plans, complete with well-defined triggers, is a product of experience as well as a solid process. Although risk management is a concept well recognized by most business managers, the identification of project related risks is often outside of the business managers' experience. Typically, the managers are well versed in the day-to-day operations of their business activities but projects introduce new aspects and risks. Some of the risks are inherent to projects while other risks are unique to the type of solution being implemented. The Risk Assessment and Risk Response Planning services are delivered as cross sales to an existing client for whom CCI is providing other services.

Another service typically arising as a cross-sale for a current client is that of conflict management. Where Human Resource departments are unwilling or unable to intervene, an outside consultant may offer an expedient solution. The ability to objectively identify the causes of conflict and offer mentored solutions has proven to be a valued, albeit small, component of the CCI offerings.

Scope verification assessment and post-implementation review assessments are post-project or project close activities. To minimize the amount of bias introduced into

the assessments, clients procure these services from consulting firms that were not involved in the original project. Clients prefer consultants that were not engaged at the client firm during the course of the project. CCI's services are, therefore, delivered on a spot-basis either through previous client contacts or through responding to Requests For Proposal (RFP).

### **1.2.2 Business Analysis**

The second category of CCI services is business analysis. The scope of these services has been restricted to the definition of business analysis within the system development life cycle of information technology. CCI's services focus on the definition and design of specific existing business functions and/or proposed new or enhanced processes within the defined scope of a project. The CCI consultant will assess the business needs within the scope boundaries and design a business process to fulfil identified needs. Alternatively, the consultant may identify and document an existing business process along with its supporting business rules, data flows and information technology design.

In 2001, CCI added Business Process Reengineering to its portfolio of consulting services. This was as a logical extension of the skills for business process design accumulated through previous business analysis efforts. The Business Process Reengineering line of business has not developed well, though. This is due to the combined negative experiences of the marketplace as a whole. In addition, the high marketing transaction costs of initiating a new service have been a deterrent, particularly during a market downturn.

CCI has not served the market with higher tier analysis services such as assessing the operational efficiency of businesses. Strategic assessments and realigning a business' current or planned future operations have also not been offered by CCI.

### **1.2.3 Solution Selection**

For a number of businesses in the greater Vancouver and Victoria areas, development of in-house computerized solutions is either impractical or not the preferred approach for one or more varied reasons. For these businesses, the alternative approach to solutions delivery typically includes turning to the external marketplace to find either a pre-built solution, such as packaged or “shrink-wrapped” software, or to contract in some fashion with an external solutions provider, or both.

For example, many businesses were faced with aging mainframe-based computing applications in the mid-to-late 1990s and the looming threat of the Year-2000, or Y2K, bug. It was during this period that packaged solutions were experiencing significant sales growth as the simplest solution for some of these businesses was the wholesale replacement of their application base. The alternative was to invest significant capital but still have ancient applications that did not address current or future business needs (Schroek et al, 2002). Often the sale of packaged software was bundled with consulting services. These services could include customisation and installation of the product. Business and technical training required to effectively re-establish the business on the new software platform might also have been included. Not infrequently, the bundled services involved redesigning the business processes of the company to align the

business process with the abilities of the software. This realignment was one of the areas in which poor market experiences with Business Process Reengineering occurred.

To obtain a package, a business engages in a number of similar processes, each of which seeks to solicit responses from the marketplace. If the product is a simple packaged product, often referred to as “shrink-wrapped software”, then an Invitation to Quote (ITQ) or a Request for Quote (RFQ) might be used. If the product being sought has some level of customisation required, then a Request for Expression of Interest (REI) might be issued. For solutions with even more customisation, either on top of a base software product or to develop a new client-specific product, a Request for Proposal (RFP) is generally used. There are a number of business practices surrounding the issuing and evaluating of each of these mechanisms. If the practices are breached, exposures in both legal and reputation sense arise. For example in the Request for Proposal process, the evaluation criteria must be established in a final form prior to receiving any response or bid, be that response in writing or through presentations. This minimizes the potential for bias, the presence of which may expose the business to lawsuits or sully its reputation for fair business practices.

Defining, conducting and/or managing the execution of these processes are the Solution Selection services offered by CCI Management Consultants.

#### **1.2.4 Support Services**

The last of the four categories of consulting services offered by CCI is that of support services. Three of the support services, Project Plan Review, Stakeholder Analysis and Test Planning, target the planning stage of the project lifecycle. These

services offer clients specialized knowledge in a highly focused and thus leveraged manner. Second in the five-stage life cycle of a project, the planning stage is where the detailed activities of the project are identified, sequenced and estimated. Although conceptually presented as a second stage, the planning activities effectively span the entire project timeframe with detailed planning decomposing the initial higher level plans as the project proceeds. For software development projects, planning related activities occurs during each of the execution steps including analysis, design, development, testing and implementation. This is irrespective of whether the project is conducted following in a traditional waterfall methodological approach (Burbach, 1997) or in more intermixed cyclical prototyping approaches (Marks, 2002).

The fourth support service, Team Building and Strengthening, is a broader-based offering that addresses activities throughout the life of a project and relies primarily upon human resource management skills, many of which are also applied in CCI's Conflict Management services.

### **1.2.5 Consulting Services Summary**

Each of the consulting services offered are based on widely available methodologies and procedures, rendering the firm's offerings as progressively more commonplace and minimally distinguishable from those of other consulting firms. This lack of differentiation within project management related consulting is a key factor leading to the formulation of the market expansion strategy.

### **1.3 CCI's Market**

Projects are temporary undertakings intended to accomplish a set of actions to achieve a specific set of objectives, generally moving the organization(s) undertaking the project from one state of existence to another. Consequently, Project Management services should be applicable to any organization that is attempting to effect change from its status quo. The disciplines of project management offer the client firm the opportunity to realize the expected benefits of the project more effectively while controlling the costs more closely. As a result, the potential market for CCI Management Consultants' services is as broad as the marketplace of business.

Delivering meaningful value to a client organization arises from the intersection of three separate sets of skills and knowledge. The client benefits from the consultant having specific knowledge about either the nature of the project or the nature of the business. The consultant should also have project management knowledge and expertise. Finally, the consultant should have a strong command of general management knowledge, including the interpersonal skills necessary to manage teams of people. Project management skills alone are generally insufficient to bring value to a client. For example, an experienced video game software project manager would unlikely be the candidate of first choice to manage a project to build a nuclear plant. In the same fashion, many client organizations will not accept a project manager lacking experience in the client's industry. The industry experience is perceived to be necessary to understand the business needs and appropriately anticipate and evaluate the myriad of day-to-day decisions required enroute to a successful conclusion. The possession of industry



specific skills and knowledge is a limiting factor to the marketing reach of a consulting organization.

Also affecting the breadth of the market is the fact that not all organizations recognize the benefits of project management. Historically, companies conducted business with activities grouped together along internal function lines into 'silos' or 'stovepipes' such as marketing, accounting or shipping. Undertaking changes was a localized event, mixed in with operational activities. In the 1960s, with a boom in construction and the advent of the space race in the United States, the role of a project manager began to emerge as a job title but by the end of the decade, in 1969 when the Project Management Institute was initially formed (Project Management Institute Annual Report, 2004, p.7), the role was still limited in its recognition.

By 1986, projects were more entrenched in business activities but the outcomes were often disappointing, leading to the US federal government's request that the Software Engineering Institute of Carnegie Mellon University develop a framework for assessing the maturity of the project process. This model was intended to assist the federal government with evaluating the performance of its software development contractors and the initial description of the framework was unveiled in September of 1987. The framework depicts the sophistication of a company's project performance on a five-stage scale, from ad hoc to repeatable, defined, managed and optimising respectively. Over the next four years, the framework was refined and supporting questionnaires for self-administration were developed and made available for use. With a strong response from within the Information Technology community, this framework

prompted the development of a number of methodology spin-offs and increased the profile of the need to and benefit of managing projects.

A convergent development was taking place in the ranks of project management procedural documentation with the 1989 initiation of the Project Management Institute's "Project Management Body of Knowledge" document. The beta draft was released in late 1993 and the first edition was issued in 1996.

It was during this timeframe of focus on formalized, controlled approaches to managing projects that CCI was launched, offering its services to clients who were interested in gaining control of their projects. The potential clients were primarily large organizations with significant capital investments being made in their software development. These firms often had the beginnings of a project management office, operating under this or a similar title. Sophistication was rapidly improving, at least in terms of understanding project management and the overall governance structure required if the process of managing projects was to be successful.

Attempting to market its offerings to every business would exceed the resource capacity of CCI. With its experience base and expertise in regulatory environments, CCI targets government and quasi-government organizations. Initially the firm did so within the greater Vancouver area but CCI soon expanded both the scope of offerings, to include business analysis, and the geographic region, to include Victoria. Since the inception of CCI, the targeted organizations have dramatically improved their level of sophistication in assessing project performance. Over the past five years in particular, a number of innovations have become typical everyday components of the client businesses.

Throughout government ministries, crown corporations and agencies, the development and use of standardized scorecards to monitor project performance are routine and are often combined with structured project methodologies complete with templates for deliverables.

The process for winning bids has also changed since CCI was launched. In the private industry sector, many business opportunities are not well advertised and locating these opportunities has often been the result of well development networks of contacts. In the regulatory environment, however, the procurement process was formalized to be more transparent and to cover a broader range of services and products. These objectives were achieved through altering the procurement process standards and by funnelling each qualified opportunity through the BC Bid® website. Because the website made the opportunities easier to locate, it also increased the amount of competition for the contracts, shifting more influence and control into the hands of the purchasers.

The transparency of an open bid system, however, is only one way and favours the purchaser. For the bidders, the ability to determine the price ranges or services and products of competitors remains hampered as the bids are developed and submitted secretively. As a result, a firm's the ability to verify that its prices and products or services are competitively priced or placed is often a matter of anecdotal evidence, gleaned from conversations by its members within their own networks. CCI executive believe their prices are mid-range and represent a good value proposition for the clients of the firm.

CCI executive also believe that the firm's services are marketed as differentiated offerings based upon a combination of consultants with fifteen years or more of project experience, certification from the Project Management Institute and direct experience in specific industry sectors. This combination is not unique within the industry, however, and in an unscientific poll of seven firms working in the same industry sector, all seven were able to match these attributes. This finding suggests that CCI is truly offering homogeneous products.

## **2 INDUSTRY ANALYSIS**

### **2.1 Overview of the Management Consulting Industry**

There are two aspects within the overview that are presented here. The first is the process of delivering services through engaging the client, also known as winning the contract, while the second aspect is the historical development of the industry and its current condition.

#### **2.1.1 Delivering Consulting Services**

In its simplest form, a contract potentially arises when a client recognizes a need for knowledge, skills or perspective, what is hereafter referred to as resources, which do not exist in sufficient quantities within the client's organization. How the client proceeds to acquire these resources differs between clients but there are three general approaches. A client may turn to a single firm, usually one with whom the client has had extensive business relations in the past, and enters into conversation about the nature and scope of the undertaking. The second option is an invitation to bid on the contract, which is generally preceded by some client efforts to research the potential market suppliers and to limit the invitation to a small subset of the market. The third option is to conduct an open bidding process. This may involve an invitation being sent to a list of qualified providers, often developed by a previous open proposal process. Alternatively, the invitation may be posted to a broad audience through an advertisement in one or more newspapers, etc. or, the more common approach today, through a website.

Irrespective of which approach the client organization adopts, there are common elements to the development of each engagement. The client organization, either by itself or in concert with the consulting firm of choice, minimally defines a number of aspects of the engagement within the contract. The goals and objectives of the undertaking, usually in quantifiable and readily measurable terms, are stated. The beginning and ending dates and/or conditions of the undertaking are also defined, with the conditions being measurable for clarity. The deliverables are stipulated and these may range from tangible components of the undertaking, such as reports and documents or training sessions to intangible items such as verbal guidance and mentoring. Interim milestones, which are usually directly related to the identified deliverables, are also included.

Each consulting firm delivers its services through contracts and the process of delivering services is known by different names such as the contract life cycle (Bartels, 2004), the consulting engagement life cycle or the service delivery cycle (University of Birmingham) to name a few. Within CCI, each contract is referred to as a consulting engagement. Similar to the project process, which consists of the five phases, a consulting engagement can likewise be thought of as being composed of five phases. These are engaging the client, gathering and analysing the data, presenting findings and recommendations, planning and implementing the recommendations and ending the engagement and evaluating the results (Consulting Competency Model).

In the first phase, that of engaging the client, there is a three-step process of identifying the potential engagement opportunities, engaging the client in the conversation and closing the deal. Identifying the engagement opportunities can occur in a myriad of ways. One way is through market research, whereby the consulting firm

identifies organizations with attributes similar to those of previous clients. Another approach is trend analysis, where a firm predicts a future direction and then identifies organizations that may either have an opportunity to exploit or be impacted by that trend. The most common form of identifying opportunities, and the least costly, is assessing the needs of current clients.

The ability to assess a current client's needs is directly related to the skills necessary to conduct the second step of engaging the client, the ability to build and manage client relationships. Many engagements are awarded based on relationships due to the intangible nature of consulting engagements and the challenges in monitoring and measuring the deliverables, particularly when attempting to evaluate the quality of judgements. As a result, the presence of a high degree of trust between parties is an advantage for initiating the engagement cycle with a client.

When the client is satisfied that a need exists and convinced that the appropriate consultant has been identified then a contract can be negotiated. This is the third and final step in engaging the client but only the start of engagement delivery. Few management consulting firms, however, are positioned to truly deliver end-to-end solutions from the business concept inception through to the implementation of the recommendations and post-implementation support and/or maintenance.

The largest management consulting firms tend to focus on finance related services, such as cost management, and business process improvements, including re-engineering and effective outsourcing. As a consequence, these firms typically deliver services over the first three phases of the life cycle. It is the computer integrators that

have entered the business process improvements market, such as IBM and the Sierra Systems Group, that offer the greatest range of services.

Historically, these firms have focused on phase four activities, with project development and implementation as their core competencies. This approach still required some variant of phase one and phase five activities to engage the client and to close out the engagements appropriately. The scope of the activities and the audience within the organization, typically involving middle management instead of senior executives, differed between the management consulting and computer integrators.

In recent years, the computer integrators have improved their business process knowledge and skills and strengthened their knowledge management capabilities to leverage investments from one project to another and to deliver steadily improving quality. This situation has expanded the range of credible services of the systems integrators. The more established management consulting firms are responding by introducing stronger technology teams to implement recommendations, such as is the case with the former KPMG group, now re-branded as BearingPoint.

With a convergence of skills and abilities, management consulting and system integrator firms have needed to find other ways to differentiate their products and services from one another. As a result, the product and service mix has been flexible and has undergone frequent changes in recent years, both at the micro level and at the macro level. For example, IBM Canada offers a range of services aligned by industry (McDougall, 2003, pp.22-24), business topic or IT category (IBM Canada, 2005, p.1) but retains the flavour of its core competencies with a distinct systems integration orientation



to the service presentation. Sierra Systems Group, operating as Sierra Systems, has done likewise. In their 2002 Annual Report, “eGovernment” was featured as one of Sierra’s four Specialty Practices (Sierra Systems Group Annual Report, 2002, p. 16) but this term is conspicuously absent from their website as of July 2005. Sierra Systems’ focus is further illustrated by their July 2005 mission statement, “...improving our clients’ business through technology” (Sierra Systems Group, 2005, para. 1).

Whether the firm successfully acquired the engagement in the first phase of the engagement lifecycle through relationships or through the appropriate mix of products and services, the firm must then move into execution and delivery. These are effectively phases two through four of the life cycle and the ability to deliver the engagement successfully is discussed later in this paper. For the overview, however, the fifth phase is also of importance, for how an engagement ends sets the stage for initiating the next engagement.

The final stage of a project involves assessing whether the objectives were met and whether the most appropriate and efficient approaches were employed. This applies equally well to projects irrespective of whether they are in construction, software design, business improvement or home renovation. The Project Management Institute identified nine steps to closing a project, four of which are key to the engagement life cycle: final acceptance (signoff); contract closeout; final reports; and lessons learned (Project Management Institute, 2000, p.37). During the final acceptance efforts, the consulting firm has the opportunity to direct the client’s attention to particular areas and ensure that the client is aware of the quality of the deliverables. Through the contract closeout, the

consulting firm ensures that all of its billables have been submitted, maximizing its revenue under the terms of the contract.

The most valuable portion, however, is the content and delivery of the final reports and lessons learned, which are excellent opportunities to frame the next engagement with the client. The sales skills necessary to take advantage of these opportunities, however, are not necessarily embodied in the same consultants through whom the engagement is delivered. This is the process that has historically been followed in the delivery of consulting services.

### **2.1.2 History of Consulting Services**

Gerald A. Simon was the co-founder of both the Cambridge Research Institute and the “The Journal of Management Consulting”, now known as “Consulting to Management”. Mr. Simon wrote in the December 2004 issue of the magazine that consulting services effectively began about one hundred years ago in the United States and England and slowly gained credibility and recognition until just after World War II, when the pace of growth increased dramatically. The most rapid growth period, however, has coincided with the communications and computer industries explosion in innovations and breakthroughs, that being the past quarter century (Simon, 2004, p. 2).

The largest consulting organizations have their roots primarily in the accounting services firms, such as the Big 8 of the early 1970s, which branched out into related services such as management consulting and technical services. The mid-1990s saw unparalleled opportunities, especially for the technical consulting divisions, with the looming year 2000 and its implications for ancient computer applications and the stock

market continuing in the longest bull market ever recorded supporting a plethora of dot-com company start-ups. By 1996, the value of business consulting services surpassed the value of auditing services within the large firms (GAO, 2003, p. 15).

By the end of the decade, the bubble began to deflate with some of the world's most spectacular corporate accounting scandals. Forbes magazine, via its website, presented a summary of the scandals in its article, "The Corporate Scandal Sheet" (Patsuris, 2002), and listed Xerox as the first scandal, in June of 2000, followed by Enron in October of 2001. Although Enron seemed to capture the attention of the world, particularly with the Arthur Anderson audit division's complicit actions that surfaced in November of 2001, a flood of other scandals came to light in the ensuing months. The communications industry members Qwest, WorldCom and Adelphia Communications; retailers Homestead Stores and Kmart; other energy sector firms CMS Energy, Dynergy and El Paso were all the subject of SEC actions. Even the stalwart AOL Times-Warner fell prey to questionable accounting practices.

