

INTRODUCTION

As someone interested in the field of management consulting, you probably already know that it is one of the most popular career choices for today's graduating students and career-changing professionals. Especially now with the decline in popularity of Internet-related and technology start-up companies, consulting has regained its position as one of the top, if not the top, career choice at many undergraduate and business schools in the United States as well as abroad. The industry is growing quickly, both in the demand from organizations seeking consulting services and in the supply of candidates seeking a consulting position. Although thousands of individuals receive offers every year, tens of thousands compete for those offers. In the face of such intense competition, applicants need all the help they can get.

Students, who especially like the accelerated professional track of consulting, have turned the field into one of the hottest choices for entry-level professionals. Approximately 40 percent of graduates in each MBA class attempt to enter the consulting industry, and between 30 and 35 percent of these candidates get an offer. Undergraduates, too, find the field incredibly attractive and often face the same intense competition to land a consulting job offer. Intrigued by the doors that consulting can open, even graduating JDs, MAs, MSs, PhDs, MPPs, MIAs, and MDs, to name but a few other degrees, have been applying for positions in increasing numbers. And even professionals with established careers look toward consulting

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for opportunities to accelerate their professional development, or to switch career directions entirely. As management consulting firms multiply and grow, the demand for experienced hires who can establish and build new practices will likewise grow. But once again, the number of candidates exceeds the available positions, making the competition fierce.

Firms, literally buried in resumes, have developed a highly stylized and occasionally mysterious tool to select the top candidates from the masses: the case interview. The most challenging hurdle to clear in the job search process is the abstract and often technical case question. Even if you are fortunate enough to be invited to interview, you might be quickly eliminated by a single case question such as “How much does a Boeing 747 jumbo jet weigh?” or, “How does Amtrak price a rail ticket from Boston to Washington, D.C.?”¹

And even if you make it through the first case interview, you typically have to survive three to five more. The process closely resembles the old carrot and stick maneuver: As you successfully navigate each case interview, you feel another step closer to that elusive offer. Guess again. Yet another savvy consultant stands ready to challenge you with an additional case interview. Any one of these interviews has the power to eliminate you, even if you impressed the firm in previous interviews. Only those candidates who maintain the stamina and drive to succeed in each and every case interview will ultimately receive an offer.

The competition has become so severe that candidates now have to invest considerable time in researching firms and practicing cases. Just as test prep courses for standardized tests like the SAT or GMAT have helped people get higher scores, so too has interview training become the key to a successful consulting job search. You need all the help you can get to remain competitive with your peers, who are preparing for interviews at the same set of leading management consulting firms. Everything counts: knowing the firms in detail; understanding one’s strengths and weaknesses and how to position them to a firm; being comfortable with the language of consulting and being able to think on one’s feet; and appreciating the importance of organizational culture and “fit.”

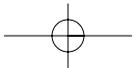
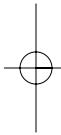
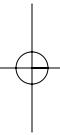
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Are you completely discouraged? Don't be. By simply reading this far, you have already started your preparation and are that much ahead of your peers. *Management Consulting: A Complete Guide to the Industry* is the first consolidated resource containing information on every step of the management consulting job search. From the initial introspective stage of considering consulting as a career, to learning about the work and lifestyle from those who experience it every day, to interviewing and, finally, negotiating among offers, this book will help you stand apart from your competition. The chapters that follow cover each step of the consulting job search process in detail, providing valuable insider information on the work and lifestyle of the profession, as well as tools and techniques for successfully landing a job offer.

Chapters 1 through 4, by painting an objective, candid picture of the industry, will help you decide whether management consulting is the career for you. After you have evaluated your interest in consulting and are ready to begin the job search, continue with Chapter 5 and learn how to get your foot in the door. Chapter 6 then teaches you a proven step-by-step method for successfully navigating case interviews, as you work your way to an offer. And finally, Chapter 7 teaches you how to negotiate among your offers for the most attractive package.

In addition, three unique appendixes provide critical information for a successful consulting job search. Appendix I lists 15 of the most common case frameworks to draw on when answering case questions. Even if you have a prior academic or professional business background, you can benefit from reviewing these business topics and learn to use them effectively during case interviews. When you are ready to practice interviewing, turn to Appendix II, where you will find 100 case questions and 10 sample answers. And for easy reference, Appendix III provides a directory of 100 consulting firms.

By arming yourself with knowledge of the industry and its firms, and by mastering your interview skills, you will be prepared to successfully navigate the consulting job search process. We believe you will find this book an invaluable investment in your future career as a management consultant.



CHAPTER 1

THE MANAGEMENT CONSULTING INDUSTRY

Management consultants directly out of business school can earn over \$150,000 a year. You can too, if you are able to estimate how many gas stations are in the United States.

Starting salaries in management consulting are among the highest available for entry-level professionals, rivaling the traditionally high earnings potential of jobs in investment banking, venture capital, and law. Whether changing career paths or graduating from school, candidates are inundating firms across the country with applications for a relatively few coveted jobs. The recent softening of demand for talent in the technology sector has resulted in a flood of talent seeking to enter the consulting industry. This increased demand coupled with the general downturn in the economy has resulted in a more competitive environment for the prospective consultant. In 1998, top business school graduates fortunate enough to land a management consulting job received starting salaries of approximately \$95,000¹ plus signing bonuses up to \$40,000, while undergraduates received base salaries of \$40,000 to \$45,000 plus a bonus of around \$5,000.

But the potential to earn stratospheric salaries is only one of the attractions of consulting; candidates also recognize its power to accelerate a career. Former consultants are valued for their carefully trained analytical minds and for their presumed expertise at solving business problems. As a result, many who leave consulting are likely to enter

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companies at higher levels than their peers who have worked the same number of years, but in other fields. There is a strong and arguably justified perception that a stint as a management consultant is the key to future professional success.

