TYPICAL CLIENT INTERVENTIONS

By Joe O'Mahoney

CHAPTER OBJECTIVES

Based on the author's own experiences and interviews with several specialists, this chapter provides an overview of a number of typical 'types' of clients and the forms of interventions that are commonly made. The chapter builds on the information in Chapter 4 on Clients.

In this chapter, the following cases are considered:

- A small / medium-sized enterprise (SME)
- A start-up company
- A large bureaucratic company
- An expanding company
- A failing company
- An ebusiness

The typical challenges that these cases experience are outlined, together with the consulting solutions that are often attempted and specific areas to watch out for.

INTRODUCTION

Whilst clients often feel that their problems are unique, most organisations fall into types that often face similar problems. Although client problems will vary according to their assets, strategy and market, one can generalise about the challenges they will face. An awareness of these will prepare you for the most common situations you will encounter as a consultant.

Below, a number of 'typical' client situations are explored. There are two caveats: first, the categories are quite inclusive. A failing company, for example, could range from one that is still profitable but requires an enhanced product range to one that is bankrupt. Therefore, careful analysis and a consideration of a variety of solutions is always required. Secondly, many problems and solutions will fall into the accounting and finance field rather than that of consultancy. Although some financial issues are raised below, the focus is primarily on organisational issues.

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A SME OWNER-RUN COMPANY

TYPICAL CASE

Company WXYZ started 40 years ago and was grown off the back of an expanding market in the post-war boom. The owner, the current MD, is an energetic entrepreneur and his skill and determination enabled the expansion of the company which now employs 150 people, primarily in manufacturing and sales. However, in recent years, competition, especially from overseas, has increased, the market has become less buoyant, costs are rising and sales are falling.

COMMON PROBLEMS

Often, with SMEs, the owner will have built the company up through hard work, getting involved at all levels and knowing the business inside out. The company is potentially a victim of its own success. Seeing its growth and profitability, competitors will have moved into the market putting pressure on prices and shrinking your client's market share. Additionally, environments and markets might have changed since the founding of the company meaning that conditions may not be as favourable as they once were. A typical example of this type of company is a specialist manufacturing or service company set up to meet demand from a growing economy in the 1980s. However, with the advent of cheaper overseas imports, government deregulation or regulatory changes, the market is not as profitable as it once was.

Often, 'consultants that are called in to solve one problem find that the real problem lies elsewhere' (Bannock 2005: 145) because the business owner does not know (or does not want to know) the real problem. This is particularly true when the problem is the owner themselves. The energy and dedication of the founder was often, originally, the key reason for the a company's success. They would have known the product / service inside out and, at some point, performed most of the functions that the company operates. However, when a company grows, it also needs to specialise and it is unrealistic for an owner of a 150 employee company to keep abreast of every development in technology, HR, services, markets and finance.

In the worst cases, the MD will still take a highly interventionist role in the company, micro-managing everyone and stifling creativity. This often means that processes are not modernised, investments are not made and everything is tightly controlled. Owner-managers are commonly very reluctant to spend significant sums of money on the company meaning that investments in things such as IT, training and health and safety will often not have been made. A typical firm of this style which I had as a client a few years ago employed over one hundred people yet required a signed document from the MD in order to get a pencil from the stores. This type of command-and-control style reflects a culture where the owner 'knows best' even if he is slightly out of touch with what needs to be done. This in turn means that innovation, creativity and worker autonomy are often at low levels (Jones 2003). The workforce are often alienated, the managers are yes-men who agree with everything the boss says and nothing ever gets done without the boss's say-so.

TYPICAL SOLUTIONS

The growth of the company means that professional processes need to be put in place, quality badges need to be won and the administration needs some form of expert input. The entrepreneur can no longer do everything. In terms of specific solutions there are a few that may suit this type of company, depending, of course, on your analysis (and the owner's opinion):

- Getting a new MD. It is worth considering is advising the owner to just employ a new MD – probably a finance or marketing director from a larger company who has successfully overseen periods of growth in a similar industry. Often, the existing MD can be encouraged to take a more external facing role – perhaps as an executive director, enabling a replacement to focus on growing the company without the owner-manager mindset.

