

A Strategic Audit  
of a  
Management Consulting Firm

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and

FRANK CHARLES GRAVES

Submitted to the Sloan School of Management on  
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Science in Management

ABSTRACT

The concepts of strategic planning are discussed, followed by a description and critique of three widely used methods of strategic planning: growth/share portfolios, market attractiveness/ business position profiles, and industry maturity/position portfolios. A model of the strategic planning process is formulated which, when coupled with the market attractiveness/ business position profile strategy technique, is appropriate for examining service organizations and professional service organizations in particular.

This framework is applied to a marketing consulting firm to diagnose its current portfolio of business and make recommendations for change. Information from four sources is used: interviews with key personnel at the firm, industry sales statistics, interviews with clients, and interviews with competitors.

The results of the study are in five parts. First, the consulting firm is divided into eight strategic business units defined primarily along industry dimensions. Second, these business units when assessed for market attractiveness and competitive business position are found to be widely distributed along these measures; however, no business unit is diagnosed as having both low market attractiveness and poor business position. Third, subjective projections of factors critical for business unit success reveal businesses gradually moving toward the extremes of high and low market attractiveness and business position, some businesses having the potential to drop to low market attractiveness and poor business position. Fourth, three alternative strategies are presented to close gaps between

organizational objectives and the projected business portfolio: market research/planning, industry consulting, or strategic planning. Although a cautious recommendation is made to focus on market research/planning, the actual strategy selection should follow an iterative process where organizational and professional goals are compared to the requirements and results of strategic options. Finally, organizational and marketing changes are suggested to complement any strategy choice. These general recommendations emphasize staff development, management efforts, increased promotion, and improved presentation/report style.

The case study is a strategic audit, not a complete strategic planning exercise. It points out areas of concern and possible options. In-depth investigation by line management is required to sort out the details necessary to formulate and implement a polished strategic plan.

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## TABLE OF CONTENTS

I.	INTRODUCTION .....	7
II.	STRATEGIC PLANNING METHODS .....	9
II.A.	The Attributes of Strategy	9
II.A.1	Basic Concepts	9
II.A.2	Goals and Objectives	11
II.A.3	Levels of Strategy	12
II.A.4	Strategy and Organizational Structure	13
II.A.5	Strategy Definition	14
II.B.	Construct for Strategy Formulation	15
II.B.1	Introduction	15
II.B.2	Strategic Business Units	16
II.B.3	Experience Curve	18
II.B.4	Economies of Scale	19
II.B.5	Product Life Cycle	20
II.B.6	Integration	21
II.C.	Applied Strategic Planning Techniques	23
II.C.1	Introduction	23
II.C.2	Growth/Share Portfolio	23
II.C.2.a	Method	23
II.C.2.b	Critique	28
II.C.3	Market Attractiveness/Business Position	30
II.C.3.a	Method	
II.C.3.b	Choosing Critical Factors	33
II.C.3.c	Critique	35
II.C.4	Industry Maturity/Position Portfolio	38
II.D.	Strategy Formulation Process Model	40
III.	INTRODUCTION TO CASE STUDY .....	45
IV.	GENERAL INFORMATION ON FIRM AND ENVIRONMENT.....	47
IV.A.	Overview of Econology	47
IV.A.1	History	47
IV.A.2	Description of Services	47
IV.A.3	Client Base	51
IV.A.4	Organization	51
IV.B.	Overview of Industry	56
IV.B.1	Introduction	56
IV.B.2	The Management Consulting Industry	56
IV.B.3	The Market Research Industry	59
IV.B.4	The Industrial Market Research Industry	62
IV.B.5	Summary	65
V.	DEFINING THE BUSINESS.....	66



