Harvard Business School
Case Selections (Reprint)

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实务系列
From the Field

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INSIDE
Professional Services

From the Field

INSIDE PROFESSIONAL SERVICES

Harvard Business School Publishing

SERIES INTRODUCTION

Welcome to this entry in the *From the Field* series of case collections from HBS Publishing. We have three main objectives for this series:

To enrich readers' understanding of business by presenting coherent collections of field-based research published by Harvard Business School. Understanding business involves much more than earnings reports and news headlines. It means understanding how managers perceive and analyze the complex challenges their companies face and the strategies and tactics they devise in response. For nearly a century HBS has been researching the world of managers from *inside* companies and delivering their stories to facilitate superior teaching and learning. You won't find easy answers or quick fixes in these cases, but you will discover balanced, detailed pictures of industries, markets, and technologies, and the intelligent professionals who – like you – are trying to cope with them.

To focus on the latest HBS work on tumultuous, fast-growth industries. Today's companies are fast-moving targets. We keep our *From the Field* collections current by concentrating only on newer case studies. And the series is focused on rapidly evolving industries with business practices that no one could have foreseen even a decade ago.

To guide readers to Web-based sources of information that can supply good supplemental information. Using the best Web resources you can find out "what happened next" in the companies that our case studies examine – and, if you dig in the right places, *why* it happened. We get you started by steering you to sites where you can learn more. As the *From the Field* series develops we will enrich and refine our Web guidance, partly based on suggestions we receive from readers such as you.

Harvard Business School Publishing has additional resources – including more case studies – on all the topics covered in the *From the Field* series. To research other products, to learn about other titles in this series, or to order additional copies of this reader, call 1-800-545-7685 or visit our Web site at www.hbsp.harvard.edu.

The Editors

INTRODUCTION TO THIS COLLECTION

The items in this collection have been chosen because they reveal important aspects of today's professional services industry. Each of the items is introduced with a summary. Following each item is a series of "Questions and Ideas to Consider" that we hope will stimulate your thinking as well as drive you to the Internet to do your own research.

We open this collection with an overview of e-consulting, a rapidly growing segment of the professional services industry. "e-Consulting" introduces several key themes of the collection, including the changing relationships among clients, firms, and consultants, new approaches to buying, selling, and delivering services, and the challenge of globalization.

Next we present several recent HBS case studies that explore these themes in greater detail. The "AGENCY.COM" series focuses on a firm profiled in the "e-Consulting" note. "Eggrock Partners, LLC (A) and (B)" provide insight into the highly competitive technology consulting sector. Two cases – "Morgan Stanley Dean Witter Private Client Services" and "Hambrecht & Quist" – illustrate the impact of the growing number of mergers and acquisitions on the industry. "The Peppers and Rogers Group" takes you inside an influential consulting firm as it attempts to chart its strategy. The "Tom Tierney at Bain & Company" series offers a close look at the governance structures of an established management consulting firm. And finally, the "Russell Reynolds Associates" case highlights the impact of globalization on an executive search firm.

Did You Know?

HBS Publishing has many other recent cases on the professional services industry. Here is just a small sampling:

- The First Six Months: Launching a PSF Career   800-373
- Strategic Services at Andersen Consulting   899-065
- Morgan Stanley: Becoming a "One-Firm Firm"   400-043
- Tata Consultancy Services: High Technology in a Low-Income Country   700-092
- Bain & Co., Inc.: Making Partner   899-066

To get information on these and other HBS Publishing materials, visit our Web site: www.hbsp.harvard.edu. In the search field, enter "professional services" or "consulting." You might be surprised by how much you'll find!

RESEARCHING COMPANIES ON THE WEB

As you read the cases in this collection we are sure you will want to conduct research using a variety of Internet sources. Obviously, it always makes sense to visit the Web sites of companies profiled in these cases, since that is often the handiest way to gather basic information about current lines of business, marketing campaigns, and recent financial performance. But there is a wealth of information available on other sites, too. Below we list a number of Web sites that provide information about public companies, much of which is available free of charge.

Business-information sites we've come to like:

- Hoovers.com for basic company profiles, including lists of key subsidiaries, executives, and competitors.