- Professionalisation & Standardisation. The company probably lacks professional procedures because everything has hung off the personality of the boss for so long. It would be worth scouting round for benchmark / quality standards (e.g. BS5750, IiP etc…) to bring the processes up to a basic level. Often this is especially required in the 'people' area.

- Management. Managers at the moment probably got their positions simply because they did what they were told. They were also probably bought up from the shopfloor to keep down costs. Often, these managers don't manage at all, they simply do what they are told. More importantly, they can lack the specialist training required for a modern, successful company. Dave in accounts probably learned book-keeping from a book he bought and Sarah in marketing got the job because she could dress well. Get in professional, specialist managers, or, at the least, promote those who have the ability to think and learn, not those that say yes.

- Culture Change. It is likely that due to the interventionist style of the boss, the employees of the company are not used to thinking for themselves and have probably done the same thing since they've been at the company. However, if the company is to keep up with innovations elsewhere, the potential of the shopfloor needs to be tapped for ideas, cost savings and innovations. This requires patience, training (usually in TQM-style working) and structures to support them (e.g. quality circles, suggestion schemes, attentive bosses, internal consultants). Competences which support the new vision should be encouraged, old ones removed.

- IT. The boss, if of the old school, will probably not realise the potential long term cost-savings associated with e-business. Look at the web-site, the internal processes and CRM – can these be speeded up (or headcount reduced) by the introduction of simple technology? If so, ensure that the boss gets presented with the potential cost savings.

WATCH OUT FOR….

The biggest problem here can often be the owner. Their personal success in building and leading the company often means that they can react strongly against people giving them advice, even when they have asked for it. This means that, first and foremost, you need to get the boss on side: recognise their achievements, ask their opinion rather than directing them, involve them as much as possible. The entrepreneurial character is often very headstrong, determined and sometimes a little egotistical and therefore does not take well to being told that they are doing things wrong.

Also ensure that the consultancy project doesn't become a simple cost cutting exercise. If the company has a quality issue then be clear to the owner that this is going to take investment of time and money. Ensure that he or she is not 'behind' any changes but out in the front leading them because you definitely can't do it by yourself – the whole company will slow you down and your inevitable failure will result in the boss blaming you. Additionally, stress that, if this is what is required, culture change can take a long time, often 1 – 2 years. This is sometimes a period when productivity and profitability may drop before accelerating again.

> *"SMEs are not a market for a new or under-confident consultant.*
> *Directors are often under-paid and over-worked and want quick results…..*
> *these companies don't have money to waste"*
>
> ***- Supply chain consultant***

A START-UP COMPANY

TYPICAL CASE

Two entrepreneurs have started a new business, StayMobile, to recharge mobile phones in public places such as airports, hotels and festivals. Early funding from friends, family and a bank allowed them to successfully test the product with potential customers and demonstrate the business model. Armed with a business plan, evidence of market take-up and lots of energy the entrepreneurs are now seeking venture capital funding.

COMMON PROBLEMS

Entrepreneurs generally use management consultants to help them with a specific high-skill problem. Often, this is through their own choice, but more commonly under the advice of a venture capital firm who has recognised a weakness with the company. There are several issues that entrepreneurs look to consultants for help with:

The first (providing they haven't got this already) are the problems associated with building a business case and a business model. If the company has a new product or service they are going to want relatively accurate information regarding markets, take-up, costs, projections, suppliers and business models. There are a thousand and one different ways of running the same company and they may well be looking to you to advise which will be most profitable. Knowing which is best is unfortunately often only discovered after the wrong path has been chosen.

Another key problem for entrepreneurs is specialist knowledge – and for this they may turn to a specialist consultancy. By specialist knowledge, I mean information that concerns their specific product or service – they will want to speak to people who have launched similar products before, contacts who might want to place large orders or networks that can advise on funding, marketing or sales. Finding these people as early as possible is crucial to entrepreneurial success, but often left far too late (Drucker 2007).