The concerns raised by the perceived lack of competition in the auditing industry were accentuated by the scandals. When the US Congress passed the Sarbanes-Oxley Act of 2002, the Act included a mandate to the US General Accounting Office to study four aspects of the industry competition including "barriers to entry faced by smaller accounting firms in competing with the largest firms for large public audits." (GAO, 2003, p. 8) The report noted that the four largest auditing firms conducted more than 78 per cent of all audits of public companies and 99 per cent of all public company sales. However, in the face of the market failures and scandals, the large firms began divesting themselves of their business consulting services.

The speed of the segregation process appears to have accelerated in the post-Enron era, likely as a direct response to the US Congress activities leading up to the passing of the Sarbanes-Oxley Act of 2002. Under Title II of the Act, in Section 103, the “*Auditing, Quality Control, And Independence Standards And Rules*” are defined. The aspect of auditor independence is further addressed in the Act, including in Section 201 where the Auditor Independence Self-Assessment Questionnaire is provided. The issue of auditor independence and the apparent conflict of interest for an auditing firm also selling non-auditing services to the same clients was the source of complaints filed with the Securities Exchange Commission (SEC) in the United States. This was a featured topic of SEC Chairman Arthur Levitt’s October 1999 speech at the Public Oversight Hearings in New York (Levitt, 1999, p. 1). Since the passage of the Sarbanes-Oxley Act, the SEC has issued a veritable stream of clarifications and directives regarding compliance with the Act for publicly listed firms. With the impact being felt by their clients, the accounting firms apparently concluded that the best response was to separate their operations. Ernst & Young sold their practice to Cap Gemini Group S.A. in 2000 followed by PricewaterhouseCoopers selling their practice to IBM in October of 2002 (DM Review, 2002, p. 1). KPMG then spun their practice off into BearingPoint. Of the Big 4 accounting firms of 1998, only Deloitte and Touche retained their business consulting practice.

The cost of introducing and establishing a new brand is not inconsequential, however. KPMG’s Chairman and Chief Executive Officer Rand Blazer estimated that the cost of renaming the consulting arm to BearingPoint would be between US\$20 million and \$40 million (ITWorld, 2002, p. 1). Such costs were affecting the firms during an

economic downturn. For example, KPMG's fourth fiscal quarter of 2002 posted revenues of US\$583.2 million, down US\$139.7 million from the same quarter a year before, contributing to fiscal 2002 recording a loss of US\$26.9 million for the firm as a whole on revenues of almost US\$2.37 billion. With such challenges facing the large consulting firms, the status quo for the industry was not an option.

### **2.1.3 The Size of the Consulting Industry**

The consulting industry is categorized within the North American Industry Classification System (NAICS) as 5416, a group that also includes scientific and technical consulting. Within the Standard Industrial Codes (SIC), management consulting is broken out into a discrete subcategory of 8742; however, most data about the industry has been reported based on the NAICS code. This is the situation with the data reported by Statistics Canada.

In 2003, Statistics Canada reported that the management, scientific and technical consulting services industry generated \$9.5 billion in operating revenues in 2003, with nearly half of the revenues being generated by firms located in Ontario and only 12% of the revenues being derived within British Columbia (Statistics Canada, 2005, p. 11). In October of that same year, Industry Canada estimated the Canadian management consulting market "at more than \$2 billion, with 4000 to 5000 firms and approximately 17,000 practitioners" (Industry Canada, 2003, para. 2).

The average number of practitioners per firm can be extrapolated to range from 3.4 to 4.25; however, there are a few very large firms operating in this industry in Canada. In addition to the Big 4 business consulting firms of 2004 (KPMG, Ernst &

Young, Deloitte & Touche, and PricewaterhouseCoopers), there are other consulting firms. According to the Mergent stock information service, in 2004 the world's largest publicly listed consulting firm was Electronic Data Systems (EDS) with 132,000 employees internationally followed by Accenture Limited, the reincarnation of Anderson Consulting, with 83,000 employees. Although there is no definitive data available for the breakdown of the Canadian management consulting industry, with the presence of a few large firms the concentration of practitioners is self-evident; the vast majority of the firms are independents. This conclusion is borne out by a representative sampling of the Industry Canada listings (Industry Canada, 2003) for management consulting firms showing a preponderance of sole practitioner firms. Presuming that the industry profile in Canada roughly parallels that in the United States, the same conclusion could be reached based on the Bureau of Labour Statistics stating that "professional, scientific, and technical services represents about 5.2 percent of all employment yet makes up about 10.5 percent of all establishments" (US Bureau of Labor Statistics, 2005a, para. 5).

In British Columbia, two recent entrances by large consulting firms have changed the landscape. The Ministry of Health Services has entered into a long-term outsourcing deal with Maximus, a Reston, Virginia based company that has approximately 5,500 employees spread across 280 offices in the US, Australia and Canada. Maximus has twenty-four divisions, only one of which focuses on management consulting but the same services are utilized in support of the other operating divisions. The Health Services operating arm is conducting the \$268 million 10-year contract to provide health benefit operations administration services for the Ministry.

The second large entrant is Electronic Data Systems (EDS). EDS Canada established a small presence in the province in 1997 when it acquired SHL Systemhouse but, in November of 2004, the Ministry of Provincial Revenue signed a 10-year US\$480 million outsourcing deal with EDS Advanced Solutions, a new wholly owned subsidiary of EDS Canada. The operational deal includes a redevelopment of the Ministry's diverse revenue management systems and operating debt collection services and involved various portions of the Ministry's operations being transferred to EDS Advanced Solutions.

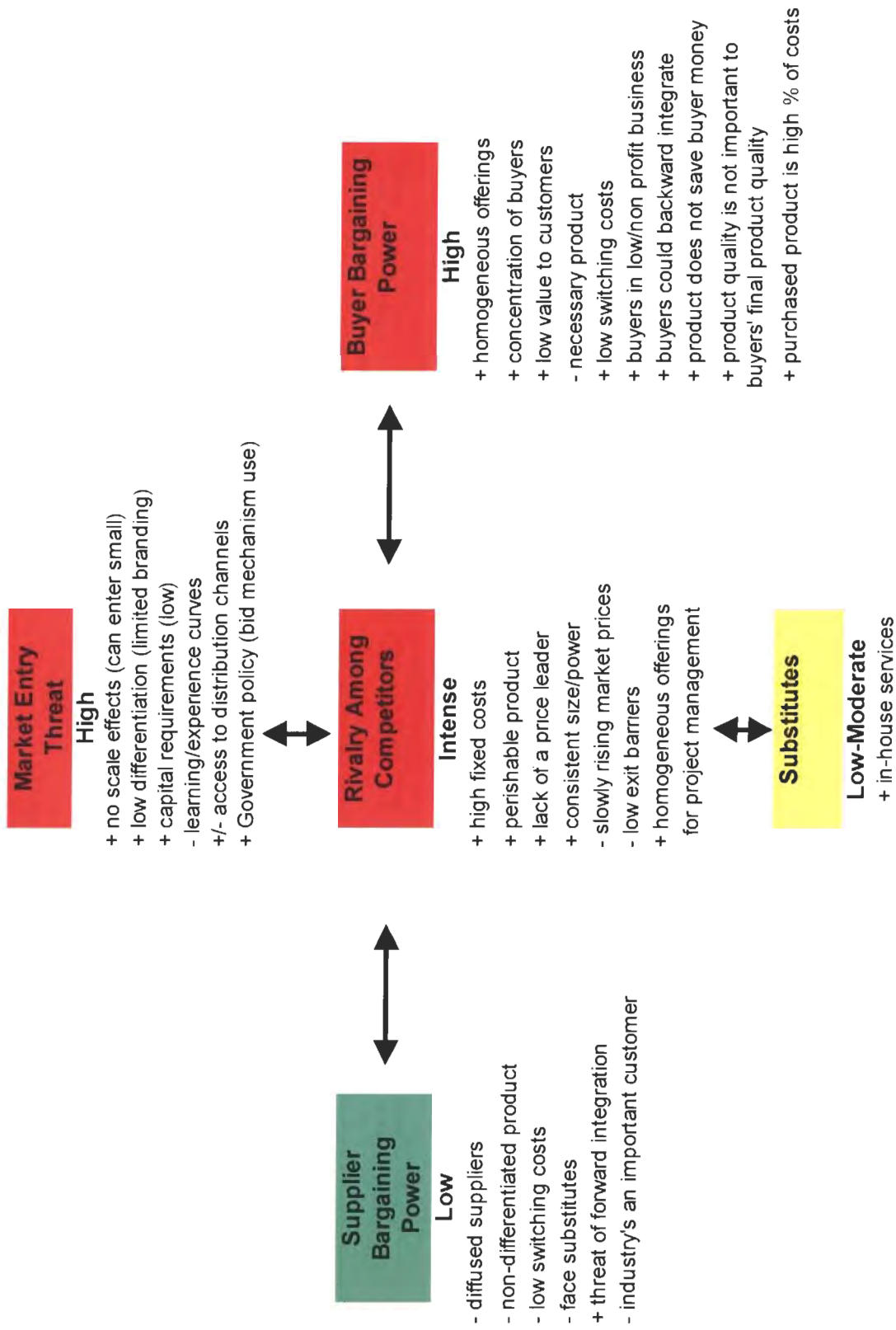
The impact on the local consulting market has not yet been fully felt; however, the indications are that many of the small firms that once provided services to the Ministry may be displaced, as EDS Advanced Solutions is now the holder of the previous Ministry contracts for the services of the small firms. Although the initial outsourcing contract is attractive in and of itself, it is reasonable to conclude that this contract will serve as the entry point for expanded service offerings. Given the large resource base available to firms such as EDS Advanced Solutions, marketing their services to an expanded audience is imminently possible and can leverage their investments from other contracts such as computer service centres, distributed offices and systems development methodologies and artefacts. In addition, EDS has a management consulting subsidiary, A.T. Kearney, a 5,000 member strong internationally experienced firm, from which to source specialized resources when and as necessary.

## **2.2 The Five Factors**

Michael Porter introduced the Five Factors Model in his 1979 article, "Competition Shapes Strategy" (Porter, 1979), and expanded upon it in his October 1980

book, “Competitive Strategy: Techniques for Analyzing Industries and Competitors” (Porter, 1980). Although these five factors pertain to any industry, they are influenced to varying degrees by each industry’s set of economic microenvironments. The application of these forces to the management consulting industry, as it exists within British Columbia, is presented in diagrammatic form in Figure 2-1: Industry Analysis - 5 Factors Diagram. The diagram presents the overall industry but there are focus areas within the industry that have slight differences in some aspects. The focus areas are executive level business management consulting, project management consulting and technical management consulting. The following sections discuss each aspect of the overall diagram along with the variations.





**Figure 2-1: Industry Analysis - 5 Factors Diagram**  
Source: Author; adapted from Porter (1979)

### **2.2.1 Market Entry**

Management consulting is an industry in which engagements range from contracts for legions of management consultants through to single-person contracts. In a similar pattern, management consulting firms range in size from multi-thousand-member firms with global reach to single-member local independents. There are no significant barriers to entering the market. The US Department of Labor, Bureau of Labor Statistics stated in its *Career Guide to Industries*, “almost anyone with expertise in a given area can enter consulting.” (US Bureau of Labor Statistics, p. 197)

Michael Porter, in “Competition Shapes Strategy” (Porter, 1979, pp.3-5), identified six major sources of entry barriers for an industry. These are discussed in the following sub-sections.

#### **2.2.1.1 Economies of Scale**

One might anticipate that the pattern of engagements would determine whether a market entrant must do so on a large scale or not. With the opportunity to market an individual’s knowledge and skills on a small scale, it would appear that the economies of scale factor serves to increase the threat of entry. Historically, this conclusion could be derived from the market activities shown in the mid-to-late 1990’s with the previously mentioned increase in demand for technical services. This expansion resulted in many business firms redirecting their internal resources to Internet related projects and engaging more consultants to address both the year 2000, or “Y2K”, projects and non-Internet business application development projects.

With the increase in market demand, the number of independent consultants rose dramatically with many local independent firms being created, a pattern that was common across North America. This trend, in part, was a response to the lack of entry barriers into the consulting market.

However, Porter defined the implications of economies of scale with respect to a market entry barrier in terms of whether the entrant was forced to come in on a large scale or accept a cost disadvantage. Porter also asserted that this aspect of economies of scale could be applied to "...nearly any...part of a business" (Porter, 1979, p. 3) including distribution, utilization of the sales force, financing, marketing, finance and production. Being able to enter a market by establishing a firm on a small scale is a part of avoiding a large scale entrance requirement. The cost disadvantage within an industry is not apparent simply on the basis of whether a firm is large or small though.

For a small management consulting firm, the percentage of potentially billable hours that must be directed to non-billable efforts such as marketing, invoicing and book keeping rises substantially. Marketing involves, at a minimum, establishing relationships with the clients, monitoring Request for Proposal (RFP) issuances, preparing responses and following up on submissions. The successful award-to-submission ratio is quite low, even for the experienced firm, with the number of firms responding to requests. The combined effort of these non-revenue generating activities can be significant, especially for a new market entrant. Larger firms that can spread this effort over multiple people have a cost advantage that can be used to undercut prices to the client or to increase the larger firm's profit margin.

This aspect of the barriers to market entry is consistent for management consulting at the business executive level and for the project management consulting tier but for management consulting in the technical area, scale can be a barrier. Small firms are challenged in their ability to establish knowledge management processes such as methodologies and best practices databases.

#### **2.2.1.2 Product differentiation**

Management consulting within the BC market place consists of a few major players, such as Deloitte & Touche, BearingPoint, IBM and Sierra Systems Group, and a host of small firms and independent consultants. There are no specialized requirements or certifications to enter the overall market. Most consulting firms boast of specialized knowledge, such as MBA degrees or industry specific experience. Firms may also feature certification such as the Certified Management Consultant (CMC) designation. The “Consulting to Management” journal published an article stating that limited government intervention and regulation would be required to achieve recognition of certifications (Bobrow, 1999). Without such intervention, the use of certification for differentiation has narrow reach. This is consistent throughout the management consulting industry focus areas.

Historically, the major players established personal relationships with decision makers at the senior levels of organizations. Through such efforts, the large accounting-turned-management-consulting firms established differentiation in the top tier of the management consulting services market with executive level selling. In some instances,

sub-contracted consultants have delivered the product but the client has been managed well enough that the perception of differentiation has been successfully maintained.

In the late-1990s, the lines between the management consulting firms and the systems integration firms started to blur. Today, there has been a significant change in the service alignment of the large consulting firms. KPMG, through its new BearingPoint consultancy, has clearly expanded its offerings along the value chain. It now provides "...business consulting, systems integration and managed services..." (BearingPoint, 2005), but with a global flavour. IBM has also continued to expand upstream by purchasing PricewaterhouseCoopers' consulting practice in October 2002. IBM further augmented its role as a solutions provider by adding a Business Consulting Services line. IBM claims "our expertise ranges across key business issues and deep into 17 industries in virtually every country and every culture worldwide." (IBM, 2005, para. 2) The tradition of establishing relationships to differentiate a firm still continues and is important for a firm's success.

An attribute that distinguishes the largest firms from the many small practitioners is their global reach, an aspect that is prominently featured on virtually every firm's website and in their promotional materials. By combining various services with either an internal global workforce or global alliances, each of the major players has morphed their product offerings and market image. Despite their attempts to differentiate themselves, they are in effect converging once again, as each firm can rapidly imitate or duplicate the movements of their competitors. The differentiation, however, separates the large global firms from the rest of the management consulting market.

The consulting industry spans horizontally across all other industries and involves general management consulting skills and knowledge that are transferable from one industry to another. There is, however, product and service differentiation along specific industry lines. A firm that services the mining industry will need to acquire new knowledge to effectively compete in the health care industry against firms with health care expertise. This differentiation of consulting services along industry lines can serve as a market entry barrier unless the firms are able to position themselves with a market definition that convinces clients that the services transcend industry boundaries.

With market definitions and boundaries changing continuously, establishing relationships through which to create a brand and market space for a firm is an important but expensive undertaking. At the very least, this requires a firm to consume a portion of its own inventory of billable hours for non-billable activities, such as meeting with potential clients or speaking at conferences, with the expectation of future returns. Incumbent firms that have successfully done so have a significant first mover advantage over new entrants. Once established, repeated exposure to a firm's name reinforces the client relationships. The market recognition of a name has advantages and for the largest firms, their advertising dollars are used to reach vast audiences through sponsorship, such as Professional Golf Association tournaments, and through broad market advertising, such as television or large run magazine advertisements.

For the smaller firms, though, such broad market advertising to establish name recognition is not within financial reach and other options must be pursued. For instance, in the Telus 2004-2005 issue of SUPERPAGES™, there are 51 entries under the heading of "Management Consultants" and only two are recognizable, one being for the Certified

Management Accountants Society of BC and one for Robert Half Management Resources, a firm more known for its executive recruitment services in Ontario than for a management consulting practice in BC. Conspicuous by their absence are the large firms like Deloitte and IBM. They have established their brands and market space for a different audience, one that does not turn to the local phone book for differentiated services.

CCI participates principally in the project management services sub-sector of the management consulting industry. Branding, as a form of product differentiation at the firm level, is not a typical aspect of this sector. Broader category service providers can mix their products and services to alter the appearance of their portfolio and can seek to differentiate themselves through the manner in which they deliver them. This has not been the case for CCI. The Project Management Institute has clearly articulated the project management process at the macro level. Most clients have their own deliverables defined in the way of templates for the project management consulting firm to utilize. As a result, CCI and other firms have attained little differentiation in these services, although some local firms continue to try. Consequently, product differentiation for project management services does not serve as a market barrier and, instead, the lack of branding enhances market entry.