- The "News and Media" section of hotbot.com, a regularly updated archive of items from many news sources.

- Kompass.com for information on foreign companies.

- For information on and discussions of technology companies, magazines run some of the most useful sites, including redherring.com and thestandard.com.

- Quicken.com, Smartmoney.com, Dowjones.com, and the "Business and Finance" section of Yahoo.com, for clear, readable presentations of key financial performance data and access to useful screening tools.

- CBS Marketwatch.com or – by paid subscription – wsj.com, for breaking financial news.

A final note about currency: At certain points we will tell you what we found at particular Web sites while we were putting this collection together. We apologize for any out-of-date directions and "dead links" you may find, but such is the transitory nature of certain information on the Web.

CONTENTS

E-CONSULTING

(A. Nanda, T. DeLong, and S. Landry / #9-800-312 / 28 p)

Summary

Provides an overview of the history and development of the e-consulting industry, as well as the issues facing it.

e-Consulting

e-Consulting comprises the services consulting firms provide to help conceive and launch an e-commerce business model and integrate it, if necessary, with an existing business. e-Consulting is expected to grow explosively in the coming years. Kennedy Information Group expects the global market to become $37.5 billion[1] by 2003 (see **Exhibit 1**). Forrester Research estimates that the U.S. market alone will reach $47.7 billion[2] in 2002, while IDC predicts a more conservative US market of $30.6 billion[3] that year. Though the specific forecasts vary two of their attributes are consistent; e-consulting is destined to grow quickly and become a huge business for those consulting firms willing and able to capitalize on the opportunity.

e-Consulting is not one but a range of services that includes strategy, implementation and outsourcing. (See **Exhibit 2** for a matrix of e-commerce consulting services). For the first two categories of services, strategy and implementation, Forrester estimates that only 11% will be spent on strategy. The remainder, 89%, will be spent on implementation related services, that is, services related to the refining and building an e-commerce business model and integrating it with existing processes and systems. (See **Exhibit 3** for a detailed breakdown of the U.S. e-consulting market).

Organizations are also expected to spend heavily on the third category of e-commerce services, outsourcing, in addition to strategy and implementation consulting. Outsourcing services include web hosting, Application Service Providers (ASP's), network management, logistics, fulfillment, call centers, and financial transaction processing.[a]

The e-Commerce Opportunity

The rapid growth of e-consulting is being driven by the explosive growth of e-commerce, conducting business in an electronic medium such as the Internet. While estimates vary, most research organizations believe the growth in e-commerce transaction revenue will be enormous, growing by a compound annual growth rate of about 100%. (See **Figure 1** for e-commerce transaction revenue forecasts). Most researchers and consultants believe the vast majority, one estimate is 90%, of this transaction revenue will be between businesses (referred to as "b-to-b").[4] Although business-to-consumer (referred to as "b-to-c") e-commerce enjoys much greater visibility, including such

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[a] Due to widely varying definitions and assumptions used to estimate the growth of outsourcing services, it was not possible to present overall outsourcing revenue forecasts or ones that were consistent across the categories.

media stars as Amazon.com, this sector is expected to represent a relatively small percentage of the overall transaction revenue volume.

Figure 1: E-commerce Transaction Revenue Forecasts ($Billions)

Source	1998	2002	CAGR
Giga	$47	$775	102%
EStats	$20	$294	96%
ActivMedia	$35	$760	116%

Source: KIRG

Globally the majority of e-business is forecasted to occur in North America followed by Europe and parts of Asia. However, in terms of growth, Europe, parts of Asia, Latin America, and other developing regions are expected to have the highest growth rates in the mid and later parts of the first decade of the new millennium.

To take advantage of the opportunity, a plethora of new e-commerce companies have sprouted—fertilized with a liberal dose of venture capital, which was spurred by the sky-high price to earnings multiples the equity markets has placed on e-commerce companies. In 1999 $48.3 billion of venture capital was spent—an increase of 151.6% over 1998.[5]

Meanwhile established companies are launching their own e-commerce initiatives. For example, Jack Welch, the legendary CEO of General Electric, announced that exploiting the Internet throughout their businesses would be their "number one, two, three and four" priority. General Motors, Ford and Toyota have announced that they will team up to move all of their purchasing, amounting to billions of dollars annually, to the Internet within the next several years.

