

## WHO DRILLS FIRST?

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**PART 1.**  
**FRICTION**

**CONSULTANCY HINGES  
ON FRICTION**

**IN AN ECONOMY  
THAT WANTS TO BE  
FRICTION-FREE**

We live in an economy that is all about reducing friction. Big Tech firms like Amazon, Uber, Airbnb, Netflix, and Google have built successful business models by eliminating friction. Organizations that keep disrupting their industries by creating a user experience built on reducing friction or improving a disrupting business model by further enhancing a frictionless experience will continue to be successful and create value for their customers.

For example, Forbes Magazine describes a friction-less coffee shop concept based on a new “anticipatory design” philosophy. This concept concentrates on designing and delivering products and services that, in essence, eliminate choice and focus on delivering “flow not friction,” “convenience not choice,” and “efficiency not freedom.” The coffee shop works like this: baristas are alerted by a piece of technology, like an Apple Watch. When customers near the store, they prepare the customer’s favorite drink and then hand it to them as they approach the counter. Payment is then taken automatically via the customer’s credit or debit card details stored on a system. In China, over 100 million customers pay simply by having their faces recognized.

Building blocks like the smartphone, Internet, cloud computing, connectivity between applications, and artificial intelligence enable a frictionless experience. And while the above brands mainly operate in a B2C world, similar developments occur in B2B. Hospitals track operating equipment with built-in RFID chips to track usage and avoid being left within patients’ bodies. Cross-border payments happen through blockchain, with the payments’ completion time reduced from days to minutes. Amazon’s anticipatory shipping (reducing friction – waiting time – for consumers) requires modification in warehouse design and order picking procedures that can be expanded to other industries as well.

Consultants need to thoroughly examine their processes and ask themselves whether their existing ways of doing things reduce friction. Unfortunately, several assumptions behind their core business model prevent them from doing so.

Here are the five most important ones.

**FRICION # 1.**  
**“ALL CLIENTS ARE UNIQUE.”**

**(THEY'RE NOT)**

Suppose a neurologist would ask you: “How would you like to be operated?”. Very probably, you wouldn’t know. Hey, that’s *his* expertise! He should just give you the options. And the neurologist will provide you with these options because neurologists keep statistics and subsequently cluster their interventions. How long does it take to recover? What are your chances of survival? Likelihood of side effects? If that neurologist would *not* have these statistics, if he would say: “You’re so unique, let’s open you up and just find out!”, you would instead pass on the opportunity and find yourself another doctor. Every human being is unique, but your neurologist can already give you a pretty good outlook on your situation. He bases this on his previous patients and from colleagues’ patients, and scientific literature, to name a few. As a result, you – the patient – can carefully weigh your options.

### WAIT!

Maybe this is true for an organization as well? Like medical operations, business problems might come in a few flavors as well. It’s the fundamental question for every first client meeting: “What is the client’s unique problem?”. And it’s usually not what a client can articulate. But if the consultant could cluster business problems and show statistics (chances of successful implementation, side effects, recovery time), that first client meeting would be much more reassuring.

And, indeed, business issues come in only a few flavors. Our academic research showed that employee ambition comes in only three flavors. Organizational alignment in four flavors. Team effectiveness in six. Not: 283 different flavors. That’s why experienced consultants usually are not very surprised after the first client meeting. They have seen similar projects earlier in their career and can frame the client’s issue in a broader context.

The thing is: unlike neurologists, consultants do not keep statistics of their projects. The latter’s shared drive or the SharePoint environment mainly contains the answers given to the last client. Rather than the questions to ask the next client. There is no *taxonomy* (classification) of projects. No consultant will say: “Mr. Client, based on our previous 100 projects, the complexity of your issue scores 4 out of 10 and will take approx. six months and seven consultants to solve.”

**FRICION # 2.**  
**“EVERY PARTNER MANAGES  
HIS/HER OWN PRACTICE.”**

**(= NO SCALING)**

Let's do some calculations with publicly available information. The Big-4 (Deloitte, EY, KPMG and PwC, plus Accenture) each have roughly \$30 billion to \$45 billion in revenue annually. Suppose that 10% of that revenue is about understanding the client's issue, validating that issue by talking to managers, employees, clients, or suppliers and drawing up a solution, come up with a planning, a business case, a change management roadmap, and a staffing proposal. Ten percent equals \$3b to \$4.5b annually. Suppose that these brands charge approx. \$30k. to \$45k. for such an Analysis & Design phase. That means that each of these brands starts 100,000 projects every year ( $\$45\text{b.} * 10\% ./ . \$45\text{k.}$ ).