Sounds great, but is the occupation right for you? Are you ready and willing to jump on the consulting bandwagon? With the information in this chapter, you can begin to develop a complete and candid picture of management consulting. We introduce you to the profession that has attracted such high interest and help you answer these and other questions as you explore your career goals. We describe several kinds of management consultants and what they do. We then examine the consulting product and explain some of the popular theories of strategy. We show you how to segment the wide range of consulting practices into categories to obtain a broad view of the industry. And finally, we look at the origins and development of the profession, and offer some perspectives on emerging trends in the industry. The rich and multifaceted story of management consulting is entertaining as well as helpful as you move toward becoming an industry expert.

THE ROLE OF A MANAGEMENT CONSULTANT

The traditional professional titles of “lawyer,” “architect,” or “medical doctor” have widely recognized definitions. But when people hear the title “management consultant,” they tend to define it either as (1) an extremely important, impressively bright individual, who deals only with the top management of large companies on critical matters; or (2) simply an unemployed individual who has resorted to selling time for a fee until a real job comes along. Neither description is entirely accurate.

To truly understand what a management consultant does, we need to analyze the role of a “consultant,” a universal term for any professional who provides assistance to others, usually for a fee. Under this definition, we can imagine consultants operating in just about any industry—and indeed they do. Graphic design consultants,

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wedding consultants, fashion consultants, and career consultants are recognizable consulting roles, but other consultants with whom we deal all the time are college advisers, headhunters, travel agents, and even realtors. The list is almost infinite. Simply select an industry name or practice area, add the word “consulting,” and you have identified yet another type. Management consulting is but one kind of consulting in the marketplace, and it is by no means the only trade referred to in that sense.

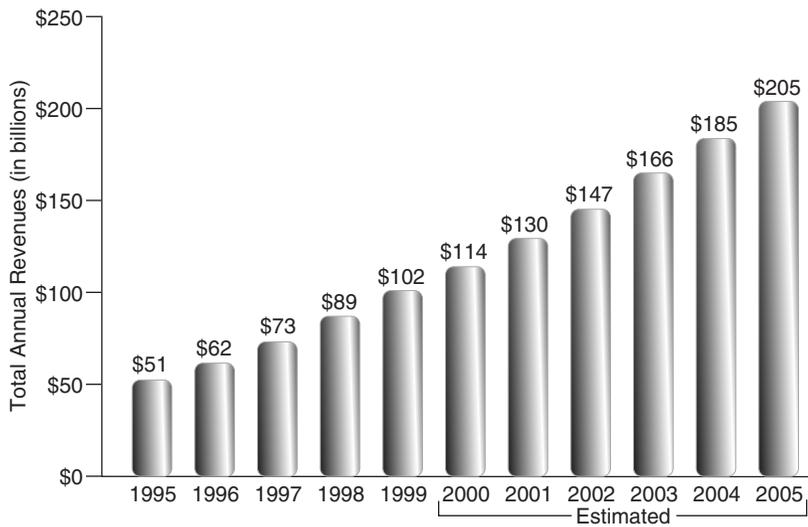
What, exactly, do management consultants do? Of their many responsibilities, perhaps the most common is the identification, diagnosis, and resolution of business issues. A company experiencing a severe decline in profits may hire a management consulting firm to develop a strategy for reversing the trend. Conversely, a company enjoying rapid growth and astoundingly high profitability may look to management consultants for a way to remain successful. Although the issues consultants examine are sometimes positive and sometimes negative, they all have significant implications for an organization’s future. Management consultants are hired to predict these implications and to help a company seize control of its destiny.

In addition to working as business doctors, management consultants often fill a host of other roles: (1) officiating as experts in a given industry, operational function, or business situation; (2) serving as unbiased, external third parties to validate a concept or argument; (3) confirming a hypothesis or point of view through exhaustive analysis; (4) acting as conflict resolution mediators; (5) teaching organizations how to make decisions; (6) facilitating discussions to convert information into knowledge; and many more.

The list of roles is endless. New consulting firms offering unique specialties open every year, and continue to expand the competencies of the management consulting profession. Between 1995 and 2000, the demand for management consultants ballooned from \$51 billion in total worldwide revenues to more than \$114 billion, as is illustrated in Figure 1.1. And the industry is expected to continue growing at a similarly rapid pace, topping \$200 billion by the year 2005.

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Figure 1.1
The Global Consulting Marketplace, 1995–2005



Source: *The Global Consulting Marketplace: Key Data, Forecasts & Trends, 2001 Edition*. Kennedy Information Research Group.

THE CONSULTING PRODUCT

What are consulting firms selling to generate such high revenues? The primary product is the intellectual capital of its consultants: quick and astute minds, proprietary business and organizational strategies, and an aptitude for managing relationships. Thus, the consulting product is actually a service that has an immensely valuable potential to bring about significant change. Because consultants are neither fortune-tellers nor magicians, they cannot guarantee a certain outcome from their work. They can only offer their best recommendation for success, stand prepared to respond to unexpected changes and roadblocks, and collaborate closely with their clients in developing a strategy to achieve a stated goal. Thus, the final outcome of a consultant's service is a goal rather than a certainty. Like teachers, who are compensated for helping others grow, consultants are paid for the objective of helping organizations improve. Therefore, the effectiveness

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of a consultant is only as good as the intellectual capital of the consulting team.

But when all firms claim to have the brightest and most astute consulting minds, how can a company know which to select? Consulting firms recognize this dilemma and attempt to attract companies by neatly packaging their intellectual capital under trademarked strategic frameworks, often derogatorily described as business buzzwords. A wide array of strategic frameworks have been promoted over the years; some of the most popular ones are presented in Table 1.1.