### **2.2.1.3 Capital requirements**

The financial, skill and knowledge capital investment required to enter the management consulting industry is typically acquired while working for, and at the expense of, another firm. On the job training, experience in various projects and formal

certification-related education such as the Project Management Professional (PMP) courses are often expenses the new consultant has avoided while employed; however, while such training and experience must be continually enhanced as an incumbent, the new entrant does not face an additional expense in this regard. Aside from incidental expenses, such as the printing of new business cards, the management consulting entrant has no financial capital-related barrier to enter on a small scale locally.

As one enters the industry, however, the regular flow of income funds will be interrupted. The industry standard practice is for the firm's consultants to supply services for a month and invoice at the month's end with the invoice's payment typically following at the end of another thirty days. This leaves the new consultant without a cash flow for two months. If a firm enters the market with a number of consultants and does not include the consultants as partners, each suffering the same cash flow interruption, the firm could require additional capital to float the first two months of salary paycheques. This approach would, therefore, present a financial capital requirement but is not seen to present a formidable barrier to market entry.

The same cannot be said for the knowledge and skills capital however. Both of these categories represent a capital base that is more illiquid than that of financial capital and consequently less transferable to new industry sector opportunities. Although general management skills and knowledge tend to be applicable to many endeavours, the possession of industry specific skills and knowledge is a prerequisite for entry to most new markets. For example, the lead engineer for a mission at the National Aeronautics and Space Administration (NASA) would not be able to effectively offer management



consulting services about automotive insurance loss prevention. The possession of the knowledge and skills capital is a market entry barrier.

To enter the market on a large scale or to enter as a global competitor does have a capital requirement barrier. Such entry would require the acquisition of one or more existing firms, either through mergers or through buy-outs. Since most firms are not publicly traded, such acquisitions would likely require transfers of significant amounts of capital to compensate current firm owners appropriately. Alternatively, mergers could be effective but would require a large investment of time to negotiate the details and to establish the internal processes and artefacts necessary to deliver a consistent standard of practice for clients. Both of these entry strategies would require the support of substantial capital.

#### **2.2.1.4 Cost disadvantages independent of size**

As a firm gains experience within the industry, certain cost advantages accrue to the firm. A new market entrant will suffer from a lack of these advantages and will experience higher costs as a result. An example of this experience curve advantage is the ability to generate bid submissions in less time. The first bid response requires a consulting firm to understand a wide range of RFP specific information including the general RFP process, the bid response evaluation criteria and the required structure for the response. With each subsequent submission, the process of responding to an RFP becomes quicker, often due to both understanding the process (the learning curve) and reusing portions of previous submissions (the experience curve). The ability to quickly generate and submit a high quality submission enables the firm to respond to a greater

number of bid requests for the same relative costs and, given the low ratio of contract wins to submissions, this an important advantage for the experienced firm.

Incumbents have also built a wide variety of non-specific skills essential to success as a consultant. New entrants may possess technical skills, such as data architecture or project scheduling, but lack general management skills or marketing awareness. As a management consultant, one must continually manage the relationships, developing an awareness of needs for future potential contracts and building a brand for the services. In addition, incumbents have participated in numerous engagement situations and have developed an ability to recognize the patterns with less effort, enabling them to deliver superior performance to the client. The development of these non-specific skills is an example of the learning curve of the industry.

In general, the learning curve pertains to an organization's ability to become more proficient at a business activity as the experience base of the organization increases. However, the learning curve is also taken into account when pricing a product for entry into a market and the same is true in management consulting, particularly with fixed price contracts that stipulate the delivery of a bounded product for a set price. Under such conditions, the buyer is concerned about the quality of the bounded product and the timeframe in which the product will be delivered. The price is established up front and if the consulting firm has to invest additional consulting hours over and above their initial calculations to complete the product, none of the financial exposure accrues to the client.

For the experienced consulting firm, the productivity rate may exceed the initial estimates and the firm would realize a higher profit margin. The market entrant, however,

lacks the benefits of walking down the learning curve and is likely to have lower productivity. The new entrant has to price its services competitively and, as a result, will experience lowered profits and possibly losses in the initial stages. The experienced firm is likely to have components or artefacts from prior engagements that are applicable and reusable within other engagements in the same industry sector, further reducing their cost of delivering the product. This is a notable source of cost disadvantages unrelated to size and help to form market entry barriers.

Incumbent firms also have established a network of contacts to the potential clients within each firm's target market. Developing this network requires time and dedicated effort and is a sunk cost for the incumbent. The new entrant will not have this network and consequently may face higher costs to secure each engagement.

The cost advantages that are unavailable to the new entrant serve to increase the barrier to entrants.

#### **2.2.1.5 Access to distribution channels**

This aspect is one of the most important for establishing barriers to entry within the management consulting industry. Successful consulting firms protect their access to the most profitable customers in a variety of way including developing expert knowledge and binding client processes to their own. With a tightly bound relationship in place, the profitable clients may be unwilling to entertain overtures from new market entrants, particularly those without a proven track record. The restricted access to the distribution channels is a significant market entry barrier in the top tier of management consulting, selling services to business executives. At the middle and lower ranges of the market, the

introduction of internet-based bidding mechanisms has partly addressed the lack of a distribution channel. This is where most of the smaller firms compete.

The ability to move into new client industry sectors is challenging. Being able to establish contacts with the decision makers in organizations outside of the business niches in which the consulting firm has been operating is not easily accomplished. This is a time intensive undertaking that often involves expense such as travel and seminar fees. CCI experience has shown that executives of firms are regularly approached with sales overtures and are not open to all requests for sales meetings. The lack of access to cultivated relationships that establish opportunities for sales presentations is an effective entry barrier for new market participants.

For the firm that is able to place its services in front of potential clients, the challenge has still only been partially met as the sales process often involves multiple contacts over a period of time before a consulting engagement is established (refer to section 2.1.1). This requires the availability of time from firm representatives and if several clients are pursued simultaneously, a process that is nearly essential for the new market entrant, the non-revenue generating efforts of the firm, or the fixed costs, rise significantly.

Once a market entrant has established itself within the market with respect to client contacts, the challenge is to sustain that entry with contract delivery. Since the raw materials of the consulting industry are human resources and the consulting firm does not have exclusive ownership of those resources, and given the lack of enforcement for non-

competition clauses (Reeve, 2005), new market entrants have an exposed risk. The poaching of entrants' consultants has been an informal but effective market entry barrier.

#### **2.2.1.6 Government Policy**

The term “government policy” engenders an image of outwardly focused rules and regulations; that is, rules that are imposed by government upon people and organizations outside of the government that are acting within a market. This is the perspective that Porter adopts in his “Competition Shapes Strategy” article as he points out how government policy can affect market entry through establishing licensing requirements, such as those found in the taxi industry in most cities, or through establishing standards and regulations impacting conduct.

These types of entry restrictions do not apply to the management consulting industry within BC so one might conclude that government policy is not a factor in influencing the market entry barriers, or lack thereof; however, the government has had, and still continues to have, a significant impact on this aspect of the industry. This is due to the composition of the market in BC where primary industries such as forestry, mining and fishing abound while secondary industries, where management consulting tends to flourish, are less prevalent in BC than is the case in some other provinces, like Ontario.

With the heavy concentration of the province's economic output in the primary industries and the historic tendency of primary industries to not utilize the services of management consultants, the management consulting industry in BC has a higher concentration of business activity involving government and government-related entities.

As a result, government policies affecting the internal processes and procedures also have an impact on the industry and, in particular, the magnitude of the barrier to market entry.

The Government of British Columbia has altered the government's procurement processes in an effort to open the market to as many participants as possible while ensuring the best value for the government and taxpayers of the province. While many of the alterations have been procedural, such as implementing cross-ministry standards for developing evaluation criteria for contract bids, the aspect that most directly affects the market entry barrier was the 1996 introduction of the BC Bid® procurement system, followed by the direction for all British Columbia government ministries and crown corporations to use the BC Bid® web site to announce opportunities for services. This mandated approach enables small firms to have direct access to the Request for Proposals (RFPs) issued by the participating organizations, a group which, in recent years, has grown to also include municipalities, universities and colleges and health authorities.

On a national level, the Government of Canada's agreement to the North American Free Trade Agreement (NAFTA) opened the borders to the movement of goods and services, both benefiting local firms with access to the US market and exposing those firms to American competitors. Both NAFTA and the use of systems like BC Bid® have reduced the barriers to entry.

There is a trend developing, however, that appears to be magnifying the barrier. In the past, many government contracts were let for individual or small group participation in projects and this fostered an environment in which independent consultants and small firms were able to effectively compete, if not on skills and unique assets, then upon price.

In recent months, however, the nature of the contracts has evolved so that the bids favour or out rightly require a firm to supply fully integrated teams. This shift in the nature of the requirements has served to create an entry barrier for new small firms and may also result in blocking existing participants from future government contracts.

### ***2.2.2 Buyer Bargaining Power***

In the mid-to-late 1990's, the buyer bargaining power of the industry was very low as the demands placed upon the buyers by the impending year-2000 threat were non-negotiable with respect to timing. When this market demand was augmented by the dot-com flurry, the demand for consultants exceeded supply by a wide margin. Since then, however, the market situation has changed dramatically.

The market boom was followed by the predictable collapse once the year-2000 challenges were met, a collapse that was sped by the dot-com bubble bursting. Locally, this market collapse was exacerbated by the softwood lumber dispute, a new provincial government with an austerity program and the tourism reduction that followed the World Trade Center attacks. This combination of cataclysmic conditions reversed the demand-supply scenario, resulting in a concentration of buyers with a large diverse population of consulting firms from which to choose, conveying bargaining power to the buyers.

Further amplifying this power are three facts. Management consulting firms have historically offered relatively homogeneous product offerings for project management skills, a trend that continues today. This lack of differentiation has given buyers a wider audience from which to secure the needed services and this increases the bargaining power of any particular buyer. Secondly, consulting firms carry a high fixed-cost

component that requires each firm to keep working, even if on narrower margins, a fact that is well known by the buyers within the market.

Thirdly, market buyers are producing a product, typically that being a project to assess and correct strategic or operational inefficiencies, and the consulting services being sought will represent a high percentage of the product's end cost. This gives the buyers an incentive to negotiate as low a price as possible for the consulting services.

Countering this increase in buyer bargaining power is the fact that the buyers have a need to acquire the consulting services as these skills are not well entrenched within the buyers' organizations. However, two aspects combine to partially diffuse the impact of this need: the buyers have a low appreciation for the value of the skills they are acquiring, especially for project management services; and there is a perception of low switching costs should the need to source from another consulting firm arise.

The nature of the buyers' business is also problematic to the consulting firms' balance of power in the negotiations. The majority of the buyers are in non-profit business ventures, such as government, and do not have the opportunity to alter their market offerings' value to reflect market demands nor can the offerings be price structured to capture consumer surpluses. This means that the buyer will consistently be price conscious.

Government projects may also have diffused objectives, as governments are responsible for addressing the needs of a diverse audience. Consequently, the quality of the end product of the consulting services is often not as directly dependent upon the quality of the consulting services themselves as it is on the nature of the government



policy pertaining to the product. For example, a high-calibre consulting firm engaged to develop a licensing system may identify many opportunities to capture additional value in the transactions; however, government policy regarding collection and use of information may prohibit such value captures from taking place.

The British Columbia economy is not as diverse as that of Ontario, which has the head offices of major financial service firms, a strong manufacturing sector and a diverse energy sector just to name a few. Instead, the British Columbia economy features primary industries, such as logging, mining and fishing, tourism and government. The project management services offered by CCI are not well established in either the primary industries or tourism; consequently the buyers are concentrated primarily in the government sector, including government ministries, crown corporations and agencies. This concentration and interrelationship between the buyers increases the buyers' bargaining power.

Lastly, the buyers' bargaining power is also increased by the perception of the possibility that the buyers could backwards integrate and simply hire the necessary skills into their own organizations. This repatriation of skills may not be realistic in a balanced-budget focused government environment; however, the opportunity for such a shift in the landscape exists with each election, be that municipal, provincial or federal.

The Government of British Columbia established the "Common IT Services" section, currently housed in the Ministry of Management Services, as an in-house provider of common services to the government. At one time, a similar organization, called the British Columbia Systems Corporation (BCSC) delivered systems development

services. BCSC was phased out in favour of contracting external services and the Common IT Services section has recently outsourced its desktop support services to IBM via IBM's subsidiary, Information Systems Management (ISM) (CITS-BC, 2004, para. 2). This trend is in direct opposition to a backwards integration threat by the government clients; however, many ministries still maintain in-house Project Management Office organizations through which project management services could be reestablished. The threat of backwards integration is a limited strength variable in the balance of buyers' bargaining power within the narrowed scope of management consulting services of CCI.

### **2.2.3 *Substitutes***

Substitutes have been defined as products from a firm in another industry that can replace or displace products from within the industry of interest (Bukhszar, 2005). The perspective of whether a product is a substitute or simply a variant of the product from within the same industry is, therefore, dependent upon the definition of the industry. For example, eyeglasses and contact lenses could both be viewed as products of the eye-care industry and therefore not substitutes for one another but the manufacturer of ground lenses for eyeglasses would likely challenge this perspective. Wikipedia states that in economics, "one kind of good (or service) is said to be a substitute good for another kind insofar as the two kinds of goods can be consumed or used in place of one another in at least some of their possible uses" (Wikipedia, 2005).

Determining whether a product or service is really a substitute or not takes place in the mind of the consumer and is, therefore, based on impression, not necessarily fact. Some potential clients do not perceive project management as necessary at all and prefer

to conduct projects without resource plans, schedules or formal monitoring mechanisms, relying instead on their software developers' experience and innate sense of what is appropriate. Other local consumers of consulting services have perceived project management skills as nothing more than managing a schedule and consequently see anyone with three-to-five years of project experience, in any capacity, as a potential project manager. The end result of such perspectives has been a collective market view of project management skills as a commodity and, when combined with the provincial government's auction-style BC Bid® procurement system, the prices for the services have been driven down substantially. This price movement confirms the market view of other experiences as a suitable substitute for project management skills.

Other sources of substitute services are the use of internal resources instead of external consultants and the current practice of securing technical skills offshore, with India being the primary location of choice. According to the Indian National Association of Software and Services Companies (NASSCOM) (Economic Policy Institute, 2004, Figure 11), software imports from India rose from approximately US\$1 billion in 2000 to approximately US\$4.7 billion 2003-4. The offshoring process is part of the greater phenomenon called Business Process Outsourcing (BPO). With outsourcing becoming a common event, and offshoring a featured portion of outsourcing, it is reasonable to anticipate that offshore services will continue to be substituted for locally offered project management consulting services.

#### ***2.2.4 Supplier Bargaining Power***

Suppliers can have high bargaining power if they have a unique product for which there are few, if any, substitutes, and there are few suppliers available. Additionally, if the suppliers have a credible threat of integrating forward into the industry's business, the suppliers' bargaining power will increase, as will also be the case if the fortunes of the industry's business are not directly tied to the fortunes of the suppliers. This latter point occurs when the industry's business is not a large component of the suppliers' customer base.

For management consulting firms, the primary component is human resources and that is commonly the only aspect of the suppliers' services, given the nature of the industry (Industry Canada, 2003, para. 2). The supply varies with the niche occupied by the consulting firm. For a consultancy to the bio-tech field, the supply would be very limited and consequently the bargaining power of their suppliers would be high. CCI currently delivers services in the project management niche. The services offered by the suppliers to this niche are not unique, although there is a sliding scale based on the experience and education of the individual in question. Higher levels of education and longer, more diverse or unique experience can confer more bargaining power, given the proper demand conditions. The advent of resume distribution Internet sites has further diffused the industry and eroded the bargaining power of suppliers.

There is no credible threat of the individual suppliers collectively or individually forward integrating on a large scale into the management consulting industry as the suppliers are highly diffused and their fortunes are tied to the fortunes of the industry, a combination that further decreases the supplier bargaining power. Consequently, the

Supplier Bargaining Power is low for CCI's current niche. For future expansion, the niche changes and for the upstream portion of the expansion, the characteristics of the consultants become more exacting. For that portion of the supplier area, bargaining power will increase. This is, however, a small portion of the total number of consultants involved so the overall supplier bargaining power remains low.

### **2.2.5 Rivalry**

Porter identified a number of factors that serve to increase rivalry between industry incumbents under certain conditions. These include competitors being numerous and roughly of the same size and power, slow industry growth, undifferentiated products, low switching costs, high fixed costs, product perishability, the size of capacity additions, and high exit costs. Each of these is discussed below.

In the management consulting industry within BC, there are many competitors with the firms clustering at the two ends of the size and power spectrum. There are a few large firms offering services that span the traditional management consulting and computer integration services categories, such as Deloitte & Touche, IBM, Sierra and BearingPoint, and a large number of small and single-operator firms. As expected with the range of sizes, the market competition takes place within two spheres: the large firms vie with each other for large project undertakings while the small firms bid against each other for the smaller opportunities.

One of the measures of competition has been the four-firm concentration ratio (The Concentration Ratio, 2005), that being the percentage of the market share held by the largest four competitors in the market. A figure that is published for some industries

in the United States by the Bureau of Labor Statistics (2005c) is not readily available for the consulting industry but figures were available for 1997 and 2002 concentration ratio within the accounting industry (Bloom and Schirm, 2005, para. 6), the forerunners of the consulting firms. Based on the number of clients for the public company audit market, the concentration ratio for 1997 was 65% and for 2002, it was 78%. The ratios were even higher, at 71% and 99% respectively, when measuring the total sales of audited public companies. The four firms were KPMG, Ernst & Young, Deloitte & Touche, and PricewaterhouseCoopers, firms that all had or have related management consulting practices.

Rivalry, however, is usually considered to be inversely proportional to the concentration ratio. If the management consulting industry truly is concentrated in British Columbia in the same manner as public company auditing is in the United States, then one would expect the rivalry to be lessened here. That has not been the case over the past few years and this may be due to the Canadian experience with firms numbering between 4 and 5 thousand with approximately 17,000 practitioners (Industry Canada, 2003, para. 2), averaging between 3.4 and 4.25 per firm, and only 12% of the management consulting industry activity occurring in British Columbia. This could also be the result of the large firms focusing on service delivery in Ontario, where 48% of the 2003 activity took place (Statistics Canada, 2005, p. 11).