Now, suppose that 80% of these projects are about the 40 most 'hot' issues at the moment—issues like digital transformation, security, privacy, customer experience, culture, and process mining. And assume there are 200 working days in a year. That means *each* brand is starting *every day* 10 projects in *each* of these 40 problem areas ( $100,000 * 80\% ./ . 40 ./ . 200 = 10$ ).

An average general surgeon does 400 operations per year and keeps statistics to compare patients, discover patterns, and calculate predictions. The big consultancy houses do – per problem area – 2,000 projects per year but do *not* keep statistics. That is a lot of reinventing the wheel. Alternatively, you could say that they are on the cusp of the most significant discovery of patterns & predictions. We subscribe to this latter, much more positive, vision. Not only the Big-4 are in this situation. BDO, CGI, Cognizant, CSC, HCL, HP, IBM, Infosys, Microsoft, Salesforce, Tata, and Wipro have numbers roughly the same order of magnitude.

If every partner manages his/her practice, it's challenging to agree on a taxonomy and reigns the wheel's reinvention: he/she just can't scale. If a doctor can't show statistics and cannot give predictions, patients will turn away in favor of another one who can. The consultancy firm that will be able to present statistics and forecasts will be a magnet for clients.

**FRICION # 3.**

**“WE HAVE TO BILL BY THE HOUR.”**

**(HOSTAGE BY UTILIZATION)**

From an economic theory point of view, consultancy is a strange breed. Consultants deliver a service that consists basically of one ingredient (consultancy hours). An ingredient that is also perishable. Even worse, there is no possibility to store this ingredient whatsoever. Once a day is gone, consultants can not recuperate the hours lost.

But there is more trouble. Assume daily costs for a consultant (salary, social charges, PC, telephone, car) of roughly \$600: \$120,000 spread over 200 working days. Next, assume a low 65% utilization and a regular commercial daily rate of \$1,000, then the realized daily rate from a consultant is, on average,  $65\% * \$1,000 = \$650$ . Just enough to cover the day-to-day costs for the consultancy firm of \$600. It explains why rate pressure is so annoying (you need that \$1,000 per day). Why, with 60% utilization, there is no margin left to cover any other overhead. And why consultancy firms like to have juniors doing senior tasks (it moves the average personnel cost of \$600 per consultant downward). Rate cards keep a lid on revenue while the handicaps (perishable, no stock, utilization pressure) continuously drive costs up. Simply put, selling hours makes it almost impossible to hide your profits.

Here's where the friction comes in. Being transparent to the client is at odds with the hourly model because it will drive rates down to cost level. Hence, the hourly model forces consultants to sell mystique about the chances of successful implementation. To sell trust and to commit as little as possible to targets. After all, the consultant partner must create some breathing space in a very tight and stringent financial business model. Selling larger or longer projects is then a logical strategy if it wasn't because all the competition is already there as well (as 99% of consultants serve 1% of the organizations). This competition creates, in turn, pressure on rates while this move was initially made to *avoid* this pressure.

Then there is the 'alternative' of performance-based consultancy. Clients sometimes request this type of payment, but consultants generally shun this. And for the right reasons! If consultants don't accumulate statistics across projects for patterns and predictions, performance-based remuneration is just a giant lottery. Not wise to engage when you have a business model with so little breathing space to begin with.

**FRICION #4.  
“WE USE THE BENCH FOR  
INNOVATION.”**

**(BETTER USE TECHNOLOGY)**

There are two ‘laws’ that drive many Silicon Valley start-ups. First, there is Gilder’s Law, named after the American futurologist George Gilder. The law states that the best business models mainly use/waste a lot of cheap resources and save the more expensive, less available resources. When applied to consultancy, Gilder’s Law implies that computer power (cheap) favors people power (hours; expensive) when improving the consultants’ business model. Simply put: computers when possible, people when needed.

But consultancy firms do the opposite because of The Bench. Sitting on the (virtual) bench are the consultants that aren’t on a project and sitting idle. And these people’s salaries have been paid, so they are considered a free resource until they can get on a client project again.

And that’s where – unfortunately – Conway’s Law kicks in. The American scientist Melvin Conway drafted this law in 1968. This law says, “Each piece of software reflects the organizational structure by which it is produced.” For example, flexibly organized organizations turned out to make software that was much more modular than software developed in more hierarchically oriented companies. In other words, it is always wise to take off your organizational blinders and analyze even better what the market needs.