Companies, ranging from industrial giants to start-ups, are embracing the Internet for several reasons:

- To maximize firm value by exploiting the premium placed by the financial markets on e-commerce business models. (For example, Amazon.com has a significantly higher market capitalization based on revenues versus comparable physical retailers such as Barnes and Noble or Borders).

- To gain or protect a competitive advantage. (The b-to-b marketplace that GM, Ford and Daimler Chrysler are discussing, the Auto Exchange, could help them extract better terms from their suppliers. Barnes and Nobles site, BN.com, is an attempt, so far fairly successful, to defend its competitive position against the attack being made by Amazon.com.)

- To reduce costs. (Cisco Systems, a firm with about 27,000 employees has a human resources benefits department of seven people, significantly fewer than the number at comparably sized companies, because most benefits functions can completed by employees through Cisco's web site. Cisco estimates that it saves $1 billion a year in administrative and operational costs because of its use of the Internet in many core and supporting business processes.)

- To increase customer satisfaction. (Cisco Systems has developed a comprehensive web site to track order status, configure and place orders, answer frequently asked questions, and troubleshoot problems with its products, routers and switches. The site has reduced the number of orders with problems from 35% to less than 1%. In February 2000, 97% of the orders Cisco received were done online. Due to this and

other initiatives, Cisco's customer satisfaction rating has increased from 3.8 to 4.2, on a scale of 5.0, over the past several years.)

The prospect of making millions through stock options, the fear of being left behind competitively, the potential to reduce costs substantially, and the opportunity to dramatically increase customer satisfaction is proving to be a fertile ground for start-ups to sprout up and for old-line companies to plant seeds that grow into e-businesses. That being said, achieving these results is no simple matter. Four challenges confront those driving forward to these goals – figuring out the appropriate solution given the unique circumstances each organization confronts, creating a plan on how to implement the solution, finding resources to do the work, and managing the effort. These are precisely the types of challenges that consulting firms have helped companies solve for years so they naturally turn to them for information, advice and assistance.

Emerging Competitive Positioning

Amidst this abundance of opportunity with companies everywhere looking to consultants for help in understanding and adopting e-commerce business models, there is a frantic scramble underway among consulting firms as they seek to gain a strong position in the newly emerging market for e-Consulting. On one hand, new entrants such as Scient, Sapient, Viant, AGENCY.COM, and Razorfish are rapidly growing and attaining a highly visible presence in this area. Meanwhile incumbent firms such as Andersen Consulting and McKinsey are overhauling, in some cases dramatically, their long-held business practices and making massive investments to develop credible e-consulting practices.

Firms, incumbents and new entrants, can be classified as falling into one of six e-consulting segments. These segments, clusters of similar firms competing with one another, are: business strategy, creative, interactive, infrastructure and integration, Information Technology (IT) staffing, and outsourcing. (See **Exhibit 4** for an e-consulting market segmentation).

Of these six segments the newer, Internet focused consulting firms such as Scient, Viant, AGENCY.COM, and Razorfish dominate one, interactive. The remaining segments are dominated by incumbent organizations or their offshoots such as:

- *Business Strategy*: McKinsey, Boston Consulting Group, Bain

- *Creative*: Ogilvy One and Fitch

- *Infrastructure and Integration*: Andersen Consulting, Arthur Andersen, PricewaterhouseCoopers, Deloitte Consulting, EDS/AT Kearney, IBM Consulting, KPMG, Cap Gemini, CSC

- *IT Staffing*: Compuware, Mastech, Infosys, Keane

- *Outsourcing*: Bell South and Digital Nation (web hosting), Telecomputing and Corio (Application Service Providers), AT&T and MCI Worldcom (network management), UPS and Penske (logistics), Fingerhut (fulfillment),

Network Direct and MCI Worldcom (call centers) and First Data (financial transaction processing).[b]

While the largest consulting firms as Andersen Consulting, PricewaterhouseCoopers and EDS/AT Kearney will derive the vast majority of their e-consulting revenue from infrastructure and integration (building the robust technical and operation infrastructures to support web sites and integrating e-business with legacy systems and existing operations), they will also play a significant role in the business strategy and interactive segments. Moreover, due to their shear size, these firms will provide e-consulting services to most industries and in virtually all regions of the world. Because of their scale, breadth and depth, these firms will be viewed as multi or full-service consulting organizations. In contrast will be the tens of thousands of other consulting firms, niche players, whose work will be focused on a much narrower set of services, segments, industries and/or geographic regions.