If the distribution of firms and practitioners is proportional to the value of business conducted, then the number of firms within BC would be as depicted in Figure 2-2: Canadian Distribution of Management Consultants below.

Number of:	Canada	BC	Ontario
Firms - Low Range	4,000	480	1,920
Firms - High Range	5,000	600	2,400
Practitioners	17,000	2,040	8,160
Proportion of Business	1	0.12	0.48

**Figure 2-2: Canadian Distribution of Management Consultants**  
Source: Author, adapted from Industry Canada (2003)

Additionally, with the new entrance of both Maximus and EDS Advanced Solutions into British Columbia, rivalry due to the number of competitors has the potential to increase. Management consulting is, therefore, a fragmented industry, one that “is composed of small, specialized...firms that are not vertically integrated” (Shapiro, 2003).

The level of rivalry is also inversely proportional to the rate of growth. As discussed under the Buyer Bargaining Power, the management consulting industry within BC has suffered several years of dramatic market contraction and, in late 2003, was just starting to experience some market growth, albeit at very low levels. Since then, however, the North American industry has been sparked by an overall economic upturn and has enjoyed significant recovery in the United States, rising from a low of 15.7 million employees in early 2003 to the preliminary figures of July 2005 of 17.1 million (US Bureau of Labor Statistics, 2005b). The industry is now projected to be one of high-growth for the next few years, a trend that is reflected in British Columbia due to a number of factors, not the least of which is the economy but also the winning of the 2010 Olympics bid. That growth does not immediately translate into a significantly lowered level of rivalry or, in the words of the United States’ Department of Labor Bureau of

Labor Statistics, “although this industry ranks among the fastest growing through the year 2012, job competition should remain keen” (US Bureau of Labor Statistics, Career Guide, p. 7).

Compounding the rivalry between competitors, the industry’s offerings are typically undifferentiated, at least from the buyers’ perspective. Some firms have expertise in particular lines of business while others possess skills in business aspects that transcend an industry’s classification. In addition, the level of education is a differentiating factor in some aspects of management consulting; however, the principal area of CCI’s business has been that of software development project management and this area does not enjoy differentiation. As a result, the buyers perceive a low switching cost and, given the primary buyers are government based and the government’s cost tracking and charge back measurements for time and materials on non-construction projects is not granular enough to differentiate between value-added and non-productive time, the true switching costs are not apparent.

The management consulting industry also has high fixed costs, many of which are sunk costs, as the primary cost component for the industry is human resources. Statistics Canada stated that salaries and wages accounted for 42 cents of each dollar spent in 2003 (Statistics Canada, 2005, p. 11), a figure which is much lower than that experienced by the small consulting firms contacted for this paper, who’s salary expenses ran as high as 85 cents per dollar. This is explained by the Statistics Canada Table 360-0001 footnote stating, “Salaries and wages do not include working owners' dividends nor do they include the remuneration of owners of unincorporated business. Therefore the relative



level of salaries, wages and benefits will be lower in industries where unincorporated businesses are significant contributors.”). Salaries accrue even if there is not a contract upon which to bill and the cost of preparing, submitting and/or presenting project bids, including any travel cost, is borne by the consulting firm alone. Although travel expenses are discretionary when the consultants are ‘on the bench’, recent government procurement policies have pushed many of the expenses related to fulfilling the successfully attained contracts back onto the consulting firms.

Product perishability is another factor affecting the rivalry of competitors. In the consulting industry, the inventory for a firm is the billable-hour. There are a fixed number of hours in a week from which to draw billable-hours and once an hour has passed, that portion of the inventory of the firm has perished, never to be available again. This immutable fact stimulates the competition between industry incumbents as each must seek to maintain as high an operating capacity as possible over which to spread the fixed costs, mentioned above.

The industry is able to ramp up capacity in small increments, however, and this fact theoretically decreases the competitive pressure. Given the nature of the remaining factors, the ability to add capacity in small increments is of limited consequence as is the lack of high exit costs. Overall the industry incumbents have faced high competitive pressures over the past couple of years, primarily due to the economic downturn and a resulting overcapacity, leading to intense rivalry. The level of rivalry is now posed to diminish with the current period of growth but may be tempered by the recent entrance of large consulting firms.

## **2.3 Overall Assessment and Key Success Factors**

The management consulting industry, and the project management sub-sector in particular, was a very difficult and unattractive industry during 2002 and 2003 and only marginally better in the first half of 2004 but since then, the industry overall has returned to strong growth. However, the underlying aspects of the industry that made it unattractive in the lean years still remain. The limited ability to differentiate services, a perishable product, the ease of entry by competitors, the crowding of the market especially at the low-end and the lack of customer valuation for the services in the project management sub-sector of the industry all continue to plague CCI and other firms in this industry.

There are six key factors that affect a firm's success. To have a realistic chance to win contracts, a firm must have the products and services that the client values and this is a result of having the appropriate consultants available. To increase the firm's chances of success, the relationship with the client must be carefully cultivated and managed. Having built an attractive client list and with a strong cadre of consultants, the firm is able to differentiate itself from the rest of the industry and command higher profits.

The market is crowded and it changes, however, and for continued success, the firm must be able to quickly gain and disseminate knowledge within its ranks. Alternatively, the firm could repackage its current knowledge for new opportunities but this has a limited long-term advantage without injections of new knowledge.

The crowded market generates a low win-to-submission ratio so the firm that can quickly respond to bid opportunities increases its chances for success by being able to

generate more potential wins in a shorter timeframe. If the firm is able to do so at a lower cost than its competitors, it is able to sustain its profit margin, profits that are then able to be used for attracting resources, managing clients or engaging in knowledge management.

The last of the six factors is also related to the firm's ability to quickly respond to market changes. To succeed a firm must first survive. With a volatile market that has experienced significant swings in the past five years, a firm's ability to quickly adjust its cost base to align with the market's changes is crucial. All six factors are discussed below.

### **2.3.1 Key Success Factors**

To be attractive to a client for a specific engagement, the firm must be able to attract the right resources. This requires recruitment skills, such as networking within the industry or courting graduates from various institutions such as business schools for management consultants or technical schools for systems integration efforts. Without a strong alignment of the firm's offering to the needs of clients, the firm will not enjoy success so the attraction of resource is important. In the longer term, however, a firm must also be able to retain those resources throughout the delivery phase and preferably on through other engagements. This second area requires skills in consultant retention. Within the consulting industry, retention has two significant aspects, that of attractive engagements and adequate remuneration.

A consultant's value within the industry is primarily determined based upon his or her inventory of skills and experience. As a result, a firm's ability to consistently offer

challenging engagements is typically the more important of the two aspects for the qualified consultant. Many firms would be willing to match the remuneration but only a relatively few firms can consistently offer ongoing marketable skills and experience. This 'resume building' perspective engenders commitment and loyalty as long as there is continued benefit for both the consultant, through continual opportunities, and the firm, through ongoing sales of services.

In the marketing and delivery of executive management consulting services, suppliers (labour) hold much more bargaining power than in the more limited project management services sector; consequently this ability to attract and retain consultants becomes pivotal for a firm's success in this market area. For project management consulting, there is a larger pool of qualified resources from which to draw and the importance of the attraction/retention abilities lessens somewhat. For the systems integration portion of the management consulting industry, there are only a few roles to which this consideration applies as most of the resources requirements are broadly available and consultants are readily replaced.

The next success factor is the ability to establish relationships with senior decision makers. Key to survival and prosperity in the management consulting sector, managing relationships requires a common base from which to build the connections. The base could be the language of business acquired through study, such as a Master's of Business Administration or a specialized engineering degree, or through unique experiences, such as successfully completing a corporate turn-around. The relationships enable repeat, and therefore lower cost of marketing, sales to the same or closely related clients. Extending

the relationships into references for other consulting sales leads is another key success factor relating to relationship management.

Differentiation of services and products is another success factor. Although not readily applicable to the project management sub-sector, the larger management consulting market exhibits such traits and the ability to differentiate products from those of competitors, based on quality or alignment with client needs, is important. This impression-management aspect of the firm is more than mere marketing; it is a source of competitive advantage in two ways. It allows the firm to command a higher price for its products as clients perceive them as a superior fit to their needs. It also helps to achieve a cost advantage, which directly translates into a higher profit margin. Simply hearing the name IBM tells a client that this is a systems integration company, enabling IBM's marketing expenditures to focus on higher, more value-added services. Whether a firm is a broad-based service provider or is more specialized, the ability to differentiate its services from its many competitors will go a long way to ensuring its prosperity.

A crowded market where competitors can quickly emulate new offerings challenges a firm's ability to sustain its differentiation. In the knowledge intensive industry of management consulting, the difference between sustaining differentiation and melting into market obscurity is a firm's ability to rapidly acquire new knowledge areas and translate these areas into either differentiated services or innovative products. Not only would this help a firm remain competitive in the mainstream areas of the market, but a rapid knowledge gainer would also be able to move into market seams as they appeared. This rapid response through knowledge gain would enable the smaller or mid-sized firm to compete with the large established firms.

Alternatively, a firm may be able to leverage existing knowledge areas by repackaging them or extending them to new market pockets. This approach would require a firm be able to identify and exploit areas of opportunity faster than their competitors as small or medium sized firm would unlikely be able to establish and maintain a first mover advantage in the face of large consulting firms entering the same market pocket. However, without adding new knowledge to the mix, the firm's portfolio of products and services would begin to show its age and the firm would lose its differentiation.

To last factor for success in this volatile market is a firm's ability to weather the swings. Rapid upturns in the market are not as much of a threat to the firm's survival, provided it can retain its consultants. The downturns, however, can force a firm out of existence if the firm cannot respond quickly enough to the change. The firm must be able to rapidly cut its costs and, as the primary source of costs in this industry is wages and salaries, this means downsizing its workforce. Although such swings are relatively rare in the overall history of the industry, in the past five years they are not. This may be a temporary anomaly and will not occur again for many years. It may, however, be the start of a new pattern of actions in the market as globalisation may be turning the consulting industry into more of a commodity. In either case, the ability to vary staff levels does not fit well with an employee-based firm. Instead, a firm would be better served by alliances and associations.

The flexibility to change personnel levels also represents a conflict with the primary success factor, namely the ability to attract and retain the right human resources. The firms that are able to bridge these conflicting factors will have a higher degree of success or will succeed over a wider range of market conditions.

### **3 INTERNAL ANALYSIS**

Michael Porter identified two effective generic strategies as enduring approaches for companies to follow. The first is cost-based, which is a mixture of low-cost with adequate quality. The second is differentiation, which is high-quality mixed with adequate cost. Attempts to mix aspects of these two strategies have generally led to failure over the longer term and, from a strategic perspective, the mixing of strategies is referred to as being “stuck in the middle” (Porter, 1980).

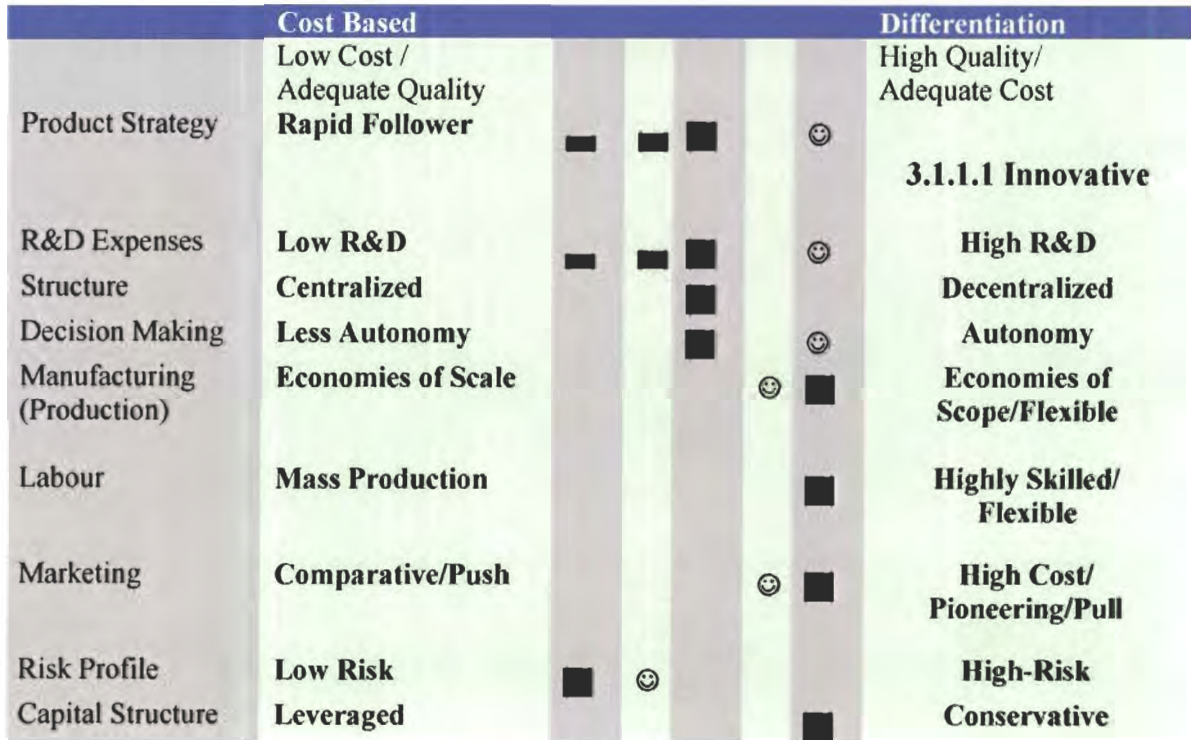
Porter also proposed that the strategy of a company is not illustrated through eloquent vision and mission statements; it is demonstrated through the company’s activities. This is the basis of the value chain, a series of activities that directly affect the profit margin of the company engaging in, or directing the completion of, the activities.

In the following sections, the assessment of how CCI’s activities support or conflict with its stated strategic intent will be presented.

#### **3.1 Strategic Fit Analysis of CCI Management Consultants**

From its inception, the strategic intent of CCI was to differentiate itself based on its consultants’ experience and recognized certification by the Project Management Institute (PMI) and through building client references. This strategy of differentiation was interrupted by the market downturn of 2002 and 2003, during which time the firm reacted

to market developments as opposed to carefully adjusting the strategy. What existed as a result was a 'stuck in the middle' strategy that has recently begun to change.



Legend:

■	Where the firm currently is today
☺	Where the firm wants to be, if different from current
▬	Movement from where the firm was to where it is today

**Figure 3-1: CCI Strategic Fit**  
Source: Author; adapted from Bukszar (2005).

### 3.1.2 Product Strategy: Innovative

Delivering services that are differentiated based on experience, Project Management Professional (PMP®) certification and a rapid following of new project management techniques and best practices was not being translated into superior market performance in the short term nor was it lowering long term marketing costs.

Consequently, the firm has begun to develop more innovative offerings including



developing products (templates, micro-function methodologies, etc) and alliances for blended skills delivery and begun a focused expansion of knowledge and skills.

CCI must continue to differentiate itself within the crowded market place and innovation of services is one avenue that will continue to be pursued. To position the firm as an innovator, the executive must realize that what is considered innovative today will be common place very quickly as most of the innovations within the consulting services market sector are easily adopted by competitors.

### **3.1.3 Research & Development Expenses**

Although innovation is a key aspect of differentiation, it is also an expensive aspect. Directing consulting hours towards internal product development or revision of processes is a conscious decision to erode the inventory of billable hours for the firm. In order for the firm to afford such development, it must grow in size to achieve a sufficient revenue base from which to derive an R&D budget. The budget may consist of dollars, compensating firm members for time allocated to R&D, or be comprised of potentially billable hours being directed to non-revenue generating research and development efforts. The directors and founding partners invest in the latter category of R&D effort.

R&D ranges from focused efforts to create new templates for products (e.g. Project Completion Report) and developing procedural additions and enhancements to increase customer value perception, through to the simpler task of keeping abreast of current trends in best practices for business management, project management, etc.

### **3.1.4 Structure**

CCI operates with a combination of both centralized and decentralized structure. For day-to-day operational activities, the structure is decentralized with consultants operating at various client sites autonomously and this is the hallmark of the firm. Although this requires a number of functions to be duplicated and increases the costs of the firm, the ability to respond to the needs of the clients requires the firm to have a flexible response. The flexibility of the consultant is vital to the firm's strategy of building client references as many clients value the experience of completing a project much more highly than they do the actual performance outcomes.

However, management consulting is a high-cost undertaking with many overheads and successful firms constantly seek to limit costs wherever possible. At CCI, a centralized approach is used for billing, expense tracking and other operational support activities, leveraging the knowledge and skills of one individual area of the firm and minimizing both the costs associated with learning the process and those connected to correcting errors, such as those experienced in the past with a more distributed approach.

### **3.1.5 Decision Making**

As the consulting industry is client driven, the ability of the individual consultant to make decisions within the context of the consulting engagement is essential to the success of the firm for that engagement but also for the future likelihood of the firm acquiring another contract with the same or referenced clients. However, the firm has also participated in a number of engagements where the client expectations were either incorrectly managed or the terms of the contracts were misunderstood by the associated consultant(s). This led to a less autonomous decision making environment being adopted.

To fully support the strategy, more autonomy will be necessary within each consulting engagement. Steps have been proposed internally within CCI to address the potential sources of the misunderstandings and prevent similar occurrences in the future.

### **3.1.6 Production**

The firm “produces” a product with each engagement, starting with the definition of the project and a plan for delivery including a definition of a series of sub-products as intermediate deliverables. The process for creating the products is highly flexible as are the products themselves, each being adapted to the needs of the individual client and the demands of the engagement. Two engagements for the same client may be conducted in significantly different manners depending upon a wide range of factors including budget, quality and timeframe and the deliverables that are applicable to one engagement are not necessarily applicable to the other. This is supportive of the firm’s strategy.