Table 1.1
Selected Consulting Concepts

<i>Concept</i>	<i>Year</i>	<i>Consultant</i>	<i>Organization</i>
Portfolio Analysis	1976	Henderson	The Boston Consulting Group
Five Forces	1980	Porter	Monitor Company/Harvard
Value Chain Analysis	1985	Porter	Monitor Company/Harvard
Core Competencies	1990	Hamel & Prahalad	Harvard/Michigan/Strategos
Customer Retention	1990	Reichheld	Bain & Company
Cycle Time Reduction	1990	Stalk	The Boston Consulting Group
Mass Customization	1992	Pine	Strategic Horizons/Diamond Technology Partners
Reengineering	1993	Hammer & Champy	CSC
Shareholder Value Analysis/Economic Value Added (EVA)	1993	Stewart	Stern Stewart
Value Migration	1996	Slywotsky	Mercer Management Consulting (Corporate Decisions, Inc.)
Value Net	1996	Brandenburger & Nalebuff	Harvard and Yale
Profit Zone	1998	Slywotsky & Morrison	Mercer Management Consulting

Source: The Global Management Consulting Marketplace: Key Data, Forecasts & Trends, 2001 Edition. Kennedy Information Research Group.

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While some frameworks focus on growth and attempt to help organizations increase revenues and market share, others concentrate on cost-cutting initiatives to help organizations protect against losses. On the growth side, recent strategies include “The Profit Zone” by Mercer Management Consulting, and “Value Engineering” by Booz•Allen & Hamilton. And to evaluate the competitive dynamics of an industry to identify an attractive market niche, Monitor Company promoted Michael E. Porter’s “Five Forces,” and The Boston Consulting Group touted its “Growth-Share Matrix,” now famous for its use as a portfolio strategy tool. On the cost-cutting side, CSC Index achieved astounding success by promoting “Reengineering,” and was soon followed by a host of other firms offering similar products under different names.

THE RANGE OF CONSULTING FIRMS

Since consulting is generally considered a behind-the-scenes professional service, it rarely receives widespread press coverage—except, perhaps, from business publications. And since many consulting engagements involve unpleasant or not-so-glamorous issues (e.g., downsizing), companies undergoing such negative change do not want their consultants to discuss projects with the press. In fact, many companies keep the list of consulting firms they are working with a secret from the outside world. However, some organizations can gain from actively publicizing their consulting engagements, especially if the organization’s stakeholders (investors, customers, employees) are likely to react positively to a serious investment in change (i.e., hiring management consultants).

Still, most consulting firms are not household names. The firms that have the widest name recognition tend to be the largest in the industry, and are often quoted in the business press. For example, you are probably familiar with most of the top 10 firms presented in Table 1.2, ranked by 1999 revenues. Accenture (formerly known as Andersen Consulting) is the largest consulting firm in the world, followed closely in size by PricewaterhouseCoopers. These firms are but a subset of the literally thousands of consulting firms that collectively comprise the industry. As you research the industry and begin to learn about individual firms, you

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Table 1.2
Largest Management Consulting Firms by 1999 Revenues

<i>Firm</i>	<i>1999 Revenues (\$M)</i>	<i>Firm</i>	<i>1999 Revenues (\$M)</i>
Accenture	7,514	KPMG Consulting	3,500
PricewaterhouseCoopers	7,170	Cap Gemini	3,161
Deloitte Consulting	5,050	McKinsey & Company	2,900
Ernst & Young	4,050	Mercer Management Consulting	1,950
Computer Sciences Corporation (CSC)	3,640	Andersen	1,400

Note: Ernst & Young and Cap Gemini merged in 2000; Andersen was formerly Arthur Andersen.

Source: *The Global Management Consulting Marketplace: Key Data, Forecasts & Trends, 2001 Edition.* Kennedy Information Research Group.

should make a conscious effort to look beyond the largest and most widely recognized firms. A narrow view of the consulting landscape could cause you to overlook a potentially suitable firm. To help you avoid that trap, the following sections explain the many facets of the consulting industry. We introduce an approach for you to follow when thinking about which consulting segment is right for you.

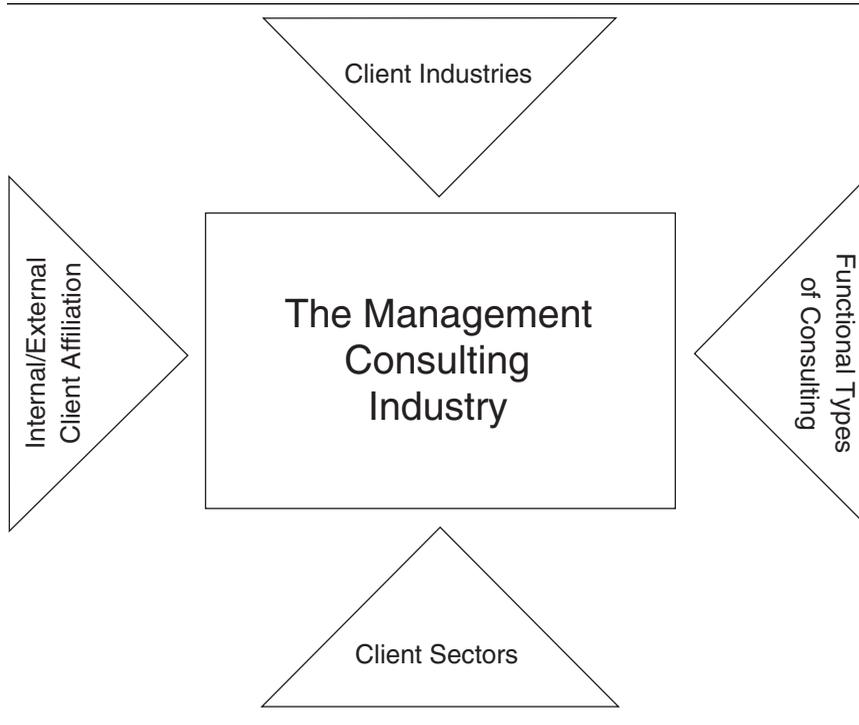
SEGMENTING THE INDUSTRY

As illustrated by Figure 1.2, firms in the consulting industry can be segmented according to four broad dimensions: (1) the industries consulted, (2) the functional types of consulting performed, (3) the sectors from which clients are drawn (private, public, nonprofit), and (4) the firm's affiliation with its clients (external firms or internal corporate strategic planning units).