Finally, a start-up will be interested in growing quickly and getting to market as soon as possible. Everything that they do until this happens is costing them money and the business strategy usually changes completely once a few customers have tried the prototype products. If they have already got to market, entrepreneurial types will usually want to move towards an exit strategy as quickly as possible. This usually means selling (or floating) the company, recruiting new directors and conversing with share-holders.

TYPICAL SOLUTIONS

Typical solutions for this type of company usually involve small, targeted interventions that require specialist knowledge. Often, these consultants can be appointed at a subsidised rate through regional or national start-up funds, where part of the advisor's fee is paid for by a government agency. For example, the company above, StayMobile, received £3000 from a local government initiative to pay a marketing consultant to find new opportunities.

Typical interventions in start-up companies include:

- Building the business plan: many entrepreneurs have a great head for business but are not skilled at putting it on paper. Many consultancies help entrepreneurs write a plan that includes their business case, market sizing, revenue projections and competitor analysis.

- Getting additional funding: an additional step that some consultancies take is to put the plan in front of business angels or venture capital firms. These companies usually charge an upfront fee and also either take a percentage stake in the company or charge an additional fee should they be successful in finding funding.

- Market research: whilst not strictly 'management' consulting, many firms offer both market and competitor analysis to help decide whether a new product or service can generate the kind of revenue the entrepreneur expects.

- Protecting investors: if the consultancy is funded by the investors it is likely to have a financial focus aimed at protecting their investment. This will range from anything from cutting costs out of the product to looking for routes to international expansion. The aim is to maximise the return on investment as soon as possible.

WATCH OUT FOR….

Failure rates of new businesses are high (though not as high as many people believe[1]) so the biggest risk a consultant is that they get paid their fee. If the consultant is working for a government scheme, then this is relatively safe, otherwise they should look at getting paid up front. Some sole-trader consultants opt to take equity in the company in exchange for their ongoing services, but there are obvious dangers in this. Having a clear contract with a focus on an exit strategy is vitally important.

Another key concern that a good consultant should keep an eye on is the relationship with the entrepreneurs and their investors. Investors tend to focus solely on their returns and short-term wins, whereas the entrepreneurs (who may not necessarily own most of the company) tend to view the firm as 'their' project. Struggles in decision-making are, therefore, common and a good consultant will avoid getting stuck in the middle of warring parties. Finally, you should bear in mind that consulting for entrepreneurs can have a very different style to other arrangements. Entrepreneurs tend to be high-motivated, driven people and will expect you to be the same. They will also expect you to be flexible, helping them with everything you can, and sometimes more.

[1] Around 50% of start-ups fail in the first three years of business. The commonly reported figure that nine out of ten fail in the first year is way out.

"I love start-up companies – they're exciting, fast-paced and demand a lot out of you. Often, you're working every hour, with the entrepreneurs sat beside you…… make sure you take time off to recover afterwards.

- Senior Consultant, Medium Outsourcing Consulting

A LARGE BUREAUCRATIC COMPANY

TYPICAL CASE

Ford, the world's fourth largest car manufacturer was established in 1903. Employing over 200,000 employees, Ford has around ten major manufacturing centres but possesses sales and distribution capabilities in virtually all countries. A relatively labour intensive operation, Ford has a massive turnover but relatively low margins with losses commonly posted. As with all large employers, the company is politically important, as its supply chain accounts for thousands of small businesses and its donations to political parties are considerable.

COMMON PROBLEMS

To be big doesn't *necessarily* mean being bureaucratic, but exceptions are rare and tend to be in the wired world (e.g. Google) where employee numbers can be minimised and processes automated. The vast majority of the world's largest companies employ hundreds of thousands of workers who in turn require considerable numbers of management, administrators and control and reporting systems (e.g. IBM, GE, Wal-Mart, Microsoft). This is especially true of large public sector organisations such as the NHS which haven't been exposed to the rigors of market competition and whose costs are hidden from buyers.