Currently under consideration is leveraging economies of scope, seeking to bundle related services together where the combined sales value is higher than the value of the same services delivered individually or where the services can be obtained less expensively. This consideration, then, applies to both the sales and the purchase sides of the firm’s activities although the sales side is perceived to more directly support the strategy.

Related to the project management skills are the management skills of the Master’s of Business Administration program. Leveraging this natural relationship is also a component of the economies of scope that are featured in the CCI strategy.

### **3.1.7 Labour**

The consulting industry is primarily comprised of highly skilled labour that is capable of either expanding the range of the skill and knowledge pool of the client organization or adding depth in specific areas. The primary differentiating factor between firms is the knowledge base they possess and the skills that they are able to bring to bear upon a client problem. This perceived difference is most notably reflected in the broad range of technical services consulting rates commanded in the market place with the rates for older skill bases trending downward while leading edge skills command premiums of fifty percent upwards.

CCI, like many other consulting firms, uses a flexible supply model of including associates through subcontracting rather than hiring full-time employees. This flexibility is also leveraged further using co-operative programs to staff non-critical and certainly less visible roles. For management consulting, the prime client contract roles are usually reserved for either firm partners or very senior consultants while the hands-on roles are staffed with more junior, and lower cost, consultants. This approach is true of CCI as well, allowing the firm to rapidly adjust to market demands but also requires the firm's executive to continually develop relationships upon which to draw with short notice.

This flexible staffing model is supportive of the firm's strategy.

### **3.1.8 Marketing**

In the initial stages of launching CCI, the marketing efforts were outsourced to a firm that specializes in marketing consultants to prospective clients. Using a person-by-person approach, often called "body shopping", the marketing firm provided limited

marketing services and correspondingly commanded a low percentage fee. In an industry where placement fees run as high as forty percent of the contract value, securing a relationship with a ten percent fee structure was considered an important advantage, particularly during the start-up phase where capital conservation was seen to be key.

The lack of market entry barriers and the rapid cooling of the market's demand following the completion of the Y2K projects coupled with the dot-com implosion resulted in a flood of independent consultants and small firms. The increased competitive pressures were further amplified due to the continued strategic repositioning of the major consulting firms, expanding their range of consulting services and further blurring the lines between financial consulting and management consulting, particularly in custom development and systems integration. In order to grow their market share during and because of the repositioning, the large firms began to come "down market", addressing smaller clients and smaller initiatives. This, in turn, forced mid-market firms, such as Sierra Consulting Group, to expand their offerings further down market. As a result, small consulting firms like CCI struggled to maintain their client base and historical profit margins.

The CCI marketing outsourcing agreement was inadequate in that it did not provide a marketing plan nor any form of brand development. Product placement was developed in a reactionary, not planned, manner and has been semi-selective, targeting government and crown corporations. The product focus has been diffused, embracing both information technology project management and business analysis, as these were the contract opportunities the marketing firm identified and presented.

This is perceived to be a movement away from the current high-cost marketing in which the firm develops ‘one-off’ marketing proposals to broad market Request for Proposal (RFP) initiatives. Custom developing the proposal is expensive and the success rate with pursuing such RFPs has been limited.

### **3.1.9 Risk Profile**

CCI is not a firm with a high-risk profile. None of the innovations has been capital intense nor have any of the firm’s initiatives been a “bet the company” situation. However, to be an innovator and truly develop innovative products in the future, the firm will need to engage in risk-bearing activities. True innovations will require significant investments, either through reallocating internal consulting hours to build the innovation in-house or through capital expense to acquire and deploy external resources. Such investments carry a sizeable risk of failure and, consequently, of draining the small capital reserves of a boutique firm. The capital structure of a firm can often be used to offset the risk exposure; however, a consulting firm is asset poor, or at least in the assets that can be presented as collateral for a loan, and this limits the range of potential capital sources, further increasing the risk of the firm.

In addition, CCI will incur risk if it is to position itself to target a vertical market segment, as such decisions are inherently risky in that they tie the firm to the economic performance of a sector. Similarly, entering into alliances with other consulting firms will increase risk as such alliances require the parties to develop and extend trust, sometimes with negative consequences.

### **3.1.10 Capital Structure**

The capital structure will remain conservative as the consulting industry is not, typically, a capital-intensive operation. Costs per engagement are high with a large percentage of the engagement income going to consultant wages, while the remaining margin must offset the sizeable marketing costs being incurred for each pursued engagement. With this cost structure, the capital should not be leveraged as this presents a risk that could affect the very survival of the firm.

### **3.1.11 Consulting Industry Value Chain**

Project management consulting primarily operates through one of two channels, either by selling a non-differentiated service using arms length transactions, such as bid auctions, or through integrated management services firms, such as KPMG and PricewaterhouseCoopers, that rely on differentiated services and highly coupled client management efforts. Within the context of the former channel, that being the principal channel of CCI Management Consultants (CCI), the further removed a chain link is from the final customer, the less knowledge it has of customer preferences. Further, traditional relationships between consulting firms operating in this channel have often been characterized by a measure of mistrust. Consequently, this channel is not well positioned to respond to market change with necessary change being either slow or perhaps missed altogether. This phenomenon can be referred to as a "series of disconnects" - the fractured or inefficient flow of information from the customer back to each link of the chain.

In contrast, a tightly integrated value chain provides a process and a structure to respond to specific markets and customers more effectively. To this end, the value chain is demonstrated by collaboration across the links and includes the development of trust-

based relationships with the sharing of information, costs and benefits. Within the project management consulting value chain, sharing information about clients is the most vital aspect to each chain link in order to respond to customer preferences in the short-term and, more importantly, market change over the long term. It is, however, one of the weakest links across the value chain in which CCI participates.

The value chain changes, however, with the addition of a variety-based strategy. CCI was launched in 1996 as a muddled strategic-fit differentiator applying a then-unrecognised variety-based strategy. This strategy promoted the project management function as a unique service to provide the client with an unbiased presence to manage an information technology project with the client's interests as the foremost consideration. This approach addressed the perceived conflict of interest where bundled project management service providers escalated project costs whenever a "new" requirement was discovered. The implications of the variety-based strategy altered the marketing focus of the firms participating in this strategy. "The people who use Vanguard or Jiffy Lube are responding to a superior value chain for a particular type of service. A variety-based positioning can serve a wide array of customers, but for most it will meet only a subset of their needs." (Bukzar, 2005)

If one examines the value chain of only the project management consulting industry, one will discover that the chain is very narrow as the raw materials are effectively information, skills and knowledge which is transformed through experienced application into efficient and effective project management performance. This value chain extends from the end of the management consulting efforts that identify the need for a project through to the completion and operation of the solution with project



management services participating to varying degrees in most of the value chain components.

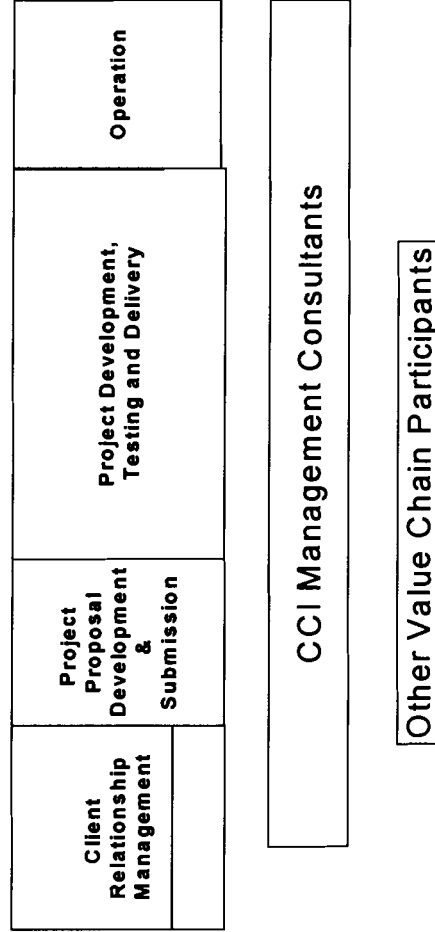
As CCI targets information technology projects for management services, the value chain is different than it would be for a bundled management consulting-services firm or a consulting-services engineering firm, although the template of activities may be very similar. Additionally, as a result of the world-wide consulting industry downturn of 2001-2003, the market shifted to a demand driven environment and economic survival required CCI, like other firms using variety-based positioning, to consider expanding the range of services further along the value chain.

The value chain is presented in Figure 3-2: Consulting Industry Value Chain with CCI's footprint denoted in yellow.

# INDUSTRY VALUE CHAIN

For

## Project Management Consulting



**Figure 3-2: Consulting Industry Value Chain**

Source: Author; adapted from Bukszar (2005)

Prior to the transition to a demand driven environment, CCI focused on the centre two portions of the value chain, that of developing and submitting proposals to win bids and then, for the awarded bids, managing the project development, testing and delivery phases with limited participation in the early operation stage activities for some projects. For those clients with whom CCI had completed previous projects, there was also participation in the client relationship management stage as a preceding activity for future project opportunities.

#### **3.1.11.1 Client Relationship Management**

Managing the relationship with the client is the single most important activity for a consultant but it is also a risky, time-consuming activity without a guaranteed payback, fraught with opportunities for inadvertent missteps and failure. Fortunately, there is also a variety of ways in which to engage in the management of client relationships, one of which is the outsourcing of the initial contacts, the so-called cold calls. This was the route followed by CCI, leveraging the functions of a contract services company with established connections within the Vancouver, Victoria and Calgary markets and trading a small percentage of eventual project revenue to lower the time requirements and risk exposure of client management activities.

Once the contract services company identified a prospective client's need for a project, CCI would move into the next stage of the contract process; however, the management of client relationships does not end when the contract need is identified. Instead, the majority of the client relationship management actually occurs during the project execution and follows-on after the initial contract is complete. It is this "in-flight"

portion of the client relationship management activity that is depicted in blue in Figure 3-2.

#### **3.1.11.2 Project Proposal Development and Submission**

The format and content of project proposals vary widely between clients and, during the initial period of a new market entrant, a sizeable knowledge barrier must be overcome in order to prepare and submit the appropriate content in a timely fashion. A significant portion of the Vancouver and Victoria market is comprised of government and crown corporation clients and the timing of project initiation is quite similar given the common budgetary and planning cycles; consequently, multiple proposal opportunities may arise in a single day and require rapid completion. Given these factors, knowing how to quickly complete and submit a proposal that highlights the information needed to satisfy the evaluation team is a critical skill for a firm to flourish.

#### **3.1.11.3 Project Development, Testing and Delivery**

Within the Project Development, Testing and Delivery stage, a number of models are applied ranging from the standard Systems Development Life-Cycle (SDLC) consisting of analysis, design, development, testing and implementation, to the slightly abridged ADDIE (Analysis, Design, Development, Implementation and Evaluation) and IDEAL (Initiation, Diagnosing, Establishing, Acting and Leveraging). All of these approaches deliver project initiatives but each has a slightly different focal point within the process. For CCI, the focal point has been on the project management slice that coordinates and manages the process of completing deliverables throughout this stage.

The activities relating to creating the deliverables, such as process analysis and the writing of computer programs, have been undertaken by other value chain participants.

#### **3.1.11.4 Operation**

In the early portion of the operation stage, CCI may provide benchmarking and other performance measurement services depending upon the needs of the client. These services measure the impact of a project on the operational environment and verify if the project delivered the expected outcomes. As a standard management practice, this service is typically applied to projects completed by other firms and not to the project in which CCI was directly involved.

#### **3.1.12 Firm Level Value Chain**

Michael Porter, using process analysis depiction nomenclature developed in the 1960's, divided the activities of a firm into primary and secondary groupings and further divided the primary activities into the categories of inbound logistics, operations and outbound logistics with the refinements including two additional categories of marketing and sale plus service. In the CCI situation, there is no service category and the blank category is included in the diagram for confirmation purposes only.

# CCIMC Firm Level Value Chain

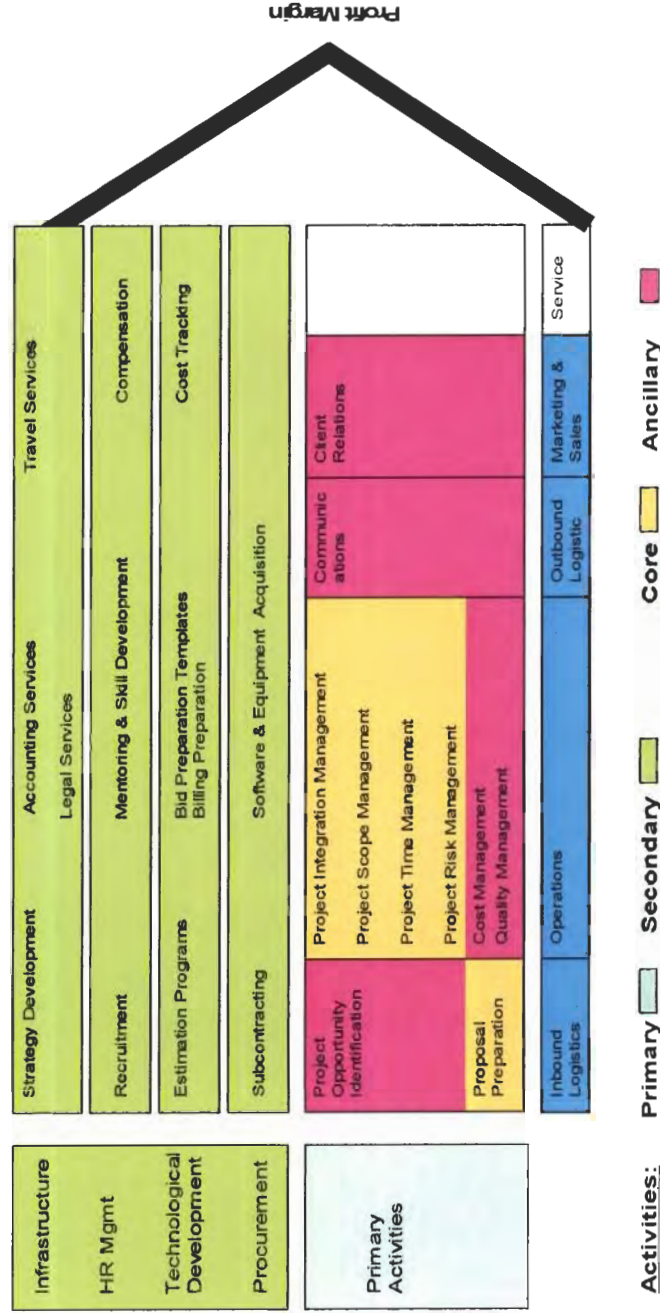


Figure 3-3: Firm Level Value Chain for CCI  
Source: Author; adapted from Porter (1985)

### **3.1.13 Core Competencies**

For CCI, the primary activities are subdivided into core activities, those activities in which the firm has a competitive advantage and which enable the firm's strategy, and ancillary activities, these being the activities that are directly involved in the delivery of the firm's services but in which the firm does not have a competitive advantage within the market place.

CCI maintains core competencies in the areas of proposal preparation, a stage one activity in the engagement lifecycle, and in project related areas of integration management, scope management, time management and risk management, each of which are stage two through four activities.

#### **3.1.13.1 Primary Activity**

The value adding activities of CCI relate to the provision of project management consulting services to clients. At the time of writing this paper, the firm does not derive revenues from complementary services such as training other consulting firms or selling project management and project development methodologies. As a result, the primary activities of CCI relate directly to conducting projects, wrapped within a layer of both supporting and secondary activities as depicted in Figure 3-3: Firm Level Value Chain for CCI. This firm level value chain is anecdotally reported to be common to other consulting firms.

### ***3.1.13.1.1 Inbound Logistics***

The identification of project opportunities is an inbound ancillary activity that principally involves client relationship management, an activity that has been outsourced to a contract services firm as previously mentioned in this paper. Identifying project opportunities requires a well-developed network of contacts in the various potential client firms operating within the geographic or industry-related segments of the market place. The time required to develop such a network is significant and is an effective market entry barrier if a firm attempts to undertake the network development by itself. The network also requires ongoing maintenance efforts to respond to changes in personnel and keep the channels of communication fresh and open. Much of the consulting business is based on personal perceptions and favourable perceptions are subject to the ravages of time, diminishing like childhood memories unless they are bolstered by periodic contact.

Preparing and submitting proposals, however, is a core inbound activity. This is because bid opportunities occasionally have very short response windows. Responding consumes but hours that are not billable and, as such, are a drain on the firm's inventory of sellable hours. As a result, the ability to rapidly generate a quality proposal has a direct bearing on the viability of the firm. This requires developing an understanding of the language of contract management but that involves more than developing a glossary of terms. Knowing the difference between a request of proposal (RFP) and a request for interest (RFI) can be easily acquired; knowing the difference in the semantics within either request requires an appreciation of the business climate and culture specific to the industry and within the client firm itself.



Many of the indicators of the firm level culture are subtle and the senior consultants with which CCI interacts have developed a superior appreciation of, and sensitivity to, these indicators particularly in the regulatory-based environments of government and related crown corporations. Understanding the priorities and cultural expectations of these potential clients enables CCI to position itself favourably vis-à-vis its competitors when delivery a bid proposal that encompasses the appropriate jargon and content.

Additionally, the senior consultants have developed writing skills through publishing articles across a wide range of topics including various aspects of projects, client relationship management and contributing to the community. This heightened skill is, based on feedback from clients, a distinguishing feature between a few exceptional firms and the rest of the market participants.

For these reasons, the proposal development and submission activities of CCI have been retained at the senior levels, driven by the principals of the firm with input from the senior consultants involved in the particular industry sector in which the target client participates. With an inventory of submission components tailored to meet the generic needs of the industry participants, CCI leverages an economy of scale advantage over the single person firm with limited experience. Attention to building and extending this inventory, combined with efforts to ensure the content of existing components is maintained so as to remain current, is part of the activity chain that delivers value to CCI. These efforts combine to control costs within the submission process, one in which the success-to-submission ratio is typically low given the number of competitors within the

market. By containing these costs and improving the speed of response, CCI has an advantage in this area.