First, consulting firms can be segmented by the industries that the firms serve. Although some firms intentionally specialize in a particular industry, others work with a mix of industries, but focus on a smaller subset. For example, First Manhattan Consulting Group has traditionally positioned itself as a financial services consulting firm, focusing on banks, insurance companies, credit card issuers, mortgage lenders, brokerage houses, and so on. Other firms, such as McKinsey & Company and The Boston Consulting Group, consistently have

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Figure 1.2
Segmenting the Consulting Industry



engagements with financial services clients, but are not limited to one industry—financial services is only one of their industry specialties. Single-industry firms tend to be smaller and less well known to the broader business and consulting community than firms that support multiple industry practices. In recent years, many of the best specialty firms have been acquired by larger firms, either to aggregate consulting market share in a particular industry or to accelerate entry into a new industry. IBM Consulting, for example, acquired the leading health-care consulting firm The Wilkerson Group (TWG) in 1995 as a means of quickly and credibly entering health-care consulting—TWG’s clients became IBM’s clients, and all of TWG’s intellectual capital was available for the rest of IBM Consulting to learn from.

SEGMENTING THE INDUSTRY

If you are interested in a particular industry area, you should consider both the smaller specialty firms and the larger firms that support multiple industry practices. Many consultants would argue that specialty firms develop a deeper, richer understanding of an industry since these firms spend all of their time thinking about the same industry. On the other hand, proponents of larger diversified firms would say this is nonsense, arguing that their approach provides superior consulting services by being able to draw insights and lessons from colleagues who consult to other industries. The decision as to which of these approaches is better is yours to make, but you should give both approaches fair consideration. Depending on your personal interests and learning styles, you may find certain firms more attractive than others. In addition, your prior professional experience may factor into your decision of what type of firm to select—if you were a senior manager at a commercial bank wanting to enter the consulting industry, for example, you may have an easier time securing a position at a firm that specializes in financial services. Alternatively, you may prefer to bring your expertise to a more diversified firm that has fewer industry experts so you can stand out from the crowd. Either way, you should do your homework on as many firms as possible before narrowing down your preferences. Be aware that not all consulting firms define their industry practices using the same terminology—one firm’s “electronic commerce” industry practice, for example, may be another firm’s “technology” practice.

The second method of segmenting consulting firms is to consider the functional practice, or type of work, being performed. Although different firms define functional practices in different ways, the most common include corporate strategy, product strategy, operations management, information technology (IT) strategy, and systems implementation. Firms with functional practices usually seek engagements that span all industries, since companies in entirely different industries face many of the same issues. The functional practice of corporate strategy, for example, is relevant to the management of just about every organization or entity.

One of the difficulties you will undoubtedly encounter with this segmentation strategy is with the definition of various functional

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practices. For example, one firm may offer “Information Technology (IT) Strategy” while another firm that offers the same type of consulting may call it “Systems Consulting.” At face value, you might think these two practice areas were different, and only realize after digging deeper into the two consulting firms that they are actually quite similar. The lesson here is to do your homework and understand what lies behind the terms chosen by the firms (IT Strategy or Systems Consulting) to describe themselves. To help you begin segmenting firms according to functional practice areas, Table 1.3 categorizes some of the most recognized firms by four broad practice areas: Strategy, Information Technology, Operations Management, and Human Resources. These four categories are only a partial list of the wide variety of consulting practice areas, and each category could be further segmented if you desired a more granular approach (e.g., Information Technology could be segmented into Systems Integration, Website Development, Technology Outsourcing). The set of 10 firms that appears within each category is again only a partial list—these firms were chosen since they derive significant revenues from the category or categories they are listed under.

The third method for segmenting firms is by the sector in which their clients operate: private, public, and nonprofit. As you might expect, almost all large firms have a strong focus on the private sector and derive the bulk of their revenues from for-profit corporations. Yet what may be surprising is that many of these same large firms also have healthy nonprofit and public-sector practices, and increasingly seek clients in municipal, state, national, and international governments.

The firms that consult to nonprofit organizations are far fewer in number and generally smaller than firms operating in either of the other two sectors. Due to limited resources and earmarked contributions, nonprofits usually cannot afford to pay the high fees of private sector consulting firms. As a result, most of these firms can support only a few, experienced consultants, whose fees are generally less than those of their private sector peers. The small operating budgets of these firms limit their on-campus recruiting efforts, so it is up to graduating students to actively seek them out. Although some large private-sector firms do perform intermittent pro bono engagements for

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Table 1.3
Leading Consulting Firms by Practice Area

<i>Strategy</i>	<i>Information Technology</i>	<i>Operations Management</i>	<i>Human Resources</i>
Accenture	Accenture	Accenture	Accenture
Arthur D. Little	American Management Systems	Andersen	Aon Consulting
AT Kearney	Cambridge Technology Partners (CTP)	AT Kearney	AT Kearney
Bain & Company	Cap Gemini Ernst & Young	Booz•Allen & Hamilton	Buck Consultants
Booz•Allen & Hamilton	Computer Sciences Corporation (CSC)	Cap Gemini Ernst & Young	The Hay Group
The Boston Consulting Group	Deloitte Consulting	Computer Sciences Corporation (CSC)	Hewitt Associates
McKinsey & Company	KPMG Consulting	Deloitte Consulting	Mercer Management Consulting
Mercer Management Consulting	Logica	KPMG Consulting	Pricewaterhouse-Coopers
Monitor Company	Pricewaterhouse-Coopers	McKinsey & Company	Towers Perrin
Roland Berger & Partners	Sema	Pricewaterhouse-Coopers	Watson Wyatt Worldwide

nonprofit organizations, their consultants obviously cannot work exclusively on no-fee projects. Therefore, candidates with a strong interest in nonprofit consulting may be better off finding a firm that explicitly consults to nonprofits for a fee, rather than working for a firm that consults primarily to the private sector and occasionally accepts pro bono engagements.