Large bureaucracies employing hundreds of thousands of people usually find that their problems are located in costs rather than income. Income is often relatively stable, as companies can take advantage of their size to acquire profitable competitors, launch low-cost products and create sticky brands. Costs, however, are a different matter. As many large bureaucracies are low margin industries and often possess significant personnel, administration and IT costs, their key route to competitiveness is cutting operating costs. It is to achieve this that consultancies are called in (Child 2004).

Of course, many public sector organizations are huge bureaucracies. The NHS, for example, employs 1.3 million people and has a budget of over £90bn. However, despite various 'modernization' projects, consultancies cannot always apply the same aggressive cost cutting that they do in the private sector for several reasons. First, the public sector has a very different culture to the private sector: change is rarely welcomed and trade unions are still strong. Second, public bodies are obviously used and funded by the tax-payer, who is also, more often than not, also a voter. This means that governments are notoriously hesitant about implementing unpopular reforms such as privatisation and cost-cutting (Barzelay and Armajani 1992). Finally, as du Gay (2005) points out, bureaucracy often plays a central part in providing the checks, balances and accountability in the public sector that his not required in the private sector.

TYPICAL SOLUTIONS

Large companies require virtually every type of consultancy going and the emphasis will, of course, depend on their precise sector. However, as margins are so low in these companies, a small percentage change to the cost structure can make the difference between profit and loss. It is, therefore, on costs that much consultancy work takes place. These type of projects might include:

ERP / BPR – A common method of cost reduction is to replace vast swathes of finance and HR processes (and people) with an automated re-engineered solution which streamlines the infrastructure. Most cost reduction achieved is usually around the employees that are made redundant.

- Outsourcing - outsourcing commonly involves IT, Payroll, or Customer Service, but depending on the company, can also include manufacturing, marketing and facility management. The key is to achieve cost and efficiency savings though economies of scale and lower cost labour without losing quality.

- HRM - As a significant chunk of a bureaucracy's costs are in human resources, specialists in labour management can help cut costs by advising on flexible working patterns, reward and compensation packages and, at the worst, union-busting.

- SCM – in the manufacturing sector, where traditional and people-intensive industries proliferate, the supply chain can run into hundreds of smaller companies. Minimising travel and waste whilst maximising integration and co-ordination can save companies billions if implemented properly.

Another focus of a bureaucratic company is likely to be its agility and flexibility. Despite their deep pockets, bureaucratic companies are often painfully slow to react to changing circumstances, with a common metaphor for decision making being the steering of an oil tanker: slow, imprecise and cumbersome. Ford, for example, have reacted very slowly to new demands for smaller, more economical cars, leading to massive losses in the middle of the decade. Moss Kanter, famously argued that it was possible to teach 'giants to dance' (2000), but even the 'excellent' case studies she identified as combining both size and agility, were relatively short lived in their successes. Whilst sustainable agility, speed and flexibility may be difficult to instil in large bureaucracies, consultants can make improvements, often though delayering, automating and training.

WATCH OUT FOR

Large companies tend to be bureaucratic, traditional, hierarchical and frequently heavy with personnel. This means that there are several problems you are likely to encounter when trying to make a consulting intervention. First, decisions are likely to take a long time. Large corporations often have a number of committees, and sub-committees, not to mention an awful lot of processes and procedures that can tie things up for months. A large public institution that I worked with, for example, took two years to reach an agreement to change the signs outside its building.

If this is not bad enough, bureaucracies tend to have strongly established traditions that are very difficult to change. The traditions exist primarily because of the longevity of both the organisation and many of its employees. Strong cultures are created and process and procedure necessarily specify a way of doing things. This type of traditional structure can also create personal fiefdoms, where managers are loyal to their department (or themselves) rather than the organisation.

All of this makes large bureaucratic companies difficult terrain for the consultant. Change happens slowly, resistance is high and there is often a manager somewhere willing to throw a spanner in the works. One can see, for example, why there are so many high profile consulting failures in the public sector, which are probably very little to do with the consultants and probably much to do with the size and culture of the client.

"Big companies usually mean big projects. Being a cog in a much bigger machine gives you a chance to specialise but also means that you don't always see the bigger picture".

