EVERY TECHNOLOGY SERVICES COMPANY WANTS TO BUILD ITS CONSULTING PRACTICE, BUT ARE THEY RIGHT TO DO SO?

It sounds like heresy. With digital transformation consulting work growing by almost 20%, technology services companies—and here I'm talking about irms that develop, implement, and integrate software systems, as well as those that provide outsourced IT services—would surely be mad to ignore the opportunity that's sitting on their doorstep.

Escaping the gravitational pull of their legacy business

Right across professional services, there's a growing divide between low-cost services—typically fairly standardised, repeatable work in familiar areas, which organisations buy because they simply don't have (or want) the bandwidth to do themselves—and high-value services, which are those focused on new and emerging issues, where organisations aren't sure of the skills required, and where innovation therefore plays a critical role (cybersecurity and the use of digital technology to reinvent business models would be two good examples).

This divide has been especially acute in the technology services space: Clients don't want to spend more than they have to on optimising their existing ERP systems, when the cloud and agile development techniques promise far-reaching change delivered at a speed they wouldn't have dreamed possible even a handful of years ago. In practice, organisations still need help at the low-cost end of the spectrum—that glitzy new app sits on top of the existing plumbing; data doesn't come out of thin air—but an unwillingness to invest in this area has translated into lower fee rates, declining margins, and a contracting market. Nevertheless, the size and duration of many of the technology projects already underway mean it's going to be years before the full impact of this change is felt. All of this is obvious to the technology services giants: They have a period of time in which to change their businesses, and to escape the gravitational pull of their low-cost services by investing in high-value areas. Like spacecraft seeking to escape a black hole, they're pouring all their energy into creating new business models and sub-brands that will move them away from the event horizon, the point at which it becomes impossible to change.

The biggest escape craft of all is to move into consulting. That's not news: The last 30 years have been marked by periods when technology companies, worried about their prospects for growth, have announced their intention to invest in higher-margin consulting services, only to pull the plug when the economic worm turns.

The question now is whether that same strategy, of diversification into consulting, still makes sense.

Three reasons why the world is different

1

Consulting doesn't mean consulting anymore

Consulting used to be a pretty homogeneous activity. Whether you were working on improving supply chain efficiency or trying to strengthen employee engagement, writing a strategy or designing a new technology platform, you did the same thing (gather data, analyse, recommend) and got paid in the same way (hours put in). Now, it would be a bit of an exaggeration to say that that market doesn't exist anymore, but it is clear that it's more fragmented and heterogeneous. The split into low-cost and high-value work means that some of the work historically done by consultants is now being delivered by robots, and more will be so in the future. Clients may be hiring firms to provide an on-going, managed service that's essentially a more focused and upmarket version of the mass outsourcing of the 1990s. They may be paying a licence fee rather than time and materials. All of which raises the question: What do technology firms mean when they say they're (re)building their consulting practices? Precisely what kind of consulting do they think they're going to do?

2

Greener grass may not be more profitable

The answer to that question is also important because some types of consulting are less profitable and slower-growing than others. We speak to clients who say that they'll pay more for a young person who's brilliant at designing algorithms than a partner in a strategy firm; we speak to others who've negotiated significant discounts right across the consulting spectrum in return for signing an exclusive deal. Technology firms may find themselves leaping out of one low-cost fire into another.

3

The distance to travel is bigger than it used to be

The standard approach to diversification in consulting has been to move to adjacent markets. As with crossing a river, it's safer to step from stone to stone, than to attempt to leap from shore to shore. But tech firms are likely to find that adjacent markets won't take them very far into that all-important digital transformation space. All of our research suggests that clients think that mould-breaking roles can only be played by strategy firms, firms that they think (and perceptions are as important as reality) have the ambition and capability needed to disrupt entire industries. Using traditionally intermediary markets—operational improvement, high-end programme management, for instance—won't take them into this space.

A track record of failure

None of that would matter if technology services firms had shown themselves to be adept at navigating the internal and external hurdles to establishing successful consulting practices. Everything—the culture, the metrics, the pay-scales, the people—are different. As many organisations have found to their cost, technology services and consulting, like oil and water, don't mix. Or at least not without a very long period of heavy shaking, at the end of which, you end up with a frothy, opaque mess that's only fit to be poured over salad.

With all that in mind, it's hard to attribute past failures to any one particular problem, but the issue that's most often cited, in my experience, is leadership. The people who make their way up the career ladder of a technology company, even a technology services company, are brilliant at many things, but understanding how the consulting business model works is typically not one of them. So they do the obvious: They hire people from consulting firms, who are brilliant at many things, but not how technology firms work. Lack of shared experience and a failure to recognise the challenges they each face usually results in tension. That morphs into rancour, and ultimately divorce, as key people leave and as client relationships wither on the vine.

None of that breeds confidence that technology services companies, or the people who run them, are prepared for the new challenges they face today, if they're going to—finally—make anything more than a temporary foray into the consulting space. Solving the three problems we've described above will take more, not less, knowledge of the consulting industry. It will require hard data and a willingness to put egos and empire-building on hold.

The biggest mistake could turn into the biggest opportunity

It's tempting to say that the mistake here is to expect things to be different this time around. Certainly, there appear to be plenty of executives effectively banging the boardroom tables of technology companies and claiming they can really make headway in the consulting market because they've hired more former consultants; are prepared to invest more for longer; and have snappier marketing. All of which they said last time.

But perhaps the biggest mistake is to assume—as they did last time—that building substantial consulting businesses is the answer. Indeed, most large consulting firms assume that they need to become a bit more like technology firms, not just in terms of having the depth of technology capabilities clients are clearly looking form, but in converting some of their consulting processes into software assets that promise annuity revenues rather than the hit-and-run billing that's been at the heart of the traditional consulting business model. Why would technology companies be any better at consulting than consulting firms?

There are two specific opportunities here.

1 Building a "solutions business"

The first is that consulting firms, while many may be moving their business models closer to those of technology firms, don't want to be technology firms—that wouldn't make economic sense either. Long-term success may well depend on a different model, on developing industry-specific solutions that combine fast, smart software with human expertise. We expect a new breed of professional services firm to emerge in the future, that won't be structured around practice areas (groups of people in consulting, technology, and the myriad of different skill sets within these), but around a solution with a tangible outcome—reducing R&D costs, harnessing drones technology to increase supply chain efficiency, cybersecurity, streamlining maintenance and repair operations, employee mobility... Rather than having organisations that are structured around capabilities or sectors, the professional services firm of the future will be made up of multiple solutions, each of which will contain software assets and different, human capabilities.

2 Entering other professional services markets

Consulting isn't the only professional service to offer an escape route for technology firms. The number of acquisitions made by some firms in the digital marketing space indicate the extent to which they recognise this is the case. However, the increasing automation of work done by junior people across a much wider range of professional services is creating new, and potentially greater scope for growth. Expertise has always been one of the key factors that has prevented convergence in professional services (the other being regulation). Historically, the level of investment required of a technology firm to enter, say, the legal services or audit markets has been far too high. Moreover, there's been little obvious rationale: Why would a technology firm do this? Automation—because it promises to replace swathes of work done by junior people at the bottom of the professional pyramid—means that technology firms are just as well placed as law and audit firms. They may even be better placed: Many clients we speak to think that it will be easier for technology firms to acquire or recruit legal and audit capabilities (which they'll ultimately embed in their software), than it will be for legal and audit firms to make and support good, reliable software.

In summary...

Technology companies, by focusing their efforts and attention on trying to replicate what consulting is today, may miss the opportunity to become what a professional services firm will be tomorrow.

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