All three of these segmentations—by industry, by functional consulting practice, and by sector—are summarized in Table 1.4.

The final segmentation of the consulting industry is based on the affiliation of the consulting practice to the companies consulted: external or internal. Practices may be either independent of and external to the

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organizations they consult, or dependent on and internal to a specific company. Traditionally, management consultants have been thought of as independent, unaffiliated professionals who are retained temporarily by an organization for a project-based fee. However, this generalization excludes a growing circle of internal consultants who work for corporate strategic planning or business development groups. Figure 1.3 lists some of the major corporations that support internal consulting groups, and intend, through their investment in hiring consultants as full-time employees, to reduce expenditures on external management consultants and retain the knowledge gained from consulting projects in-house. Many of these groups operate in Fortune 500 companies, which also traditionally spend the most on external management consultants.

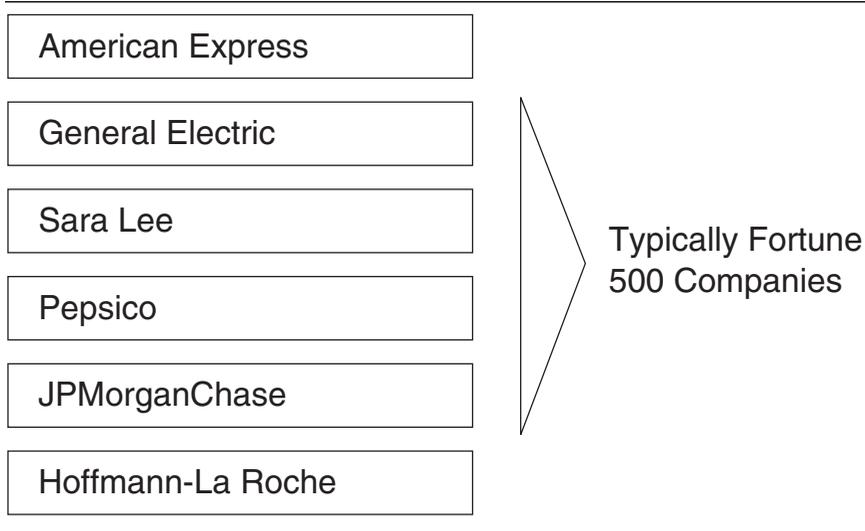
Typically, internal consultants are permanent employees of a company whose roles are identical to those of external management consultants. Their work has the same scale and scope as that of external consultants, and the stages of project engagements are usually the same. Internal management consultants now frequently displace external consultants and take on projects formerly handled only by external firms. Many internal consultants started their careers as external management consultants, but grew tired of adverse lifestyle requirements of external consultants such as extensive travel. As internal consulting groups have grown, so too have their on-campus and headhunter recruiting efforts. Large internal corporate strategic planning groups now compete

Table 1.4
Sample Segmentation Categories

<i>Industry</i>	<i>Function</i>	<i>Sector</i>
Communications	Corporate strategy	Nonprofit
Financial services	Human resources	Private
Health care	Information technology	Public
Insurance	Operations management	
Manufacturing	Reengineering	
Media and entertainment	e-business	
Oil and gas	Marketing strategy	
Retail	Mergers and acquisitions	
Transportation	Change management	

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Figure 1.3
Selected Companies with Internal Consulting Groups



for the same student and professional candidates as external management consulting firms, and try to win the competitive recruiting game by promising a less demanding lifestyle, as well as the opportunity to interact daily with top management of Fortune 500 companies.

Each of these four segmentations should help you make sense of the somewhat chaotic diversity of firms. Confronted with literally thousands of firms performing widely varied tasks for many clients, you will need to use this tool to identify the types of consulting practices that appeal to you most.

THE EVOLUTION OF MANAGEMENT CONSULTING

Where did an industry with such rapid growth and huge candidate interest come from? How did the industry evolve into one of the hottest career paths available today? The answers lie in our earlier definition of a management consultant. Whether performing an economic analysis of a market, designing a new business, or justifying the release of

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1,000 employees, management consultants perform a fundamental role: providing professional assistance to others, usually for a fee.

By this definition, consultants probably have been offering their services since the dawn of human civilization. Any person who used his or her competency or expertise to help someone else solve a problem could be thought of as an early consultant. In this sense, some American colonists could be considered consultants since they often extended their ideas and knowledge to others. Benjamin Franklin shared his knowledge of science, political philosophy, journalism, and diplomacy with others by forming the Philadelphia Library, the first public library in the United States that was established to bring “useful knowledge” to Americans across the colonies. And Thomas Jefferson, who was an architect, a gourmet cook, and an intellectual, used his skills as a statesman to help develop a system of government after the American Revolution.

Later, as a manufacturing economy took form during the industrial revolution, consultants with business and production acumen helped design and optimize assembly lines, build highway and transportation networks, standardize the size and shape of frequently used products to ensure universal compatibility, and so forth. Many specialists emerged, such as the engineer Frederick W. Taylor, who developed a system of production management and advanced the study of operations.

But the modern consulting firm did not exist until the mid-nineteenth century. Table 1.5 shows the founding dates of many recognized firms, going back to Foster Higgins in 1845, Sedgwick in 1858, and Arthur D. Little in 1886.