- Consultant, Large IT Consultancy

AN EXPANDING COMPANY

TYPICAL CASE

AFI-Powerlift manufacture pneumatic lifts that are safer than ladders or scaffolding. In an increasingly litigious environment and with a boom in construction (at least until 2008), the company witnessed year-on-year expansion for its products after the turn of the millennium. Profits rose from £0.5m in 2003 to £5.4m in 2006, an annual increase of 114%. The expansion was funded, in part, by an investment by Barclays Private Equity and enabled by a merger with a competitor. The company believes future projects such as the Olympics will help boost sales further.

Of course, growth can occur for any number of reasons: new markets, mergers and acquisitions, new products or a changing socio-economic environment. Whilst these factors bring a number of opportunities to clients, they also bring a number of threats, which can drive them to seek expert advice from outside the organisation.

COMMON PROBLEMS

Expanding companies tend to be good news for consultancies. Investors are happy to sink money into their expansion with an eye on future revenues. However, both consultancies and investors know that rapid expansion doesn't necessarily lead to success and that growth in sales, employees or stores doesn't necessarily mean growth in what matters: profit. Moreover, growth, in any form, brings a whole pile of new challenges which companies need to face.

The first concerns the type of growth a company experiences. Many companies lauded for their growth rates have achieved this simply due to a temporary shift in the market. For example, events such as the Olympics, new shopping centres or a housing boom can create short-term expansion in an industry which are unlikely to be sustainable. Significant organic growth usually occurs after a shift in market conditions or when new funding has been secured. However, both these conditions usually result in a short-term spurt in growth which can falter when the funding runs out, competitors catch up or the market returns to normal. Investors much prefer steady, long-term growth rather than short, unpredictable, yet rapid expansion (de Geus 1998).

Another problem is how growth is funded. Many companies, when witnessing a massive expansion of their market, borrow more than they can afford to fund their expansion. The classic case here is People Express who were one of the first low-cost airlines in the US. In three years demand for People Express soared and so they borrowed heavily to meet demand: taking over airlines, buying suppliers and even building a new terminal. However, when competitors moved in, profit margins were squeezed and the company went bankrupt and was sold to a competitor.

Finally, the expanding company needs to be acutely aware of their support systems. My wisest consulting mentor, Simon Forge, once told me to think of expansion like moving an army: "it's easy to charge off in one direction only to find oneself in unfamiliar terrain, surrounded by enemies and with no supply chain". Before being tempted to make promises to new customers ensure that suppliers, employees, IT systems, distribution operators and, most importantly, banks, can keep up.

TYPICAL SOLUTIONS

Regardless of the type of growth, the challenge for clients and consultancies is to make it sustainable and predictable. In growth situations, there is almost no area of the company which consultancies are not asked to examine. Key issues for the consultant to consider:

- **Strategy**

  Is the company growing in the right direction? Does growth require strategic alliances, take-overs, mergers or acquisitions? What new risks need to be managed? What are the business cases for different types of growth and on what basis should their comparative worth be decided? How will the company maintain steady growth?

- **Operations**

  What operational processes are required to match the growth? Are the suppliers capable of keeping pace with the expansion? Are the systems, processes and procedures ready for increased demand? Will the supply chain hold together? What forms of flexibility will be required for the expansion? Will any operations reach a critical mass where they need to be outsourced?

- **People**

  Does the company have the right levels of expertise to deal with expansion? Are the investors happy with the skill set in the board of directors? Are there enough employees to make the expansion work? Which types of employees should be taken on using which types of contract? Is the organisational culture ready for expansion? If merging with another company, what problems will this bring?

- **IT**

  Is the current IT strategy matched with the strategy for expansion? Will the current IT infrastructure cope with increased usage? What investments need to be made in IT? Will the expansion justify an investment in technologies to enhance efficiency and economies of scale, such as ERP, ebusiness, supply-chain, inventory and data management or automation?

