



# Consulting at the Crossroads

## Disruptive challenges and opportunities for professional services firms

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Professional services firms are advising their clients in every industry that they are at risk of huge disruption. What about the professional services industry itself? Will consultants be replaced by AI, robots or alternative business models from PE-backed start-ups. Or are they somehow immune?

The answer to the final question is a resounding no. The professional services sector is far from immune. It's worth noting that just a decade ago, two of the sectors which regarded themselves as being at least three of disruption were universities and law firms. Today, both of these fields have been massively disrupted and would now struggle to remember the time when they thought things would be otherwise.

So where does the professional services sector sit relative to others? In terms of industries which have already seen major disruption, the likes of telecommunications, software and publishing stand out. In terms of those which have been relatively stable but look likely to be destabilised, the fields of insurance, energy and healthcare have been nominated as primed for massive shake-ups.

The industries which are least prone to destabilisation and disruption tend to have **three**  key characteristics  shared by the dominant incumbent players: 1. their lighthouse brands are well-established 2. they have key proprietary technology, and 3. they have tight control of distribution channels. The last point is especially important. Where we have seen major disruption is where a new player (think Uber, AirBnB, Netflix, etc) has been able to get closer to the customer and find a way to effectively 'own the demand' in the system (where the incumbents had previously won by owning the supply). 'Owning demand' is now the number one priority for winning in any sector.



### How do these three factors stack up for the professional services industry and how will they drive priorities for 2019?

#### Brand

While some professional services firms have strong brands that make them top choices for nuclear event work, very few of these come anywhere near the strength of the most powerful consumer brands. Moreover, nuclear event work is usually less than 10% of the total market in any professional services consulting field, so it is not enough to sustain many players.

Taking just one field, that of employee surveys, note how quickly the established global players have lost some of Australia's largest corporate accounts – either to new, nimble digital start-ups (such as CultureAmp) or because of the clients moving to democratising technologies (e.g. Qualtrics) to do it all internally. What seemed like powerhouse brands (offering massive global benchmark databases) have not been resistant to competitive threats, which (along with pricing power) is the real indicator of brand power. If your pricing power is diminishing it's a strong sign that your brand is not as strong as you thought.

#### Proprietary technologies

This is another weak area for most professional services businesses. While plenty of firms have their own methodologies, frameworks and even trademarks, it's very hard to think of many large players in this industry which have a proprietary technology from which clients would be reluctant to move away. Where such assets have existed in the past (e.g. job evaluation systems, psychometric tools, business management software), one of two things has tended to happen:

- The asset is increasingly seen as 'old world' and irrelevant to operating in the cyber-physical world
- The asset has effectively become non-proprietary and almost every firm in the sector offers it in some adapted form.

## Tight control of distribution channels

Strike three. Professional services firms have almost no control of distribution channels. While they do have the advantage of being very close to the customer (and there is no doubt that this is a real asset), it's very hard to argue that they 'own demand' in the way that, say, an Uber or AirBnB does. Quite simply, it's hard to think of many professional consultancy firms which are effectively **platform players**, that is, providing the place where a wide cross-section of customers come to identify and engage supply options.

Moreover, it's hard to think of many players achieving this position, as it is so contrary to their traditional business models and would require them to develop a way of developing the new business while maintaining current revenues. Given that most consulting businesses are not well capitalised (to deal with either new investment and/or material reduction in core earnings), that in turn would require a strategic shift - e.g. making acquisitions, forming JVs, seeking private equity, or hiving off a nascent business to run outside of the current one.

In summary, the professional services industry is ripe for disruption. So, what does this

1  **mean for consultancies have to do in 2019?**

### Do some thinking and make some choices

Who are you going to be? Some choices include:

- Be a nuclear event player (for the 10% of work that should be least disrupted). This can work for either large or small players, but it requires absolute rocket science positioning and capability (and a lack of other players who are likely to be better at it)
- Develop, buy or leverage proprietary technologies that are meaningful to business in the cyber-physical age
- Become a platform player or, in some other way, start to own demand (not supply).

## 2 Act determinatively on the above

None of the above options succeeds through marginal investments of money, resources or attention. Each of them requires whole-hearted focus and full commitment. You may be able to dip your toe in the water through experiments and pilots for a while (and that's probably a good idea) but being 'half pregnant' is not an option. This in turn may drive:

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- Mergers and acquisitions, Capital investment (e.g. in new technologies and solutions). Business model redesign, repositioning in the market

### Take some 'no regrets' steps

● No matter what path you go down, there are some actions that are sensible for almost any professional services firms over the next year and are unlikely to do you any harm. Three items at the top of this list include:

- Get closer to your clients. Be honest with yourselves about ways in which your relationships aren't truly intimate partnerships, and make changes so that they become that way
- Get on top of digital service delivery and digital enterprise architecture. Ask yourself: if a start-up looked at what we do and decided to make it all as digitised as possible, what would they target and how might they do so? Then become that start-up and do it to yourself
- Be an incredibly attractive place to work. Talent will be the best asset for the kind of transformation you may need to make. Without some smart, motivated people collaborating around your evolution or revolution, you're pretty much out of the race before you start.

*Bendelta has conducted a industry review of the approaches being taken by leading professional services firms internationally to be the disruptors, not the disrupted. For more information please contact us here *