Many of these firms were founded by members of the engineering or accounting professions, who recognized the value of offering professional services on a project-fee basis. If we trace the history of some of these firms, we will see that many of them share a common heritage. In 1926, A.T. Kearney was founded by Andrew Thomas Kearney to provide accounting and budgetary controls to corporations. During that same year, James O. McKinsey left a public accounting firm to found McKinsey & Company, a consulting firm originally committed to providing management and financial advice to senior corporate officers. Later, consulting firms branched out beyond accounting

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Table 1.5
Founding Dates of Selected Management Consulting Firms

<i>Firm</i>	<i>Year Founded</i>
Foster Higgins	1845
Sedgwick	1858
Arthur D. Little	1886
Arthur Andersen (now Andersen)	1913
Booz•Allen & Hamilton	1914
Buck Consultants	1916
A.T. Kearney (now owned by EDS)	1926
McKinsey & Company	1926
Towers Perrin	1934
Kurt Salmon Associates	1935
Hewitt Associates	1940
The Hay Group	1943
Watson Wyatt Worldwide	1946
Mercer Management Consulting	1959
The Boston Consulting Group (BCG)	1963
The Wilkerson Group (now IBM Consulting)	1967
Roland Berger	1967
Cap Gemini Sogeti	1968
Index Group (now CSC)	1969
American Management Systems (AMS)	1970
Bain & Company	1973
William M. Mercer	1975
Braxton Associates (now Deloitte & Touche)	1977
Marakon Associates	1978
First Consulting Group	1980
Monitor Company	1983
Corporate Decisions, Inc. (now Mercer Management Consulting)	1983
The LEK Partnership	1983
Computer Sciences Corporation (CSC)	1988
Cambridge Technology Partners (CTP)	1991
Sapient	1991
Answerthink	1997

Source: The Global Management Consulting Marketplace: Key Data, Forecasts & Trends, 1997 and 2001 Editions. Kennedy Information Research Group. Individual firm information.

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and engineering and started to sell industry management expertise. McKinsey & Company attracted professionals from a variety of industries who could provide expert advice based on their experience. Then when a lawyer named Marvin Bower joined McKinsey & Company in 1933, the firm began to recognize the untapped value of taking the raw intellectual talent of freshly graduated college and graduate students and professionally training them to use the consulting tool set. McKinsey & Company reputedly became the first to hire consultants directly out of graduate business schools, cementing the connection between management consulting and rapid career advancement.

The turn of the century saw rapid growth in the demand for consulting services. As in any free market where demand outpaces supply, the consulting industry afforded firms liberal opportunity for growth. And as corporations with broad geographic operations approached firms like Arthur D. Little, McKinsey & Company, and A.T. Kearney, the need for widespread regional offices encouraged the consulting firms to expand nationwide.

Soon thereafter, the number of firms proliferated rapidly as partners from established practices acted on their entrepreneurial interests and founded their own firms. In 1963, Arthur D. Little saw Bruce Henderson leave the practice to work for the trust department of a Boston bank, where he created an internal consulting unit that later became The Boston Consulting Group (BCG). Ten years later, Bill Bain and a number of colleagues left BCG to found Bain & Company. Then, in the 1980s, several Bain professionals left to found their own practices, including Corporate Decisions, Inc. (CDI)² which, in the 1990s, saw one of its founding partners leave to form Vertex Partners. Since then, Corporate Decisions, Inc. was acquired by Mercer Management Consulting, and Vertex Partners was acquired by Braun Consulting. As a result, the industry has developed an extended and interrelated lineage, which continues to branch out to this day.

The recognized accounting firms—Andersen, PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young, and KPMG—fueled significant growth in the industry by opening their own consulting practices. Having deep and long-standing relationships with the entire Fortune 1000, the accounting firms were in an ideal

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position to cross-sell consulting services to their existing clients by touting “solutions” consulting. Because the accounting firms had direct access to their clients’ financial information, they were in the best position (or so they claimed) to understand and develop a strategy to meet the needs of those companies.

The sales pitch worked, catapulting the accounting firms into the world of consulting. In terms of revenue, Accenture is now the world’s largest management consulting practice, reporting worldwide 1999 revenue figures of \$8.94 billion and a staff of over 65,000 people.³ In fact, the consulting groups of the big five accounting firms are all on the list of top 10 management consulting firms by revenue, and collectively account for nearly 45 percent of the revenues generated by the top 50 consulting firms.⁴ Today, the consulting practices launched by the big five accounting firms continue to grow at some of the most rapid rates in the industry. The firms have vastly diversified their service offerings, running the gamut from high-level strategic consulting to more operational systems implementation. With a larger portfolio of consulting offerings, the firms have been able to attract broader and more diverse client bases, and rely less on the relationships of their accounting practices to generate consulting business. These firms have become aggressive marketers (a practice that was traditionally considered taboo) in the consulting industry to attract clients from all walks of life, purchasing primetime television and radio advertisement slots as well as entire sections of newspapers and magazines. It even seems that these firms have purchased every illuminated poster or billboard space in airports, plastering their names all over walls and kiosks to target business travelers who may one day hire a consultant.

But the success of these consulting firms has received criticism. The relationship of these firms with their sister accounting practices has raised questions of conflicting interests. In other words, the potential exists for an accounting firm to willingly ignore or hide financial figures of a given client when the sister consulting practice is busily earning millions in engagement fees from the same client. In 2000, concern with such a scenario led Arthur Levitt, chairman of the Securities and Exchange Commission, to propose limiting the relationships these

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firms could have with any given client to either consulting or accounting—but not both. Of course, any firm that willingly distorted a financial statement simply to protect a consulting relationship would compromise the integrity of both the consulting and accounting practice groups, each of which depends on its credibility to secure work. If revealed, such practices would cause significantly more damage than any single consulting engagement could be worth, which in theory protects the clients of these firms. Recently, some firms have addressed this concern by voluntarily separating consulting and accounting practices. The accounting practice Arthur Andersen and the consulting practice Andersen Consulting, for example, were split in 1989 into two stand-alone business units providing separate services. Although both business units reported to the same parent company, each operated independently from the other. But the two units squabbled over fee distribution and asset ownership until August of 1999, when Andersen Consulting decided to formally split from this arrangement and become an independent company. On January 1, 2001, Andersen Consulting was renamed Accenture to avoid any name association or confusion with Arthur Andersen.