WATCH OUT FOR

The key thing to watch out for in fast expanding companies is over-exuberance. If the company expands too fast, or without adequate support, it will alienate its customers, burn through any capital it has amassed and then need to retreat as fast as it expanded. One often sees this with niche companies that expand quickly in shopping malls in an economic boom only to be found wanting when competitors move in or when the boom turns to bust.

Another key aspect to manageable growth is the attitudes of the CEOs (Foecking 2006). When small companies grow, two things often happen. First, the directors get swamped – they take on more people, who, in turn, need managing, leaving the director with little else to do but administration. Second, directors often have trouble letting go and delegating to the people they bring in to help them (including consultants). These challenges each require careful planning, great interpersonal skills and careful client management on behalf of the consultant.

"If a company is doing well it usually has money for more interesting projects, but this is also the time that most money gets wasted. Expansion should be no reason to stop thinking.".

- Strategy consultant, Strategy Consultancy

A FAILING COMPANY

TYPICAL CASE

There are many reasons why a once successful company may be failing but the symptom is usually the same: poor cash-flow. Whilst it is usually accountants that are called in to put companies out of business, consultants are often called in to fix the underlying problems before this has to occur. A typical company is one which has done well for a number of years but new circumstances, competitors or markets find that its usual formula for success doesn't work anymore. Such a change can happen slowly (for example, Woolworths) or quickly (Lehman Brothers) depending on the speed of change in the environment and the financial structure of the company. Companies which have successfully turned themselves around with the help of management consultants include Marks and Spencers, Skoda, and Cadbury.

COMMON PROBLEMS

In most cases, firms face receivership and bankruptcy because they don't have enough money going through the business: cash-flow. The reason for this is usually declining sales, but can also be traced to:

- Market changes: the buyers of the company's product or service have turned away either to competitor products (e.g. from Yahoo to Google) or have completely forsaken the product because their values have changed over time (cigarettes, spam and pork scratchings to name three seventies favourites).

- Costs have increased: If their product was heavily dependent on oil, gas or electricity over the last five years, for example, costs would have eaten into their profit margins unless the customers were willing to pick up the tab.

- Regulatory pressures: new laws can add considerable overheads to companies costs. These might include reporting laws (such as Sarbanes-Oxley), health and safety rules or simply employment protection legislation. Whilst there may be long term benefits to the company and its stakeholders, laws often create short-term financial strain.

- Competition: if new companies enter an already competitive market, it can mean a smaller share of the cake for the client. If the competitor has competitive advantage in terms of size, finance or other products, it can be the death knell for the business.

- Disorganised growth: when companies experience growth, it is rarely planned or strategic. Over twenty years, this type of growth can result in a company which is disorganised and unstreamlined. Overlapping IT systems, poor communication, too many middle managers and an irrational structure can develop which hits efficiency compared to the competition.

- Investors: if investors, share-holders and banks are not getting a return on the money they have put into the company, after a while they will seek to get their capital back to invest it in a better prospect. This may involve anything from a reduction in working capital to a full-scale bankruptcy.

Additionally, if shareholders feel that managers have failed to anticipate these changes, they will often assume that the underlying problem is one of leadership and will ask consultants to sort out personnel as well as operational issues (Slatter et al. 2006).

TYPICAL SOLUTIONS

Consulting solutions depend on the extent to which the company is failing and the extent to which new finance is made available by investors. If the company is salvageable, consultants will often be bought in by banks or other investors to ensure that a rapid and effective implementation of a new strategy is undertaken. Usually, this will involve focusing on the company's most profitable area, selling everything else and undertaking a significant amount of cost-cutting. Management consultants in this situation will usually work as the second tier to financial consultants who will be setting the direction and strategy for the company to get out of the mess it is in. Key activities might include:

- Redundancies: employees typically account for up to 50% of a company's costs and are a quick way to reduce cash-flow problems as well as sending a message to investors that the company takes the problem seriously. For management consultants, projects usually involve targeting the right people, managing the redundancy process and ensuring that the communication process is managed effectively.