#### ***3.1.13.1.2 Operations***

Operationally, there are a number of activities in which CCI has a competitive advantage and are categorized as core. Project Integration Management involves three distinct areas of operation: developing project plans at the outset of an engagement; executing the plan; and maintaining an integrated change control process. The set of project tasks and their interdependencies may be mistaken for the project plan, whereas this is only the schedule. The project plan encompasses a broader set of components and it is the command of this set and the interrelations of the components that is one of the sources of competitive advantage for CCI. Being able to assess which components are more important than others given the particular circumstances of a given engagement ensures that the objectives of the project are intertwined with the planned actions. CCI has developed this competitive advantage through a combination of three factors, the first two of which are readily duplicated by other consulting firms: twenty-plus years of experience and Project Management Professional (PMP®) certification for each senior consultant plus the use of proprietary planning session management techniques, tools and templates. The proprietary approaches deliver more comprehensive definitions of the project's scope, deliverables and processes and assist in extensive cultivation of relationships both between the project and the client organizations and within the project team's various subgroups.

Executing the plan, or working the plan as it is commonly called within the industry, refers to using the plan components to assess the progress of activities within

the project to determine where interventions are required. Performance measurement mechanisms such as Cost Performance Index calculations and Cost of Work Scheduled projections are rudimentary skills that are not widely used within information technology projects but have high paybacks when used effectively. From such measurement techniques, the problem areas of a project are identified early enabling the management team to guide projects with a gentle touch here or there as opposed to large interventions that are typically resource intensive.

The third aspect of integration management is change control. The key factor in a successful change control process is the ability to recognize change when it surfaces. The competitive advantage for CCI in this area arises from its strength in the planning process through which a clearly articulated scope definition is derived. Investing in the relationships of the team also fosters a better understanding of their roles within the project and the bounds of their responsibilities. This combination of clarity, combined with a proprietary approach for comparing each team's stated planned activities of the following period with the initial plan definitions of those activities ensures that changes are surfaced and addressed before they are undertaken.

Closely related to the Project Integration Management activities are those of Scope Management, particularly in the overlap with the planning definition and the recognition of changes. However, Scope Management also involves ensuring that the entirety of the planned deliverable is finished and this is an ongoing scope verification that is missing from many of CCI's competitors' projects. CCI has developed a proprietary checklist that is refined during the planning stage of a project and guides the evaluation of deliverables as they are completed throughout the project's life.

Time Management does not relate to managing the firm's accounting of billable hours; instead, it relates to ensuring that the project participants are completing the project on schedule and within the effort and duration estimates developed during the planning stages. As with all portions of the project, this area is also related to the initial development of the project plan and the ongoing change control process. During the planning stage, accurate estimates of the effort and duration must be developed for each task, requiring that each task be well defined.

Risk Management is the final core skill of the operations category and the area that is the most technical in execution. CCI has developed several procedures for conducting qualitative risk analysis, leveraging the team building efforts of the planning stage. As the principle reason for managing projects is to manage the risks, this skill area is of prime importance to client management.

Two other skills areas are included in the operations stage but there is no competitive advantage held by CCI in either skill area; consequently, cost and quality management are designated as ancillary skills, necessary for the successful completion of a project but often performed by other project members, including client staff assigned to the project.

#### ***3.1.13.1.3 Outbound Logistics***

Communications is the encompassing label used in Figure 3-3: Firm Level Value Chain for CCI that includes the delivery of project communiqués, such as status reports, and other sundry components such as the human resource plan for the project. For most projects, this portion of the organizational structure is determined and supplied by the

client organization. There is no uniqueness to the services provided by CCI with respect to communications; hence, the designation as an ancillary skill.

#### ***3.1.13.1.4 Marketing & Sales***

As previously discussed, the marketing and sales efforts for CCI have been historically outsourced to a contract services firm. In recent months, the CCI executive have been re-examining this option, considering a more integrated approach to client relationship management and the overall delivery of a bundled set of services. Until the firm executive directs otherwise, however, this ancillary skill will continue to be supplied through an outsourced service.

#### **3.1.13.2 Secondary Activities**

As a small consulting firm that operates primarily on-site at customer locations, CCI does not maintain an outside business office; instead, each consultant operates a home office as necessary to support the activities of the firm. This removes the need for landlord relationships or real estate maintenance overheads from the firm's secondary activities. In addition, each consultant provides his or her own computing resources as the consultants operate under an associate model, whereby each consultant is freely able to enter into contracts with clients independent of CCI undertakings. Both the CCI executive and the associate consultants consider this flexibility essential in order to address the variability of the market place. The costs of the computing infrastructure of associates is incorporated into the billable rate of the consultant, thus eliminating a need for CCI to address this portion of the firm's overall infrastructure. This approach simplifies both the complexity and the magnitude of the secondary activities of CCI.

### ***3.1.13.2.1 Infrastructure***

Strategy development has been included as an infrastructure component as it is not a routine activity within the operational aspects of the firm. As a result of the MBA undertaking, the strategy of the firm has started to undergo a re-examination, or more accurately, a re-creation as the initial direction of the firm was, at best, a muddled reaction to market forces as opposed to a well considered and articulated direction. Blending the consulting experiences of consultants is not an easy task but the frameworks provided through the MBA have enabled the firm's executive to have a consistent model from which to build the scope and content of the discussions, which have shaped the market targeting of the firm. This approach is the start of differentiating the firm's services beyond that of simply illustrating the experience level of the consultants involved and, as a result, contributing to a higher profit margin.

Accounting services are provided by a contracted accounting firm and protect the profit margin by ensuring the firm avoids unnecessary tax penalties and removes the need for individual consultants to have anything more than rudimentary book keeping skills. This service is viewed as a necessary but non-strategic undertaking as the finances of the firm are very simple, lacking in either large capital asset considerations or opportunities for leveraging.

As many of the engagements for CCI involve travel, the firm undertook to establish relationships with key providers to identify opportunities for cost savings and, more importantly, streamlining the process of arranging travel services. With a primary site of activity being Victoria, arrangements were made with a hotel chain that operates many properties throughout the city to ensure site-convenient locations with a committed

long-term pricing schedule that is significantly lower than the regular pricing. Additional services, provided directly by the hotel staff, streamline reservations, arrival and departure procedures and specialized in-room set up (desk configuration, internet services, etc. that are tailored to the firm's needs). Travel services were also negotiated with four transportation firms to ensure travel between and within cities were also simplified, guaranteeing priority services for air and ground travel. This approach contributes to the profit margin by ensuring that consultants can respond to short lead time demands of clients, enabling a higher hourly rate to be negotiated for this priority response while at the same time reducing the expense margin for delivery such services.

Legal services are infrequently needed for the firm as most engagements included standardized contracts from the primary clients, either government ministries or crown corporations. A standing arrangement is in place with a legal firm leveraging the CEO's personal connections. These services have not contributed to the profitability of the firm so far.

#### ***3.1.13.2.2 Human Resources***

This area of the firm relies heavily on personal networking to identify potential associate consultants and rounds out the search by leveraging electronic mechanisms to identify candidates for less strategic positions. Having credible consultants included in a proposal response is key to delivering a winning bid and only through consistently winning bids can the firm generate a revenue stream; consequently, this secondary activity contributes directly to adding value within the chain of activities of the firm.

More importantly from the firm executive position is the ability to mentor and develop the firm's consultants and associate consultants during engagements. With the proprietary techniques and approaches of the firm forming a key part of delivering services, rapidly familiarizing new or associate consultants with these items is a direct contributor to the value provided to clients and hence to the profit margin. If the familiarization process was slow or incomplete, the market positioning of the firm as a superior provider of project management consulting would be undermined and would erode the rates commanded by the firm within its traditional markets.

Establishing a compensation mechanism that adequately rewards the participants in an engagement is key to retaining the best consultants. Despite the market's overpopulation, there is a shortage of qualified and capable consultants; consequently, the composition of firms is fluid and a continual threat to each firm maintaining its market serving capabilities. By attracting superior consultants, the firm is able to command above average rates for its services, thus contributing to the profit margin.

#### ***3.1.13.2.3 Technical Development***

In an industry without well developed and entrenched standards and protocols for cost and effort estimating, the consulting firm that can more accurately estimate its costs will enjoy a better profit margin. Although not at the forefront of developing such approaches, CCI is a rapid follower, continually looking for improved methods of identifying and controlling the cost portion of engagements. This approach also enables CCI to generate bids that, while still profitable, tend to have overall lower total cost estimates for the client firms despite the above average hourly rates charged for consultants.



The enhanced estimating techniques are also leveraged in the cost tracking side of the engagement process. With a clearer understanding of what the delivery should cost, identifying cost overruns can take place earlier, allowing cost containment actions to be undertaken before the profit margin is further eroded.

Having developed bid preparation templates to use in conjunction with the cost estimating approaches also enables CCI to direct fewer non-billable hours towards bid preparation. Even for firms that are highly selective in choosing which bids to pursue and enjoy a better than fifty percent success rate, the ability to generate a bid with fewer hours of effort is a competitive advantage. Although CCI has not been so selective and has had fewer than half of its bids awarded, the firm has been able to generate those bids in less time than has been anecdotally noted from competitors. With a refined strategy and a corresponding improvement in market targeting, the ability to generate bids more quickly than competitors will increasingly contribute to the profit margin.

#### ***3.1.13.2.4 Procurement***

Although procurement for projects is one of the nine formally recognized project management disciplines, this discussion of procurement is specific to the general administrative activities of CCI, not the client engagement itself. Within this context then, the procurement activities are limited and of little direct importance to the firm's profit margin. Compensation, more than procurement, affects the cost factors for an engagement so the aspects of subcontracting procurement that are reflected in this section are limited to the setting and executing of standards for reference checking and other due diligence efforts. These, in total, have a negligible impact on the firm's profitability.

Given the use of associate consultants and the requirement for the associates to supply their own computing facilities, the acquisition of software and computing equipment is very limited in scope and, consequently, has little impact on the value of the service delivered to the client.

### **3.2 Alignment of Expansion Plans and Strategic Fit**

CCI has some conflicts between its stated direction towards being a differentiator and its practices and is consequently lacking in some aspects of the key success factors for the industry. CCI has not achieved being a differentiated provider and remaining in the project management consulting area exclusively presents a limited opportunity to do so. Instead, CCI has to consider new markets with new services and will achieve this through its expansion plans.

With the recent splitting of business consulting practices from the large accounting firms, the ability to cross sell services directly within the executive suite diminished. The connections between the executive of existing client account firms and the business consulting firms, whether they are newly formed such as BearingPoint or merged within existing firms such as Cap Gemini S.A., will still exist as the deals involved transferring the consultants. Over time, the stranglehold that the accounting firms had on the business consulting industry should lessen though. This opens an opportunity for new entrants to grow and possibly challenge for some of the business management consulting accounts.

However, CCI does not have the appropriate consultants on board at this time to enter the upstream executive-level business management consulting market area nor does

it have a sufficient range of relationships established at this level. Although recent efforts have improved the firm's knowledge base, CCI does not have enough of a base and is limited in its ability to execute expansion plans on its own. To address its expansion plans, CCI must become better at gaining and disseminating knowledge internally. The market has a strong potential for growth but this could be short lived and require the firm to respond quickly. Addressing these shortcomings by internal development may not be sufficient. It is with this market and these shortcomings in mind that the following expansion plans are discussed.

### **3.2.1 Expansion Plan Options**

Philip Kotler, in his book "Marketing Management", presents a marketing perspective on designing competitive strategies and delineates the options based on a firm's position as a market-leader, a market-challenger, a market-follower or a market-nicher (Kotler, 2003, pp.254-272). The first two position-based categories, that of leader and challenger, contain strategy options available to the largest market competitors, thus excluding CCI; however, the latter two categories have potential application.

In the category of market-follower, there are four options available to the firm that wishes to avoid the expense of innovation and potentially having to educate or even create a market. One of the options, that of counterfeiter, is not an option acceptable to CCI even if it were possible to do so in a service industry. The Cloner, Imitator and Adapter options involve increasing levels of differentiation of the products and services of the market leader. These options all fit well with the first of the four CCI strategic market expansion options, differentiation of existing project management consulting.

The second strategic market expansion option is differentiation within specific market sectors and this aligns well with Kotler's market-nicher options where "the key idea...is specialization" (Kotler, 2003, p. 271), such as targeting a specific type of customer or even a specific customer.

The four options for expansion presented in this paper include: differentiation of existing project management consulting; differentiation within specific market sectors; developing executive-level business management consulting; and entering into strategic alliances for diversification of services offered.

#### **3.2.1.1 Differentiation of Existing Project Management Consulting**

This approach leverages the core competencies that CCI already possesses and enables the firm to utilize its current knowledge assets about project-related issues to expand the firm's share of this crowded and competitive market. CCI would expand its service offerings in the realm of project management to focus more heavily on the initiation stage of projects, including strategic goal alignment, feasibility studies and reviews, to ensure projects initiate properly and have the best opportunities for successful completion.

CCI would also augment its competencies by strengthening and expanding its current set of supporting tools and more stringently applying its micro-function methodologies and practices. The expansion of the supporting tools provides the infrastructure through which the firm will be able to voice its differentiation. However, CCI will not engage in leading edge innovation, leaving such market development efforts to the industry leaders. Instead, the executive of CCI will monitor advances in project

management and business management methods. The executive, in conjunction with senior consultants, will develop similar products and services. Differentiation will be based on either varying promotion and place attributes only, or through adaptation of the products and services. The differentiation will present a client-observable benefit in addition to adjusting the overall marketing mix of products and services.

This expansion strategy would entail CCI acquiring more project management consultant resources either through hiring or by entering into sub-contract arrangements with individuals or firms to secure the volume of resources necessary; in effect, a horizontal integration. This expansion leverages the existing culture of CCI, one that is well aligned to managing projects through mentoring and as such is suited to rapidly orienting new project management consultants to the firm's processes and standards, and fits well with the centralized control structures of the firm.

With this strategy, CCI would not attempt to become an end-to-end solutions provider; instead, CCI would continue to operate within its current portions of the industry value chain, only for a broader customer base, using existing clients for references, or as a sub-contractor to a larger firm with more end-to-end solution provision abilities. This is a position that is typical within the current state of the consulting industry and one with which customers are familiar. As a result, the transaction costs associated with this expansion are considered as low, if not lower, than the current model.

Client relationships and marketing would, however, be entrenched in-house, eliminating the current outsourced practices, with a focused attention on differentiating CCI's service quality as the primary value proposition.

### **3.2.1.2 Differentiation within Specific Market Sectors**

The advantage of targeting specific market sectors is the ability to know the clients better than the large competitors. By virtue of their size, the large competitors have a broad range of knowledge but that knowledge may be general in nature, allowing a smaller, more specialized firm to better meet the needs of specific clients. Additionally, if a smaller firm is content with a limited range of growth and/or volume, the firm may be able to identify market seams or niches where competition is lessened, enabling the firm to establish a beach-head within the sector from which to launch expansion.

The premise of such an expansion option is to specialize to meet the needs of the target market sector. For CCI, this means entering the market with project management services tailored to the market sector and expanding the offerings vertically with business management services at the upstream end and project delivery services downstream. The key is to build credibility rapidly and develop at least three solid referential accounts, those that are respected within their market sector and can be used by CCI to initiate engagement discussions with other market sector participants. Another approach may involve targeting smaller customers first before competing for the major accounts within the market sector. This alternative is slower and may require innovations in contract terms, even including equity positions in a firm in lieu of partial consulting fees, but may establish a more unassailable market differentiation, particularly due to signalling persistence and commitment to the market sector through client base and/or ownership. Such signalling may act as a market entry barrier.

### **3.2.1.3 Developing Executive-level Business Management Consulting**

Executive-level business management consulting competencies, for the purpose of this paper, include business strategy planning, business process re-engineering and outsourcing, and transformational change management. Although this category of consulting typically has a broad definition, including consulting services related to human resources, marketing, supply chain management and customer relationship management to name a few, these ancillary services are omitted from the category context for this discussion.

This category of consulting competencies have traditionally been the purview of the auditing firms with consulting practices and is a service category dominated by the largest firms, therefore, direct competition would not be advisable, or even possible, for a small firm lacking global reach. Instead, the approach for CCI would be to either slowly develop these consulting competencies internally, targeting existing clients, or to acquire a small firm already operating in this area. The capital requirements of the latter approach may exceed CCI's capacity but alternative arrangements, such as equity sharing, may be attractive to the right participant, given the ability to expand the service offerings along the industry value chain and differentiate the combined strengths of the firms vis-à-vis other competitors. This would be the first step towards CCI becoming a fully integrated, end-to-end solutions provider.

Following the model employed by the large consulting firms, CCI will focus on its market-entry services in the initial stage and possibly augment its presence in engagements with the services of other firms. The pace of expansion will initially be slow until CCI has established its basic management consulting competencies then expansion

would continue upstream along the value chain at an increasing pace, offering progressively broader management services to capture the excluded services based on the market demands of the time. During this period of expansion, tight financial controls will be required to ensure a sufficient pool of capital is established to avoid exposing the firm to growth related insolvency risks. With the rapid change of business mechanisms demonstrated in the markets in the past ten years, it is also unlikely that the current high-demand areas of the market will continue to be so in the coming years; as a result, continued monitoring of market trends will be essential to select the appropriate products and services for development.

With the size of the management consulting market, estimated at in excess of US\$52 billion in 1997 (U.S. Census Bureau, 1997) for the United States, the combined operations of an expanded CCI would be unlikely to draw the attention or reaction of the large market participants, offering an low-risk expansion opportunity to CCI.

#### **3.2.1.4 Strategic Alliances for Diversification of Services Offered**

Similar to the acquisition option within the section above, the development of additional services can be accomplished by turning to existing firms to augment the core competencies of CCI but under this option, the augmentation would not involve ownership of the other firms, avoiding the attending and potentially significant capital requirements. Alliances may be long-term, particularly those that are strategic in nature, or may be short-term tactical arrangements that meet the immediate needs of one or more firms such as a recent alliance between CCI and a Victoria-based systems development firm to complete a single project opportunity.