With the rapid globalization of business and the proliferation of companies that manufactured and then sold products in countries outside of their own, consulting firms had to support international engagements. To meet the needs of multinational companies, management consulting firms have themselves become multinational with offices on other continents. And as businesses in emerging economies grow following deregulation and privatization, the demand for Western—and in particular American—consulting firms increases as well. Whether by acquiring a local consulting practice or sending a team of experienced consultants to open a new office, firms understand that they need scale to effectively compete for some of the most lucrative engagements. Not all management consulting firms have global aspirations, but all the large firms believe that global reach is a prerequisite to success.

Since 1990, overall revenues in management consulting have grown by more than 10 percent per year, and some firms have even reached 20 to 30 percent growth rate.⁵ Although private sector engagements

CONTINUED GROWTH OF THE PROFESSION

account for most of this growth, some consulting firms have made a substantial investment in servicing public and nonprofit organizations. In 1995, for example, KPMG, Andersen Consulting (now Accenture), and Coopers & Lybrand (now PricewaterhouseCoopers) collectively billed over \$600 million to public sector clients.⁶

CONTINUED GROWTH OF THE PROFESSION

Although the management consulting profession attracts new recruits seeking professional stature and stratospheric salaries, three other key drivers underlie the continued expansion of the industry. First, management consultants are in demand during all economic cycles. During times of recession or economic instability, consultants are needed for their reengineering, cost-cutting, and defensive strategy competencies. Conversely, during times of positive economic expansion, consultants help organizations retain or even accelerate their growth, capture additional market share from weaker competitors, and predict and prepare for emerging economic trends. Unlike almost all other industries, management consulting is relatively well protected from economic cycles.

Second, the profession has low barriers to entry since intellectual capital is the primary input into the product. The main material expenses of starting a small practice are office space, the cost of accessing information, and the costs of communicating—computers and networks, telephone systems, video conferencing, and so on. All other expenses, such as travel, hotels, meals, shipping, and third-party subcontractors, tend to be billed back to clients as reimbursables. Although firms seeking high brand-name recognition must invest in sales and marketing, many consulting practices rely on the reputation of performing satisfactory work to capture clients.

Third, management consultants have attractive opportunities to exit the industry. Consultants are in high demand by organizations that are recruiting executive talent. Corporations that have hired consulting firms may seek to continue a relationship with members of the consulting team by extending full-time job offers to high-performing

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individuals. And most consultants are in frequent contact with headhunters, who routinely harvest top candidates for industry positions from consulting. Like most firms, McKinsey & Company is proud of its alumni placement record and promotes consulting as a career accelerator when recruiting candidates. McKinsey & Company alumni can be found in most, if not all, of the Fortune 500 companies, linking corporate America in an extended web. Many of the most respected CEOs and chairmen in the world were trained by McKinsey & Company including CEO Harvey Golub of American Express, CEO Louis Gerstner Jr. of IBM, CEO Michael Jordan of Westinghouse Electric, CEO Gary DiCamillo of Polaroid, CEO John Sawhill of The Nature Conservancy, CEO Leo Mullin of Delta Airlines, and CEO Joachim Vogt of Hugo Boss AG, to name but a few. With proven and attractive exit options, consulting has become—and is predicted to continue to be—a natural stepping-stone for young professionals seeking rapid career advancement.

EMERGING TRENDS IN MANAGEMENT CONSULTING

Identifying general trends in an industry as diverse as consulting is extremely difficult. Simple characterizations are hard to apply to the industry as a whole, since firms have different industry focuses, methodologies, and lifestyles, for example. Still, consulting firms appear to have identified and are heeding two drivers of change in the industry, one on the supply side, and one on the demand side. On the supply side, the desire to capture additional market share is leading to the development of a full range of consulting services, from high-level strategy to detailed systems, e-business and technology implementation work. On the demand side, customers are holding firms increasingly accountable for the quality of their work.

Diversification of Consulting Services

Consulting firms are aware that a key to sustained success is diversification. By varying the industries served, services offered, and

EMERGING TRENDS IN MANAGEMENT CONSULTING

geographic areas reached, firms are better able to serve the needs of their clients. Diversification also builds additional intellectual capital and helps a firm capture a larger portion of the consulting pie. This quest for diversification, which has changed the face of consulting, is the driver behind three trends: (1) a substantial increase in firms acquiring or merging with other firms in a search for new competencies, (2) greater internationalization of firms seeking broader geographic reach to satisfy the needs of multinational corporations, and (3) the integration of information technology and strategy practices into individual firms. Let's look at these three trends in some more detail.

First, firms seeking to diversify their services have dramatically increased merger and acquisition activity among consulting practices. As Table 1.6 shows, M&A activity since 1987 has involved firms of many sizes, functional practice areas, and industry focuses. But acquisition does not guarantee success. In 1989, for example, McKinsey & Company acquired Information Consulting from Saatchi & Saatchi, in an effort to develop information technology capabilities. The result was a textbook case of culture clash, and the expected benefits were never realized. When acquisitions succeed, however, the result can be a tremendous gain to both parties. CSC's 1995 purchase of DiBianca-Berkman successfully brought new skills in change management to the strong information technology firm. Perhaps one of the most aggressive acquirers of consulting practices was the e-business consulting firm marchFIRST. The product of a merger between Whitman-Hart and USWeb/CKS, marchFIRST rapidly diversified its practice areas and acquired market share by purchasing client relationships and consultants. USWeb/CKS itself was a product of nearly 50 acquisitions, including Mitchell Madison Group (MMG) in the fall of 1999 and CKS at the end of 1998. And prior to merging with USWeb/CKS, Whitman-Hart also acquired a number of smaller consulting practices to boost its service offerings. Ultimately, the firm's inability to blend the many different cultures, offices, practice groups, and consulting approaches of its acquired firms, coupled with a simultaneous drop in demand for e-consulting services, resulted in the collapse of marchFIRST.