- Divestiture: a company will sell off its less profitable operations to focus on its most profitable product or service. Sometimes divestiture is forced by the government financial watchdogs, such as the SEC or the FSA, to avoid monopoly positions, but more often it is undertaken due to financial problems. Consultants will often become involved in the people or communication projects which accompany such changes.

- Cost-cutting: this may involve any number of activities from removing less profitable departments and product lines to selling off assets that are not central to the company's operations.

For clients it is important that these projects result in real savings, not imagined ones that simply make the balance sheet look better. An example of the latter is given by Craig (2005) of a company that employed a consultancy to reduce the stock it held in the warehouse, but instead of focusing on this, the consultancy instead undertook some clever accounting to reduce the value of the assets instead: the warehouse remained just as full.

In cases where the company is not salvageable, it will most likely be declared bankrupt and sold, stripped of its assets or simply liquidated. This is usually a job for auditors and accountants, though consultancies often play a role, again in people management and communication projects. Usually, this work is undertaken by specialist consultancies or audit houses that have consultancy arms.

WATCH OUT FOR

In a failing company it's easy to turn into an asset-stripper: selling off anything that moves and sacking anyone who doesn't. However, if the long term survival of the company is the aim then it is important to ensure that you don't harm the interests of the company by attacking its foundation too much. Any organic system can cope with pruning, but anything too drastic can kill the thing off. The other issue to watch out for is the people. It's easy to forget, when you are constantly dealing with targets and cash-flow projections, that you're actually dealing with people's lives. The transition will go a lot smoother if people are communicated with effectively and are not kept in the dark about what is going on. Finally, if you're dealing with a company that is going bankrupt, ensure you get paid.

> *"In some ways, going into a failing company is easier, because people know that they're up the creek without a paddle. You tend to get less politics and less resistance because people are faced with losing their jobs.".*
>
> ***- BPR consultant, SI Consultancy***

AN E-BUSINESS

TYPICAL CASE

eBusiness refers generally to the utilisation of technology and especially web applications to support a business. However, as this definition means that any business with a website can claim to e an ebusiness, I'd like to narrow the definition to one where the business has web-based transactions at the heart of its business model. Thus, eBay and Amazon are in, and Porsche and Airbus are out. Tesco and IBM are somewhere in the middle.

A typical case is EBay, the online shopping and auction site. Started in 1995 (as 'AuctionWeb) by a Frenchman, Pierre Omidyar, the company received $5m in venture capital and floated in 1998, making the owner an instant billionaire. Given the innovation of Ebay's strategy, the complexity of its web applications and the relative sea of capital it has been wading in, it is unsurprising that the list of consultants that has involvement with the company is extremely long. Indeed, the recently retired CEO, Meg Whitman, was a partner at Bain & Co. before taking on the position at Ebay and several of the directors came from top strategy houses, including McKinsey.

COMMON PROBLEMS

Many of the problems that eBusinesses face are very little to do with the 'e-' and a lot to do with the 'business'. In other words, once one gets the strategy, the business model and the planning right, the technological aspect of the business will often fall into place. Unlike traditional IT projects, ebusinesses operate in a much more open environment. This means that the scope, direction, objectives and strategy of what is to be achieved is often unclear and uncertain (Stoehr 2002). Specific problems for these companies include:

- Money: gone are the days when venture capital firms would throw millions at start-up companies. In fact, investors tend now to go for 'clicks and mortar' companies with a proven business model rather than pure ebusiness start-ups. Finding and securing funding is a key problem for eBusiness firms, however, when they do get it, it is often difficult to get the cash to pay back loans. Amazon, for example, only broke-even in 2002 and many other ebusinesses, despite their massive valuations, have never made a profit.

- Marketing: many ebusinesses business models have few barriers to entry. The key asset, therefore, of these companies is often simply the loyalty that they can generate through their brand advertising. There are, for example, hundreds of different online auction sites, but it is eBay's familiarity that keeps it ahead rather than any intrinsic advantage in its business model. Spend on marketing is, therefore, crucial to many ebusinesses if they are to achieve the economies of scale associated with high user numbers. This, for example, gives high visibility brands such as Virgin or Easyjet the ability to move into e-banking and mobile businesses: because people recognise and trust their brand. Conversely, visibility and building brand recognition from scratch costs a fortune.