When consultants are a free resource, it doesn’t make them qualified for another mini-project. “Why don’t you try to make an app for this service of ours?” is well-intended and understandable, but it also a job for someone whose profession it is to make apps.

Plus, when the consultant is suddenly gone off again to work on a client project, this consultant’s temporary bench task may be handed over to someone else. Or not. Paraphrasing Conway’s Law: a “do-it-yourself-while-being-idle” mini-project also delivers a “do-it-yourself-while-being-idle” mini-*result*. And that’s never the quality needed to upgrade the consultants’ business model structurally and create alternative products or services that could lead the consulting partner away from utilization pressure.

**FRICION #5.  
“CONSULTANCY CAN’T BE  
AUTOMATED.”**

**(YES, IT CAN)**

As said, Gilder's Law implies that the consultants' business model favors computer power (cheap) over people power (hours; expensive). As mentioned: computers when possible, people when needed. The problem is: many consultants will contest that consultancy can be automated.

Let's zoom in on that for a moment. Let's follow that junior consultant that is handy with spreadsheets. Her senior manager asked her to participate in doing the analysis work in 10 to 20 projects a year. What happens? Time and time again, she's doing comparable analysis work. She's creating the same tables, making the same histograms, and doing the same spiderwebs. Then, after the 10<sup>th</sup> project, she's become superfast and bored. Ten more projects, and she's thinking about quitting. Ten *more* projects, and she has resigned.

You wonder why almost nobody thinks how this table- and graph production can be automated. Excel is a magic tool. Unfortunately, few consultants can do magic with it. The underlying programming language is called Visual Basic for Excel (VB Excel) and allows you to create the graphs only once so that you just have to put in the data the next time. VB Excel is different from Excel macros. These register what you do once and then repeat it correctly. And if the next customer, for example, has a slightly different division of departments, you're in trouble. With VB, you can explore the edges of your database and automatically create all the graphs.

Ask around the juniors whether they can program in Excel. "Yes!" says 30 percent. Then ask: "When do you use 'Dim i as integer' and when 'On error resume next'?" The answer doesn't matter. If they give you a five-second glassy look, then you already know. If she can't program, the junior has to wait for all the interview responses to arrive. Then it becomes "batch" instead of "real-time." It takes extra-long before you are ready. It's going to be extra expensive. Your margin evaporates on the hours spent. And you cannot scale.

**TAKEAWAYS FROM PART 1:**

**CLIENTS AREN'T UNIQUE  
STOP THE REINVENTION  
UTILIZATION IS A KILLER  
COMPUTERS ARE CHEAP  
AUTOMATE YOUR WORK**

A business model that hinges on friction in a world that effectively becomes friction-free doesn't sound sustainable at all. And such a business model is even not necessary. One could say that consultants make it too difficult for themselves because there are many options to be as frictionless as everybody else. Albeit that these options come at a price. But then, at a very modest price.

More and more scientific proof shows that organizations are not unique but are a unique combination of known ingredients; of known flavors. If consultants can spot these flavors (pattern recognition) and learn how to predict (consistently add data to a specific taxonomy), their transparency will be a refreshing alternative to their competitors. To spot patterns and make predictions, the project data must be compared *across* partners, *across* practices, and *across* national boundaries. That means a little sacrifice in total partner autonomy instead of having to reinvent the wheel. In turn, that requires a more central strategic direction/coordination that currently may not – or not enough – be present in consultancy firms.

If a consultancy firm 'sells' automated graphs or predictions, it's the accumulated work and knowledge of previous projects. The firm can bill for something high-value (e.g., the predicted likelihood of success) for a low-value- (a junior consultant clicking some data together) or a near-zero-value investment (the cost of maintaining a self-service benchmark database)—Gilder's Law in action. And a welcome reprieve for consulting partners managing the stress of irrecuperable lost hours. By selling these 'digital assets,' the direct link between hours worked and fees billed finally gets cut loose.

But these new high-value services can't be made by someone on the bench one day and gone the next. High-value services can't be an afterthought. They require dedication, architecture (in the case of technology), and – although less and less through the proliferation of 3<sup>rd</sup> parties – some investments.

Even without upfront investments, it is possible to bill more while doing less. Automate your work. Start with automating the Excels! Don't ever let them make the same graph more than five times.