It is recognized that many of the firms have expertise and successfully deliver services that fall outside of the positioning shown above. By placing a firm such as Boston Consulting Group into the business strategy grouping, Andersen Consulting into infrastructure and integration, Scient into interactive or Keane into IT staffing, the intent is to represent the primary, predominant and most widely recognized area of expertise for these firms.

Competition in e-Consulting

The New Entrants

New entrants - Scient, Sapient, Viant, AGENCY.COM, Razorfish and alike – are off to a fast start. Though being founded mostly in the mid-1990's, they have been highly successful both in terms of their rapid growth and high market capitalization. For the new firms growth averaged around 200% (1998 vs. 1999) and their market capitalization times revenue stood around 20 in early 2000. The incumbent firms, in contrast, revenue grew in the 10 to 15% range during this period and their multiple was around two. (See **Exhibit 5** for detail on New Entrants: Internet Focused Consulting Firms, and **Exhibit 6** for Profiles of Selected New Entrants.)

The success of these new firms is the result of several factors. Mostly publicly traded, they have a liquid and, for some, a rapidly appreciating non-cash currency – common stock - that enables them to make acquisitions and acquire talented employees more cheaply, offering stock options in lieu of high salaries and bonuses, than the mostly privately held incumbent consulting firms. Given that compensation is the largest single cost a consulting firm faces, having an advantage here can offer a significant competitive advantage.

In addition, their smaller size and lack of institutional history enables them to integrate disciplines more easily. Also they have a reputation for being more creative, a skill that at most incumbent firms has historically received little attention, and for having deeper knowledge of Internet technologies. And, perhaps most importantly, the new firms grasped the concept of "Internet Time", the much faster pace at which things happen in an e-business compared to the traditional business environment, sooner than incumbent firms. As one example, the new firms would complete a strategy project in six weeks in sharp contrast to the six months typically required by the older, established firms.

[b] Many of these firms operate in other segments than the ones described. The examples are intended to cite their perceived areas of strength.

All in all, these factors have combined to give the new firms a powerful image in the market for e-Consulting. For example, 90% of web site developers felt that the Big Five consulting firms "do not grasp issues as well as the pure-play web developers."[6] Yet the advantages of better execution – lower costs, better integration across disciplines, greater creativity, deeper knowledge of Internet technologies, and faster delivery of services – is only half of the reason why the new entrants have been so successful to date. The other half has to do with the failure of the incumbents to respond to the e-consulting market as it first began to emerge.

During the mid-1990's, the incumbent technology oriented consulting firms such as Andersen Consulting were in the midst of a period of unprecedented demand and profitability. This was the result of clients procuring complex ERP software, such as SAP's R/3, that took years and could easily cost over $100 million in consulting services to install. Strategy firms too embraced larger scale projects such as Booz-Allen's massive re-engineering project at Universal Studios and McKinsey's large cost reduction project at Time-Warner.

With such mammoth and highly profitable opportunities abounding, the incumbent firms simply did not want to bother with the much smaller projects usually found in e-commerce. For example a typical e-commerce initiative at Cisco took six months, a staff of 3 to 6 and cost $350,000 to $500,000 to complete. "Bring it back after it has another zero after it", was the response a manager at a leading consulting firm received in 1997 from his partner regarding a $500,000 consulting opportunity. This attitude, common in all major consulting firms at this time, allowed the new entrants to build e-consulting practices, at least initially, without significant competition from their strongest potential competitors, the incumbents.