Through a strategic alliance with an existing upstream value chain participant, CCI would participate in the earlier stages of the consulting engagement lifecycle. This is perceived as an opportunity to capture additional project delivery engagements, stages 2 through 4 of the lifecycle, without the additional overhead costs of a second iteration of client engagement interaction. In addition to the cost savings, the expanded market presence would be a differentiating factor for both CCI and the upstream firm, presenting the client with a seamless management oversight of the delivery of the engagement. This approach would enable the upstream alliance member to cross sell CCI services and for CCI to develop post-implementation business alignment opportunities into follow-on projects.

For such an alliance to be a good fit for CCI, it would blend strong executive-level management consulting competencies with CCI's project management competencies and would be an alliance between similarly sized firms, avoiding the complications that often arise in relationships with size asymmetry. A degree of trust would be required between the principals of the firms and, for that reason, is likely to arise from existing relationships. Additionally, the consulting engagements must have the opportunity for CCI to be positioned as the prime consulting firm, with the upstream alliance participant as a part of the service bundle, if CCI is to exercise influence and control of the client relationship, a necessary aspect of CCI's continued growth.

Establishing alliances with downstream value chain participants, CCI would be able to bid an end-to-end solution for project implementation which, when combined with the upstream alliance, would expand to a fully integration solutions provider, as opposed to just a systems integrator or technology delivery firm. This type of alliance

would fit well within the CCI core competencies and experiences and is a lower risk undertaking than an upstream alliance. However, the trend toward outsourcing systems development to offshore organizations suggests the use of downstream alliances may not be a high long-term payback strategy.

## 4 ISSUES

CCI Management Consultants faces a number of issues in its current industry sector that have prompted the development of a market expansion strategy, which is faced with a number of specific issues as well. Many of the current industry issues are structural in nature, arising from a market that is comprised of many unequally sized firms. Economists observe that a market of monopolistic competition has many firms of equal size differentiating their products. These firms compete on the basis of location and quality and have easy entry to and exit from the market. These conditions generate relatively low profits for all firms. A competitive selection market structure differs in having firms of unequal size, homogeneous products, a relative ease of entry and exit. Rivalry here is based on cost, delivering low profits on average but varying across firms (Shapiro, 2003). The project management consulting industry has attributes of both, with many firms but a variety of sizes, ease of entry to and exit from the market and relatively homogeneous product offerings that compete, in recent years, based on price.

The industry as a whole was an unattractive one for the first years of this century. A competitive market structure with an industry based on perishable inventories of billable hours, a limited sophistication in current knowledge management practices, high transaction costs for both engagements and resources, decreased margins through price competition and price-suppressing structured bid mechanisms for the major market buyers were all negatives.

For CCI, with an aging product line in a maturing service market and the threat of offshore entrants joining the market, continuing with the status quo is a poor choice. However, entry into other management consulting niches requires new knowledge and time to build a base of experience.

The issues are examined below, separated into those issues that are persistent throughout the industry versus those issues that are specific to CCI.

## **4.1 Persistent Management Consulting Industry Issues**

### **4.1.1 Fragmented Industry**

Without regulation enforcing qualifications, barriers will continue to be virtually non-existent for entry into this market by individuals and small firms. The Canadian portion of the industry, with between four and five thousand domestic firms and ready access by American and other international firms, does not have a market price leader, although the pricing profile of the top four international firms appears anecdotally to be quite close and significantly higher than that of the remainder of the market. The industry profile will continue to foster intense competition between industry participants, effectively in tiers, as will the bidding competitions structured by large customers.

The project management portion of the industry lacks notable differentiation as services are built from widely available components, rendering a common look and feel to the services and products produced. Efforts to differentiate are usually based upon the length of experience within the client's industry and the bundle of services offered. Other competition is based on price, either through the rate per hour, which is the most

common, or through shortened duration estimates for non-time-and-materials engagement.

#### **4.1.2 Billable Hours as an Inventory**

Time and materials contracts continue to be the norm within this industry and the revenue generated within each contract is dependent upon billable hours; however, billable hours are perishable. This is one of the factors that leads to intense competition for the consulting firm for whom an hour of billable time passes without sale to a client firm is the firm that has suffered an opportunity cost of real proportion.

The services do not have a multiplier effect available; in other words, an hour of billable time only generates revenue once for the agreed upon rate. In a manufacturing setting, the design and development costs are recouped over a production run and, with a large enough run, can be recouped many times over. For example, the cost to design, develop and test a new release of a software product may be very high but, at several hundred dollars per copy and millions of copies sold, the firm enjoys a significant profit, multiplied by its ability to create copies from the initial investment. In a consulting engagement, it is a sell-build scenario and there are limited opportunities within the confines of the engagement to introduce a multiplier effect. The relatively rare exception is if the consulting firm will retain ownership rights to the created product and has the opportunity to sell that product to other clients. For example, if an engagement creates a communications network management protocol and the consulting firm retains the ownership, then that protocol and its underlying computer programs can be bundled and sold either on a standalone basis or as part of a bundle of services to other clients.

### **4.1.3 Transaction Costs are High**

Transaction costs are high in several areas of the consulting industry: the search costs associated with locating engagement opportunities and locating specialist resources; negotiating costs for specialized engagements and bid submissions in concert with other firms; and monitoring costs for joint engagement delivery with other consulting firms.

In some instances, the search costs may appear to have been reduced through technological advances such as resume posting sites or internet websites posting bidding opportunities; however, the ability to search these sites for specific content is generally weak, resulting in an electronic 'slush pile' through which one has to wade to find value. This is particularly true in the resume posting sites where resume contents, formats and styles vary widely and are generic in nature due to the resume writer not responding to a specified situation. In addition, once the apparently appropriate resumes have been found, there are no savings in the verification and interviewing aspects.

In each consulting engagement, one firm will be the major or lead firm, accepting responsibility for the delivery of the engagement to the agreed upon standards. This firm accepts the risks of non-compliance within the terms of the contract, yet often does not realize an additional benefit commensurate with the additional risk. For this reason, smaller firms are unwilling to operate as the lead firm and forego opportunities to control the client management aspect of the engagement. This has implications for the firm's long-term survival but is driven the high costs of monitoring the behaviours and deliverables of subordinate firms within the contract.

#### **4.1.4 Human Resources**

Acquiring and retaining talented consultants is a key success factor for a consulting firm, irrespective of whether that firm is in the technical, integration or management portion of the industry. Finding consultants is not as much a challenge as retaining the talented ones. Each firm is faced with a shrinking supply population as the baby boomers are entering their retirement years and there is a demographic trough behind them. Although the 'boomer echoes' have entered the workforce, few have the experience necessary to be considered adequate by high-demand accounts, the kind from which meaningful references can be built. This has led to increased poaching of consultants by other consulting firms, and in some cases employers, and CCI has observed this behaviour particularly in the past two years.

The future availability of qualified consultants is also in question. The 2003 study shown in Figure 4-1: Student Enrolment by Subject Area indicates that less than 1 in 4 students are enrolled in the combined area of Business, Computer science and Engineering. This suggests that competitive pressures for recruitment will increase and may become a limiting factor in expansion plans for specialized services.

<b>Student Enrolment by Subject Area, 1999-2000</b>	
<b>Subject Area</b>	<b>Enrolment</b>
Business, Computer Science and Engineering	24%
Natural and Health Sciences	18%
Humanities and Social Sciences	40%
Fine Arts	3%
Education	9%

**Figure 4-1: Student Enrolment by Subject Area**  
 Source: Author; adapted from Robertson, McGrane and Shaker (2003)

The pattern of enrolment over a number of years has not been assessed within the scope of this paper but demographics have been generally acknowledged to show significant levels of retirement in all industries over the next ten years.

#### **4.1.5 Asset Specificity**

Related to the issue of attracting and retaining human resources is the knowledge asset possessed by these consultants and the degree of asset specificity that applies. To enter a new market, a firm needs additional knowledge, capabilities and/or resources, collectively called complementary assets. These include assets such as distribution channels, customer relations, linked technologies, service capabilities and sales and marketing abilities but also include the knowledge specific to the new market. The choice a firm faces is whether to develop this knowledge and these abilities internally or to obtain them by other means.

The two choices, internal and by other means, are comprised of the following options to obtain specialized assets. CCI could consider contracting with others but this is an option that economists recommend avoiding when the asset is highly specialized due



to the risk of hold up behaviour by either party. CCI could also pursue developing the knowledge and abilities internally, also known as integration, but building complementary assets takes time and may require capabilities and resources in areas in which the firm does not have competitive advantages. Another option is to establish a relationship with a firm possessing the desired specialized assets, possibly through an alliance or by acquisition or merger.

Specialized assets are also usually associated with higher transaction costs such as the amount of time and expense required to locate the appropriate asset. This is due to the fact that there are few suppliers and, therefore, they are harder to find in a large marketplace. Additionally, the quality of the asset is difficult to define or measure. Most such assets are obtained via contracts, which by themselves introduce high transaction costs for their construction, monitoring and enforcement efforts.

For management consulting firms, the ability to develop a specialized knowledge that is saleable to clients yet is not easily imitated by competitors can be a competitive advantage, provided the portion of the economy that is interested in such specialized knowledge remains healthy. If, however, there is an economic downturn, the management consulting firm must be able to target new markets. This is where asset specificity may become a hindrance, as the firm's assets are not transferable to other market sectors.

To minimize the lack of mobility of specialized knowledge assets, consulting firms employ knowledge management approaches such as developing knowledge repositories and fostering a culture of knowledge sharing instead of hoarding. The current

state of practices in knowledge management, however, are relatively rudimentary and a proficiency in locating information requires time to develop. Davenport and Prusak acknowledged in the preface to their second edition of “*Working Knowledge*” (Davenport and Prusak, 2000, p. vii) that the knowledge management industry was still in its infancy in the late-1990s. From structured methodologies with flowcharts to guide a project’s path, repositories were expanded to include best practices; however, the challenge of choosing the correct path for the unique circumstances of the engagement has remained. The judgement required to identify and choose the correct set of options for engagement is tacit knowledge and despite the advances in the contents of the knowledge repositories, the ability to consistently translate tacit knowledge into explicit, replicable knowledge is still elusive. It is this unstructured nature of knowledge that has challenged the industry in developing widely available advanced methods and techniques.

#### **4.1.6 Globalisation and competition**

Based on the literature and news reports, the trend to globalisation is growing significantly, both for client firms and for consulting industry competitors. If recent contract awards by the Government of British Columbia are any indication, more foreign competition will be experienced locally as the province continues with outsourcing and Public-Private Partnership initiatives.

Additionally, firms from India that previously contended only with the latter downstream portions of the consulting industry value chain, that of project implementation such as computer program coding or testing, have made inroad further upstream in the value chain (Express Computer Business Weekly, 2003), including the

early stages of project management. The question is not if but when such service firms also begin to offer business management consulting. A search for “offshore India technology” using Google™ netted 1,210,000 hits. Substituting management for technology in the phrase only reduced the hits to 1,170,000. Although a number of the references including project management, the indication is clear that the offshore outsourcing companies are moving upstream in the value chain, adding to the competitive pressures in the consulting industry.

Such development may introduce new opportunities for softer skills, such as cultural conflict management and alignment services. It is possible that such skills may be in short supply and, for the near-term at least, could offer a niche market for the firms prepared to fill need. The challenge will be to acquire the necessary skills within the firm and target the clients that may best benefit at the highest profit margin. A rapid deployment of such niche services would enable a small reactive firm to compete with the larger dominant management consulting firms.

If CCI expands along the value chain, particularly for downstream activities, globalisation will be a factor as such services, for large client accounts, will be in direct competition with offshore providers, operating at a significant cost advantage.

Locally, the competitive pressures increased in 1996 with the introduction of the BC Bid® procurement system. From its initial launch as an electronic bulletin board with limited breadth, the system has become the primary focal point for government related procurement and is used by a wide base of entities including ministries, crown corporations, municipal governments, educational institutes and health care agencies.

Accessible from anywhere in the world, the site has become an easy entry point for new market participants or incumbents wishing to expand geographically. Such competitive bid mechanisms are designed to create rivalrous situations amongst consulting firms, which result in an increase in the buyer's negotiating power and downward pressure on the fees of the management consulting industry. Such behaviour erodes the profit margins of firms that are unable to trim costs at the same or greater pace than the erosion of revenues.

In some instances, the entry of lower cost providers or the willingness of existing providers to discount their fees by significant margins has led to market participants exiting one or more sub-sectors of the industry. For example, Ernst & Young was a large player in consulting to government in both management consulting and technology solutions in the early 1990s but has since abandoned the sector completely, eventually selling the entire business consulting practice to Cap Gemini S.A. in early 2000.

#### **4.1.7 Technology**

Technological change, particularly the advancements in communications and computerization, have led to organizations undertaking much of the business reformation of the past twenty years. With the pace of technological change potentially slowing, technology may no longer continue to be a cause for management consultant demand. Instead, the upstream value chain activities of business management will become more important and the deployment of the technology becomes more of a commodity.

Advances in global communications have enabled remote market entrants to compete locally without the cost of travel, leveraging conference calling, video conferencing and other technologies to close the gap of distance and time.

Many resume posting sites exist on Internet now and enable firms to more rapidly find potential consultants. This is particularly true with less specialized skills and has changed the transaction cost model for staffing technology deployment projects. This pattern is likely to affect the level of vertical integration within the industry, lowering it as disperse firms are more readily able to effect transaction chains outside of a direct ownership structure.

## **4.2 Current CCI Issues**

CCI faces four significant issues in addition to those facing the industry as a whole. The first is the deterioration of its informal consulting networks. With the economic downturn in British Columbia that began in the middle of 2001, many of the consultants within the network began to either seek contracts outside of the province, leading to a number of consultants moving to Ontario or Alberta, or close down their consulting practices, either by retiring or obtaining employment with a client firm. This has caused the network to atrophy and directly increase both the search costs for consulting engagement participants and the level of risk associated with bidding services from unknown and unproven consultants.

The second issue is the loss of client references. This has arisen from the early retirement incentives implemented in 2001 by the newly elected Provincial Government through which a number of key influential client references exercised options to retire

and were replaced by managers from outside of the department areas. A second source of the loss was the core services review undertaken by the Provincial Government, informally known as the Falcon Project so named for the minister responsible for the project, that pared ministries and crown corporations back to their core business functions. This initiative dramatically altered the structure of projects at several crown corporations at which CCI was engaged and displaced client references. A third source of client reference loss has been the outsourcing of business areas by the Provincial Government. The outsourcing can result in client references moving into areas of government in which consulting engagements are either not undertaken or are significantly reduced. The procurement process for consulting services relating to the outsourced business have been shifted to private organizations with internal resources to address the majority of the market niche serviced by CCI.

The third issue is the lack of the financial capitalization necessary to quickly embark on an expansion undertaking. The company treasury was negatively affected by recent downturn events and recent acquisition costs that have bolstered the firm's knowledge capital. This situation will influence the firm's choices in expanding its service offerings.

The fourth issue is the aging product line of the firm. Without a price leader and clear differentiation in the service offerings, consulting firms need to commit to and conduct near-continual innovation to refresh their product lines. Not only does this offer a visible differentiation to new clients, it enables a firm to bind existing clients through services that are better adapted to the client's specific needs. This micro-niche tailoring is a competitive advantage in that it prevents other firms from replicating the service

offering and, as such, protects existing client accounts and, if executed on a sufficiently broad scale, acts as a market entry barrier. With the consulting recession of 2002 and 2003, the offerings of CCI languished as the firm operated in a reduced capacity within its eroded consulting network.

## 5 STRATEGIC OPTIONS ASSESSMENTS

In this section, assessment will be presented for each of the strategic options available to CCI and, within each option, the issues of the industry and those unique to CCI will be discussed. The one exception is the issue of the pace of technology-spurred change diminishing. The rate of change in business is currently being driven by fundamental business factors needing to be addressed, particularly focused by the Sarbanes-Oxley reporting requirements for any firm operating within the United States, and the increased needs of security and border protection. This demand has rippled across most categories of the consulting industry and is estimated to generate sufficient demand to engage the industry's capacity. For this reason, the issue of technology is not a factor in assessing the strategic options.

As in a Request for Proposal (RFP) evaluation, a clear definition of the goals, the evaluation criteria and the weighting factors is essential in order to conduct an effective assessment of the strategic options. From its expansion plans, CCI Management Consultants expects to fulfil the strategic goals of: increasing profit margins; expanding its inventory of skills; realizing a compounded annual growth rate (CAGR) of twenty percent for the next three years; and leveraging its existing client relationships. Tactically, the firm also expects to: increase its knowledge management abilities; decrease its bid response time; and restore and expand its network of consultants. For each of the strategic expectations, an assessment of the likelihood of success is provided for each of the options available to CCI. The weighting factor is a prioritisation of the



strategic goals, arrived at through a weighted-pairs assessment by CCI executive, shown in Figure 5-1: Weighted Pairs Comparison of Strategic Options.

<b>Weighted Pairs Comparison</b>	A - increased profit margins	B - expanded skills inventory	C - 20% CAGR for 3 years	D - leverage existing client relationships
A - increased profit margins	x	B	C	D
B - expanded skills inventory	B	x	C	D
C - 20% CAGR for 3 years	C	C	x	C
D - leverage existing client relationships	D	D	C	x

**Conclusion:**

**Goal Priority Sequence:** C D B A  
**Weighting:** 4 3 2 1

**Figure 5-1: Weighted Pairs Comparison of Strategic Options**  
 Source: Author

The strategic options are not mutually exclusive and some combination will be employed by CCI; however, the following assessment will provide input to the decision process. In Figure 5-2: Strategic Option and Goal Alignment, the ability of CCI to achieve each goal through the identified strategic options is presented, along with a scoring, arrived at through combining the estimated likelihood of success with the weighting of the strategic goal. For example, goal ‘C – 20% CAGR for 3 years’ has a

weighted value of 4 and an estimated poor likelihood of success with Differentiation by Project Management so the combined value is  $4 \times 1 = 4$ . This process is repeated for each strategic goal and scored for the strategic option as a whole.