- IT: it is easy for companies that have many complicated IT systems to lose strategic focus and end up with incompatible legacy systems, a 'heavy' systems architecture and a bureaucratic control system. Keeping the infrastructure light and the data clean is key to reducing costs and maintaining a clear IT strategy (Shields 2001).

- Data: ebusiness, along with mobile operators and banks, generate millions of bits of data every day. A single Amazon order requires the company not only to know who is ordering what to be delivered where, but also to integrate that order with CRM, banking and order tracking. Managing data effectively can give companies a huge strategic advantage, but when done badly can slow systems down and provide a poor user experience.

TYPICAL SOLUTIONS

Consultancy interventions in ebusiness, again, cover a whole range of projects. As getting the right strategy and business model is so important for ebusiness, they tend to invest more in strategy consultancies (for their size) than many other sectors (Chaffey 2006). EBay famously hired McKinsey to provide advice on how to deal with Google, with the unfortunate result that the report suggested EBay could safely ignore the Google threat (Wall Street Journal April 21st 2006). Competitor analysis is just one form of strategy consulting offered to ebusinesses – others include assessing potential synergies and partnerships, enhancing the company business model or advice on new products and applications. Whilst this is true of all businesses, because ebusinesses rely so heavily on their business model, this sector tends to witness more takeovers, mergers and partnerships than any other.

Lower down the food-chain, consultancies work with ebusinesses on all types of systems work. From data management to application development, and from user interface design to systems integration, the overall aim is generally to drive the user experience up whilst driving the infrastructure costs down. IT systems are central to this effort: when a simple purchase can involve up to ten internal systems interfacing to five external systems, the work can get very complicated and requires specialists to ensure that the business and systems architectures are well aligned. One area that has become increasingly prominent in IT consultancy is data management. Not only is having 'clean', searchable and consistent data essential to the user experience and the company's effectiveness, but it is increasingly governed by legal regulations with regard to compliance and security.

WATCH OUT FOR

eBusiness is often portrayed as a 'sexy' consulting assignment, and to some extent this is true. The allure of new technology, the fast pace of change and the steep learning curve that every newcomer to this area faces, attract the brightest and best in many service industries. However, it is also this allure, the excitement of the new and the possible, that often get in the way of basic business. Consultants and clients too often make new technology projects bigger and more risky than they need to be: the temptation to do something grand when something simple would have done just as well.

Additionally, the 'newness' of such projects, the novelty of cutting-edge technology and the lack of experience in this area, in respect to both consultants and managers, mean that projects are often not specified closely enough: scope boundaries creep, requirements are not specified tightly enough and the objectives remain in a state of flux. Failure in ebusiness is often more down to consultants and managers not knowing exactly what they are trying to achieve rather than any flaw in the technology or people.

"ebusiness work tends to be more fun because you're using cutting-edge technology and playing with ideas that aren't possible in traditional companies".

- ebusiness consultant, SME Consultancy

CHAPTER SUMMARY

Using interviews with consultants in each area, this chapter has outlined the different types of clients that a consultant might encounter, the problems they typcially face and some of the solutions used by different consultancies. The reader should note, however, that consultancy is often more of an art than a science: there are no 'textbook' answers to how to deal with every situation. Each client, whilst having similarities, is unique and needs to be dealt with as a new case.

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STUDENT EXERCISE

Think of another 'type' of client and suggest typical challenges that that client might face. What types of solutions do you think consultants might make to those challenges? What things should a consultant be wary of? Can you find any cases that support you reasoning?

DISCUSSION QUESTIONS

- Which type of client would you be most comfortable in and why?
- Are there any problems and solutions that you think have been left out of each company type?

FURTHER READING

There are very few books which provide consultancy aproaches for 'typical' types of organisation. However, *Management Consulting in Practice* by Fiona Czerniawska and Paul May provides a number of good cases of the types hinted at in this chapter.