V.A.	Basic Dimensions of Business	66
V.A.1	Methodology	66
V.A.2	The Customer Dimension	69
V.A.3	The Function Dimension	70
V.A.4	The Technology Dimension	72
V.B.	Salient Subdimensions	75
V.B.1	Potential Segmentation Criteria	75
V.B.2	Lack of Accounting Data	75
V.B.3	Study Type	78
V.B.4	New-Repeat	79
V.B.5	Firm Contact-Function/Purpose-Technology- Expertise	79
V.B.6	Industry	80
V.C.	Other Factors Defining SBUs	80
VI.	SBU PROFILES .....	82
VI.A.	Explanation of Procedure	82
VI.B.	Profile Results	85
VI.C.	Information from SBU Principals	89
VI.C.1	Methodology and Results	89
VI.C.2	Definitions of Critical Success Factors	96
VI.C.3	Definitions of Critical Market Factors	116
VI.D.	Industry Sales Analysis	119
VI.E.	Information from Client Interviews	130
VI.E.1	Methodology	130
VI.E.2	General Use of Consultants	134
VI.E.3	Shopping Policies	136
VI.E.4	Use of Specific Consulting Firms	139
VI.E.5	Value-Added from Econology Studies	143
VI.E.6	Satisfaction with Econology's Services	145
VI.E.7	Summary	150
VI.F.	Information from Competitor Interviews	154
VI.F.1	Methodology	154
VI.F.2	Industrial Marketing Associates	156
VI.F.3	H. Pifer & Co.	157
VI.F.4	Sigma Consultants, Inc.	159
VI.F.5	Other Potential Competitors	162
VI.F.6	Summary	163
VII.	GAP ANALYSIS AND OPTION IDENTIFICATION.....	166
VII.A.	Projecting the Portfolio	166
VII.B.	Organizational and Individual Goals	167
VII.C.	Strategic Alternatives	172

VII.C.1	Framework	172
VII.C.2	Status Quo	172
VII.C.3	Three Alternative Strategic Options	175
VII.C.3.a	Market Planning/Research	178
VII.C.3.b	Industry Consulting	182
VII.C.3.c	Strategic Planning	182
VII.D.	Specific Strategic Recommendations	192
VII.E.	General Recommendations	195
VII.E.1	Organizational Suggestions	195
VII.E.2	Compensation System	196
VII.E.2a	Current System	196
VII.E.2b	Measuring the Efforts of Consultants	197
VII.E.2c	Bonus Pool	198
VII.E.3	Marketing Suggestions	199
VII.E.4	Suggestions for Further Strategic Planning	201
VIII.	CRITIQUE AND CONCLUSIONS,.....	203
Bibliography		206

## I. INTRODUCTION

The last twenty to thirty years have seen the rapid emergence of a new discipline: corporate strategy. It is a relative newcomer to business schools and industry because its development has closely paralleled the recent growth in the number of large, product/divisional firms with their many layers of organizational hierarchy and numerous diversified products in widely dispersed markets. At present, the discipline has reached a stage of being useful but imprecise. There is some broad agreement on what strategy is, and basic tools have been developed to facilitate its formulation in certain settings. However, the methods and theories are not fully integrated with other business functional disciplines, nor are they robust enough to apply generally without enormous amounts of subjective judgement. In the parlance of one of the more successful strategy models, corporate strategic planning is probably a "question mark" in the portfolio of business functions and methodologies.

Most of the strategic planning models in use today were conceived with major manufacturing industries in mind as the source data (and as potential clients of the methods). As such, they are shaped by the economics of production common to such businesses.

The purpose of this thesis is to take the current models out of that context and apply them to a very intangible service

industry, management consulting. We will first examine the main concepts of strategy formulation and then describe and critique three widely used methods of strategic planning. We then specify our own model of the strategic planning process which we believe is general enough to be applicable to both manufacturing and service industries if the tools used in specific steps are chosen carefully. The balance of the thesis is a test of our approach through a case study of a marketing consulting firm considering broadening its involvement in management consulting.