Strategic Goals	Strategic Options			
	Differentiation by Project Management	Differentiation by Market Sector	Develop Management Consulting	Diversity through Strategic Alliances
20% CAGR	poor, with a crowded market and undifferentiated services	excellent, particularly in recently formed industry niches	poor to good, based on internal development with additional consultants hired	excellent, with both upstream and downstream expansions available
Leverage Existing Client Relationships	excellent, with strong relationships in place	good, as most existing clients partially span multiple market sectors	excellent, with strong relationships in place	excellent, with strong relationships to facilitate introduction of both upstream and downstream alliance partners
Expand Skills Inventory	poor, with limited innovations in the field available	good, with industry specific knowledge to be gained albeit slowly	poor, a slow process in a competitive and dominated field	excellent, with opportunities to exchange skills with alliance partners
Increase Profit Margins	poor, with crowded competitors and bid mechanisms	excellent, avoiding established competition and targeting new and/or underserved sectors	good, this is a high fee market although it is dominated by the largest firms	excellent, with bundled services
<b>Score:</b>	16	25	19	30

Strategic Goal Alignment Scoring Scale:

unknown	poor	good	excellent
0	1	2	3

**Figure 5-2: Strategic Option and Goal Alignment**

Source: Author

## **5.1 Differentiation of Existing Project Management Consulting**

The latest innovations in project management consulting are now dated by several years, those being the adaptations of the Software Engineering Institute of Carnegie Mellon University's Capability Maturity Model to derive a Project Management Maturity Model. Although this adaptation was a potential avenue into business management consulting, the local response to the model has been unfavourable, with a perception of theoretical overhead lacking in operational gains. Without more product innovations that deliver tangible benefits, the wherewithal to facilitate differentiation is limited to the consultants' collective knowledge and experience and the service delivery portion of the client engagement.

The potential for developing such innovations internally are low. Such innovations require time to identify, develop and test and these are non-billable hours, affecting the firm's ability to generate revenue and, unless the firm's executive undertakes these efforts as future investments, represent a drain on current revenues. Alternatively, innovations can be sourced for outside locations, most notably through relationships with research institutes such as universities or private organizations like the Gartner Group but these will likely involve capital expenditures as well.

Although CCI has core competencies related to delivering Project Management Consulting, and thus has a low level of risk in conducting business in this area, the ability to grow the firm's revenues is limited by the crowded and competitive nature of this segment. The firm is unlikely to attain and sustain a 20% growth rate for three years in

such a market and, given the current pressures for undifferentiated products, is unlikely to be able to adequately increase profit margins based on delivered products.

Differentiation on the basis of service, however, does offer some opportunity but this is perceived to be rather limited given the nature of procurement and contract fulfilment for the government sector, which remains the largest client base for project management services in the province. Ministries and crown corporations have established processes and mechanisms for the administrative components of the contract fulfilment, therefore no opportunity for significant service improvement and differentiation arises. In the interaction with clients, CCI can continue to maintain a high degree of professionalism but this is a standard easily matched or already offered by most competitors. Follow-up service activities could be added as the firm currently does not undertake such today; however, the value to CCI may be minimal as the service recipients are separated from the procurement decision making bodies and only marginal, if any, improvement in service reputation would be achieved.

Remaining in this service sector, even if the service delivery could be differentiated, would not significantly enhance the skill set of the firm. The industry issues of high transaction costs, perishable inventories of billable hours, ease of market entry by global competitors and high transaction costs for both engagements and human resources would also remain under this strategic option and not be ameliorated to any notable degree. With low likelihood of differentiation in the clients' eyes, market competition is destined to spiral down into a price-competition, as per the competitive selection market model, further compounding the industry issues.

As a result, such an option would not build towards a viable future for the firm and is likely to simply prolong the firm's demise.

## **5.2 Differentiation within Specific Market Sectors**

Through the Provincial Government's outsourcing activities and restructuring of both ministries and crown corporations, a number of new or significantly altered market sectors have been created in British Columbia. While several of these sectors have been serviced for business management consulting, the efforts to implement the recommendations are not fully underway and, in some instances, have not begun.

These sectors are related to existing client accounts in that they are part of the overall government structure and operate under similar legislative and policy boundaries and have relationships to most other areas of government operations. For example, billing and revenue collection spans virtually every ministry and the client relationships established in these areas do likewise. The same is true for Health, Treasury and various enforcement branches. With client references from long-term and influential members of existing government and regulatory agencies, CCI is well positioned to solicit potential clients in these sectors. With the recent creation of, or alteration in, these sectors, competitors are not fully entrenched so CCI can avoid the destructive price-cutting competition exhibited in other sectors, thus increasing profit margins.

With an early entrance into these sectors, CCI also is positioned to expand its service offerings upstream, building on recently acquired knowledge and enabling the firm to expand its skills inventory for industry specific knowledge as well as less specific and more transferable business management consulting skills.

The fragmented industry aspects can be partially deflected by a rapid establishment of CCI services within a sector, coupled with service offerings that decrease client operational costs and also serve to increase client switching costs. This is achieved through project structuring that provides near-full solutions but retains justifiable follow-on projects where replacing the knowledge gained from the prior project would prove to be expensive with compensating increases in benefits or lowering of risks. Such actions would erect partial market entry barriers, thus limiting the impacts of global competitor entrance to the local market.

To address the inventory of billable hours, project proposals may be presented a fixed price or some other variant. Given the revised nature of the market sectors, the previously well-established procurement processes are now open to innovative proposals where overall cost reduction or performance improvement is perceived to be achievable.

Transaction costs relating to acquiring consulting engagements is expected to also diminish as the level of competition is lowered, resulting in fewer iterations of bid presentations and negotiation. In addition, client references offer the opportunity to eliminate the bid submission process for some of the outsourced areas, as private industry is not compelled to follow the onerous standards of public organizations. However, CCI must avoid soliciting accounts where a larger or more entrenched competitor has already established inroads as these are new market sectors and CCI is at a disadvantage with its current skills inventory and would be likely to lose a head-to-head competition for the account. Such an effort would increase the overall transaction costs of the firm without benefiting from an increase in revenues.

The search and negotiation costs relating to finding consultants is not likely to change in this strategic option.

### **5.3 Develop Executive-Level Business Management Consulting**

CCI, overall, has limited competencies in the executive-level business management consulting industry and will face competitive displacement from the large, long-established firms. The process of integration, that being the internal development of the new competencies, would be slow even with hiring of additional consultants who already possess the competencies, as the transference of the competencies throughout the organization would be the limiting factor. The transaction costs associated with finding, soliciting and binding the additional consultants to the firm are expected to be higher than those within its current industry segment due to the specialized knowledge of and demand for these consultants.

This strategic option is also high risk as the level of certainty about any aspect diminishes with the lack of familiarity; consequently, the likelihood estimates may be optimistic. Even so, it is unlikely that the firm would achieve its desired 20% compounded annual growth rate despite the prediction for a strong consulting market in North America through 2012 (US Bureau of Labor Statistics Career Guide, 2005, p. 197).

This option would place CCI into a less fragmented industry, which is an advantage for fee structures and offers a good opportunity for increased profit margins; however, a few very large and increasingly protective firms dominate this industry. Although CCI is a small firm and would not materially affect the larger competitors, CCI



could well face retaliatory actions from the industry leaders that could include consultant poaching, under-pricing or targeted client solicitation.

CCI would not be in a position within the first few years to establish entry barriers for other competitors nor would CCI be able to promote itself as an end-to-end solution provider for any client, leading to clients being exposed to rivals on a regular basis. However, CCI would be able to leverage its current client relationships to expand its offerings upstream in the value chain within the existing accounts, lowering the transaction costs and partially sheltering it from global competitors.

#### **5.4 Strategic Alliances for Diversification of Services Offered**

This strategic option offers CCI its best chance of achieving all of its goals, as reflected in the scoring of the option, and addressing the widest range of current industry and CCI-specific issues. With a fragmented industry, CCI has many potential firms with which to forge downstream alliances and by aligning the service offerings of CCI with the downstream alliance partners, offers a fully integrating systems solution implementation service that will differentiate CCI from the smaller firms operating in the current market segment.

Additionally, a number of small to mid-sized management consulting firms currently have informal relations with CCI and are potential candidates for forming upstream alliances. As a result, the initial search costs for forming the alliances would be smaller than those faced by a new market entrant, particularly those that are globally based.

With an end-to-end solutions provision capacity, CCI would also be able to address the billable hours inventory issue through more flexible and innovative offerings. Clients engaging in large scope engagements tend to be more amenable to flexible pricing terms, a fact that has been exploited by the large management consulting firms for many years. With a fuller range of services to offer, CCI is also able to engage in bundling of services, thereby making direct price comparisons much more difficult and enabling CCI to more readily differentiate its services while increasing its profit margins.

Through the alliance partners, the informal network of CCI is quickly re-established and expanded, driving down the transaction costs associated with obtaining the necessary human resources for any particular engagement. Knowledge management practices would, however, become more important as the wedding of different firms presents cultural and experiential differences and may require a common lexicon to be established to facilitate better communication during end-to-end solution engagements. The process of expanding CCI's inventory of skills would be accelerated as the free exchange of ideas is essential to the successful delivery of large engagements. With a structured enticement package, each of the alliance members would derive benefit in the delivery yet be protected by covenants such as non-solicitation clauses.

## **6 RECOMMENDATIONS**

### **6.1 Introduction**

The US Department of Labor, Bureau of Statistics forecasted a growth of 55% for the management consulting industry, including the three sub-categories of management, scientific and technical consulting, for the ten year period ending in 2012. With such a strong growth expectation, CCI must take action now to ensure that it exploits these opportunities while they are available.

CCI must adjust its practices in order to address its weaknesses within the industry's key success factors. Recommendations to this effect are presented in Changes in Practices below. The firm is also considering the strategic options for its expansion plans and recommendations for these plans are presented in Strategic Alliances and in Market Sector below, reflecting the forces and the success factors affecting the industry.

For CCI, it is recommended that the firm engage in two of the strategic options for expansion: differentiation by specific market sector; and strategic alliances for diversification of services offered. For both options, CCI should seek to improve its perceived credibility and legitimacy, expanding upon the current certifications of its consultants. Consider minimally joining a management consulting association such as the Canadian Association of Management Consultants and encouraging individual consultants to attain the Certified Management Consultant (CMC) designation offered by this association.

## **6.2 Changes in Practices**

CCI has not achieved differentiation within the project management consulting area but does not have a sufficient inventory of skills and knowledge to address the upstream market. To address this challenge, CCI needs to build knowledge in executive-level business management consulting. Developing this knowledge internally is a slow process. It is recommended that CCI, instead, undertakes attracting and retaining the appropriate consultants, ones with executive-level experience that can assist in developing the knowledge required.

CCI needs to extend its current client relationships into the executive wing in order for CCI to expand its service offering successfully. Additional efforts by the CCI executive to engage clients in fundamental business aspects are recommended. These will include discussions surrounding existing contracts, where probing questions about the objectives and performance of current projects may provide insight to the business needs of the client and offer sales opportunities. Other opportunities are through attending executive focused seminars and joining the local chambers of commerce or boards of trade. These activities will increase the overhead of CCI through consuming potentially billable hours without any revenue generation but is a necessary preparatory step.

It is recommended that CCI direct more attention to its knowledge management practice. To span the market boundaries into new sectors, it will be important for CCI to quickly learn the business drivers and general characteristics of the new sectors. Attempting to develop sector specific knowledge internally is also slow, hence the recommendation regarding alliances, and this increases the importance of an efficient knowledge sharing mechanism within the firm. Although this mechanism works well

across the senior members of the firm today, CCI must extend the mechanism to new consultants.

It is recommended that CCI continue its practices regarding rapidly responding to bid opportunities. It is further recommended that CCI undertake enhancements to the content of its bid library to reflect the content required for executive-level consulting and continue to make such improvements for each of the new market sectors it pursues.

### **6.3 Strategic Alliances**

To quickly gain the knowledge, skills and experience necessary to credibly offer services in the up-stream portion of the value chain, it is recommended that CCI establish alliances with existing management consulting firms. Alliances address the key success factor of the industry, that of attracting the right resources to the firm. This approach introduces a trilateral governance model would be enforceable by either party plus a named third party, hence the term trilateral governance. The third party can be an arbitrator or the judicial court system. In the future, there may be a market expansion that involve the use of highly specialized assets, such as bio-tech undertakings. In this case, the use of bilateral governance structures, such as joint ventures or outright ownership integration, should be considered.

Strategic alliances are recommended irrespective of whether CCI expands within its current market sectors or enters into new market sectors. This approach is favoured over developing competencies internally essentially for speed of deployment and lowering of risk, as alliances bring fully matured competencies immediately. Risk is minimized by avoiding developing competencies that may be unrelated to market

demands. Additionally, the risk associated with hiring consultants is also avoided by allying with an existing firm in which the capabilities of the current staff is clearly known.

The alliances firms have established relationships within their particular market sector, something that CCI would require significant time to develop on its own. The firms also have the necessary skills, knowledge and experience for operating in their sector and these are assets into which CCI could tap as opposed to developing its own knowledge assets internally.

The initial upstream market entry is anticipated to involve general executive-level business management knowledge, an asset which is specialized but to a relatively low degree. To implement this approach, the services of a lawyer will be required and it is recommended that a quality firm be engaged on a retainer basis. The initial agreements with the strategic alliance parties will require clear definitions of responsibilities through which a breach, and the party committing it, can be readily identified. Once a trust relationship has been established, the degree of specificity within the contract language may be reconsidered.

For the downstream portion of the end-to-end solution creation, again irrespective of new or existing market sectors, it is recommended that CCI also enter into strategic alliances, as these will develop longer-term relationships that minimize or eliminate the transaction costs associated with staffing further engagement opportunities. Several candidate firms have responded favourably to initial overtures and these firms should be assessed minimally on the basis of the fit of their current service offerings, their range of

consultant skills and the potential for transference into other market sectors (i.e. their asset specificity). Alternatively, CCI could rely on spot contracts but it is recommended that this approach be considered only for skills sets that are effectively commodities, such as application testing.

Alliances enable CCI to offer a client a fuller range of solution and this provides the client with the opportunity to avoid its own transaction costs in searching for and securing additional resources to complete an undertaking. If CCI is able to assist the client by drawing resources from its alliance chain, the CCI may be able to capture some of the savings through bundled pricing.

#### **6.4 Market Sector**

One of the current challenges in the management consulting market is competing with firms that have well-established global presences that are one of the features used to differentiate the top tier firms from the rest of the industry. By focusing on local industries that have specialized needs, such as health care or provincial and municipal governments, CCI is able to offer services that do not have to rely on global breadth. Starting with a narrow focus, CCI will be able to enter a market sector like the thin edge of a wedge and progressively expand its offerings to address more of the market needs.

Additionally, the preferred market sectors would also lack domination by the large consulting firms. Such will be the case with new sector start-ups or those that the large firms have not identified as being sufficiently profitable.

It is recommended that a bilateral model be negotiated with one or more of the alliance partners when targeting a specific market sector in this stage of the expansion

plan. To enable CCI to remain flexible in its market strategies, a joint venture is recommended in place of integrated ownership. The approach is more reflective of a meeting of partners and this aligns long-term interests better than integrated ownership.

It is further recommended that this portion of the expansion plan be undertaken within ten months of initiating the strategic alliances to ensure momentum is maintained. Presuming that the first three-to-six months will entail focusing on establishing the long-term administrative consistency and building common knowledge management methods and materials, the mid-term portion of the expansion plan must complete preparatory steps for the market specific expansion including confirming the candidate identification and leveraging existing client references towards those candidates. Time is of the essence if CCI is to establish an early mover advantage and erect competitive barriers.

To counteract the market entry barrier of strong relationships that may already be established by sector firms, CCI should select a narrowly defined specialty product and engage in promotional activities such as offering free assessments, hosting seminars, offering presentations at other events and writing articles for local and otherwise recognized publications. CCI consultants should be encouraged to host social encounters with the clients as well, a practice long practiced by the large firms.

CCI, being a smaller firm, is more readily able to reinvent its delivery style to match to the culture of the market sector and the firm's executive can enhance this customisation with cross-engagement support. All senior consultants should be involved in such support efforts.



CCI must continually monitor sources of innovation and strive to be first-to-market with service innovations. Look outside of the common sources. Consider marketing advice but also look to process engineering, conflict management and psychology. CCI should also consider other industry solutions. What works for amateur sports coaches may be a solution for a client engagement. Differentiation will be key to continuing to expand the CCI presence within the market sector.

For the downstream portion of the expansion plan, however, the continued use of the spot contracts form of market governance is recommended to continue. By using web-based resume sites, the initial efforts of locating potential resources have been simplified; consequently, their corresponding costs have also been reduced, although the transaction costs of resume verification and corporate cultural fit assessments have not, as yet, benefited from this technology-based improvement. Further leveraging the informal networks will benefit the firm in its attempt to control the costs relating to human resource recruitment.

## APPENDICES

### Appendix A: CCI Strategic Fit Today

	Cost Based				Differentiation
	Low Cost / Adequate Quality				High Quality/ Adequate Cost
Product Strategy	<b>Rapid Follower</b>	■	■	■	<b>Innovative</b>
R&D Expenses	<b>Low R&amp;D</b>	■	■	■	<b>High R&amp;D</b>
Structure	<b>Centralized</b>			■	<b>Decentralized</b>
Decision Making	<b>Less Autonomy</b>			■	<b>Autonomy</b>
Manufacturing (Production)	<b>Economies of Scale</b>			☺	<b>Economies of Scope/Flexible</b>
Labour	<b>Mass Production</b>			■	<b>Highly Skilled/Flexible</b>
Marketing	<b>Comparative/Push</b>			☺	<b>High Cost/Pioneering/Pull</b>
Risk Profile	<b>Low Risk</b>	■	☺		<b>High-Risk</b>
Capital Structure	<b>Leveraged</b>			■	<b>Conservative</b>

Legend:

■	Where the firm currently is today
☺	Where the firm wants to be, if different from current
■	Movement from where the firm was to where it is today

Source: Author; adapted from Bukszar (2005).

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