Incumbents Build Capacity

The incumbents have now awoken to the opportunity of e-consulting and the threat posed by the new entrants. They are employing a number of techniques and making dramatic changes to enhance their e-consulting credibility in the eyes of prospective clients and expand their e-consulting skills. Many of the incumbents have announced plans to make massive investments in their e-consulting practices. For example:

- PricewaterhouseCoopers announced plans to invest $3 billion over the next three years (2000-2003) in new products and services, particularly to boost its e-Consulting business; plans to train 10,000 of its consultants on Netscape products[10]

- Booz-Allen, Bain, Boston Consulting Group and others reported to be investing "a lot of money" into their Internet practices[11]

- EDS announces major restructuring creating a new "E-business Solutions" unit with 20,000 employees[12]

- IBM spent $200 million advertising its e-business solutions and repositioned almost all its offerings under an e-business marketing banner[13]

- Ernst & Young launching $100 million marketing effort touting its expertise helping companies enter e-commerce[14]

- Deloitte Consulting is spending $100 million to advertise its e-business unit[15]

- McKinsey has launched a new practice, @McKinsey, to focus on startups that is expected to have 500 employees in several locations by early 2000.[16]

Andersen Consulting, in addition to spending on marketing and service development will also invest consulting time and money directly into e-commerce startups in exchange for equity through a recently launched $1 billion venture capital fund funded with $500 million of its own capital.[17] IFlourish, a portal site targeting older affluent consumers, is one of the first ventures. Arthur Andersen, the estranged partner of Andersen Consulting, has announced a similar $500 million fund.

Incumbents Change Organizational Practices

The incumbents, aware that a historic opportunity to expand into a new market, e-consulting, may be slipping from its grasp, are taking even more radical actions than simply investing in new marketing campaigns, service development or organizational units. In some cases they are attempting to change the core principles, practices and values of their firms.

Andersen Consulting, for one, is increasing the number of partners, reversing a 25 year trend of an increasing ratio of professional staff to partner at the firm. They are, in addition, modifying their up-or-out career progression to allow talented individuals to stay with the firm even if they are not promoted to partner.

McKinsey has been characterized as "under attack" by these upstart firms.[18] It has responded by altering one of its core principles – independence from clients – by now agreeing to accept equity from start-ups in exchange for services. A change characterized as a "huge departure for them" by Roger Nelson, the former head of Ernst & Young LLP's $4 billion consulting arm.[19] In addition, the firm is changing its fundamental approach to consulting. The operational phase of a project no longer routinely follows its legendary data-driven strategic analysis. Increasingly, McKinsey is focusing on implementation before the strategic analysis is complete, working on both in parallel.[20]

New Entrants versus Incumbents

As the battle for the e-consulting market intensifies, it remains to be seen who, the incumbent firms or the new entrants, will come to dominate the field. And should it be the incumbents that win, then will it be the business strategy or the technology oriented firms?

As discussed earlier, the new entrants have benefited from better execution and a lack of competition, at least during the early stages of the development of the e-consulting market. This has allowed them to grow quickly and be perceived as better understanding the Internet and its issues than incumbent firms. However, though growing at a rapid clip, they remain small compared to the incumbents which places them at a disadvantage when trying to bid or service a large e-consulting project for a global corporation. In addition, their small size and young workforce is often perceived as lacking the insight and experience needed to develop the detailed strategies and approaches appropriate for a company particularly when it involves industry specific issues. Indeed many of the new firms are furiously hiring experienced consultants and managers from the established firms in order to expand, improve their depth of industry knowledge and enhance their project management expertise. Moreover, the days of easy growth for the new entrants are rapidly coming to a close as the consulting giants ramp up their organizations to sell and deliver e-consulting services.

Beyond greater size, deeper industry knowledge and more project management expertise, the incumbent firms, both business strategy ones like McKinsey and technology oriented ones like Andersen Consulting, have the enormous benefit of large networks of contacts and relationships. Over the years they have built relationships at all levels within major corporations. Their alumni are in decision making positions everywhere. This network, which some actively use during their selling process, provides them with invaluable inside information and political support – a source of significant competitive advantage when it comes to selling consulting services. And their long track