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Table 1.6
Selected Consulting Firm Acquisitions since 1987

<i>Buyer</i>	<i>Acquired Firm</i>	<i>Year</i>	<i>Size of Buyer (\$M)</i>	<i>Size of Acquiree (\$M)</i>	<i>Acquired Firm Specialty</i>
Braun Consulting	Vertex Partners	2000	NA	NA	Customer-Oriented Growth Strategy
Cap Gemini	Ernst & Young	2000	NA	11,000	Systems Consulting
USWeb/CKS	Mitchell Madison Group (MMG)	1999	NA	NA	Strategy Consulting
USWeb	CKS	1998	NA	NA	Marketing Technology
Mercer Management Consulting	Corporate Decisions, Inc. (CDI)	1997	NA	NA	Customer-Driven Growth Strategy
CSC	APM	1996	4,242	85	Healthcare
IBM Consulting	The Wilkerson Group (TWG)	1995	600	NA	Pharmaceutical & Medical Strategy
EDS	A.T. Kearney	1995	8,600	346	General Management Strategy in Manufacturing
The Boston Consulting Group	Canada Consulting Group	1993	340	7	Strategy & Organization
LEK Consulting	Alcar Group	1993	85	NA	Valuation
Cap Gemini Sogeti	MAC Group	1991	1,700	74	Strategy
Staff Purchase	Hay Group	1990	Same	188	NA
Marsh & McLennan	Strategic Planning Associates (SPA)	1990	2,723	43	General Management
McKinsey & Company	Information Consulting	1989	635	20	Information Technology
CSC	Index Group	1988	1,150	25	General Management & Reengineering
Staff Purchase	Arthur D. Little	1988	Same	201	NA
Marsh & McLennan	Temple Barker & Sloane (TBS)	1987	2,147	52	General Strategy Consulting

Source: *Management Consulting Marketplace: Mergers & Acquisitions, 1997 and 2001 Editions*. Kennedy Information Research Group. Company press releases.

Second, the need for diversification encourages firms to build an international presence. It has almost become a requirement for large consulting firms to have global offices to remain competitive in attracting companies that are either already multinational, or are seeking to penetrate emerging markets. Accenture has offices in six continents, and many other firms have offices in five: McKinsey & Company,

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Booz•Allen & Hamilton, Arthur D. Little, and Watson Wyatt Worldwide, to name but a few. And firms that once concentrated on the United States, Western Europe, and Asia are now expanding into regions that have fewer consulting firms to choose from (e.g., Central Europe, the Middle East, and Africa).

Third, the quest for diversification is motivating consulting firms to integrate information technology services with business strategy. Most corporations are unable to fully capture the added value offered by rapidly developing technology and, as a result, increasingly seek the help of IT consultants. Furthermore, when strategy projects end, the next steps often involve significant information systems work requiring the continued assistance of these consultants.

In 2000, worldwide information technology and systems-related consulting totaled nearly \$58 billion, and is expected to top \$112 billion by 2005.⁷ With the fastest growth rate in the consulting industry (14.3% per year through the year 2005), information technology is obviously an attractive practice area that strategy consultants want to tap.⁸ Many strategy firms that did not have the competency have actively sought to add information technology and systems practices, primarily through acquisition (e.g., McKinsey & Company, Booz•Allen & Hamilton, and Monitor Group). The enormous success of Accenture's IT practice has opened the eyes of many firms to the impact of information technology and has encouraged IT manufacturers (e.g., IBM), systems integrators (e.g., CSC), and telecommunications companies (e.g., AT&T) to introduce IT consulting practices of their own.

Increased Firm Accountability

The second fundamental trend in the industry is the increased accountability of consulting firms for their services. This trend is driven largely by client dissatisfaction with the level of service and analysis received as well as by clients publicly voicing their complaints. In 1997, a client of Towers Perrin sued the firm on a charge that generic work was being peddled as unique analysis. And that same year, the former president of Club Med sued Bain & Company for alleged unsatisfactory work. These stories not only cast a dark shadow

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over the industry but also highlighted the growing doubt among many clients about the true value of hiring consultants. Other firms have also experienced the client backlash: The Boston Consulting Group was among a set of firms sued by the Cleveland-based conglomerate Figgie International for alleged overbilling and other errors, and Andersen Consulting was ordered by the British government to pay an \$18 million penalty for not delivering a social security computer system on time.⁹ The publication of books profiling client dissatisfaction, such as James O'Shea and Charles Madigan's *Dangerous Company: The Consulting Powerhouses and the Businesses They Save and Ruin* (New York: Random House, 1997), and Adrian Wooldridge and John Micklethwait's *The Witch Doctors: Making Sense of the Management Gurus* (New York: Random House, 1998), further reveals the growing determination of companies to hold consultants accountable for their work.

Partly in response to these client concerns, consulting firms have become more active in monitoring their own activities. They are placing greater emphasis on effective management of client relationships and on controlling client expectations. Some firms, have been known to not accept a fee unless a client is completely satisfied. And after completing projects, most firms routinely follow up with clients to monitor their satisfaction and offer additional guidance without charge.

As pointed out earlier, these trends serve as predictions but are by no means prescriptions of events to come. In fact, they are at best only a limited set of predictions since each day brings a new perspective on the future of the industry. We chose to not highlight some popular predictions, including the rise of public sector consulting, and the increasing emphasis on capturing institutional knowledge within the firm through formalized processes and electronic libraries. Because the future is uncertain, we prefer to focus on the key drivers of change that have fundamentally influenced—and will continue to influence—the evolution of consulting: extended service diversification and increased consultant accountability.