We wish to thank the consulting firm and its staff for the opportunity to work with them. They were very patient and candid in providing information and support for us to test the methods of strategic planning while we developed our skills as consultants. Their clients and competitors were also very gracious in consenting to be interviewed for this study. Finally, we extend our thanks to our thesis chairman, Prof. Arnaldo C. Hax, for his academic and personal support throughout the project.

## II. TRADITIONAL STRATEGIC PLANNING METHODS

### II.A. The Attributes of Strategy

#### II.A.1 Basic Concepts

One of the frustrations of the corporate strategy discipline is that it is relatively easy to normatively describe what corporate strategy is but very difficult to translate that into specific plans. This is nicely exemplified by the basic definition given by Chandler, for whom strategy is

...the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals<sup>1</sup>

Clearly strategy is intimately tied to the goals of the organization; a strategy is only meaningful as a means to an end. But it is also intuitively apparent that strategy is not something that can be chosen and imposed on an organization purely on the basis of the goals of management: "Strategy is more condition-driven than ambition-driven."<sup>2</sup>

Most approaches recognize that strategy is concerned with the relationship of a firm's skills and resources to the opportunities in its market environment. For example, Salter describes a six-stage strategic planning process:<sup>3</sup>

<sup>1</sup>Chandler, Alfred D., Jr., Strategy and Structure: Chapters in the History of the American Industrial Enterprise (M.I.T. Press, Cambridge, Mass., 1962) p. 13.

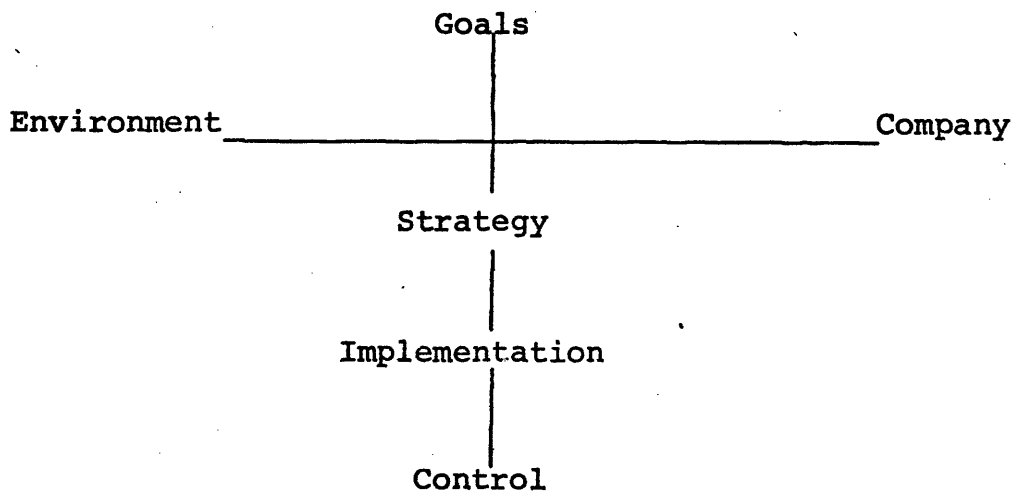
<sup>2</sup>Blackmer, Kathleen C., "Principles of Strategic Planning," A Management System for the 1980s (Arthur D. Little, Inc., 1979) p. 9.

<sup>3</sup>Salter, M.S. and Weinhold, W.A., Diversification through Acquisition, Strategies for Creating Economic Value (The Free Press, St. Paul, Minnesota, 1979) pp. 49-64.

1. Gather strategic intelligence
  - .what the company does and how it defines its business
  - .company strengths and weaknesses
  - .future opportunities and risks
2. Set strategic goals and objectives
3. Define alternative policies for achieving objectives
4. Choose a strategy
  - .an internally consistent set of policies which fit the resources and purposes of the firm
5. Develop a time sequence for implementation
6. Review the strategy's performance and assumptions

Here we see that goals and strategy are determined based on the company's strengths and weaknesses relative to future opportunities and threats.

To use a model like the above, it is necessary to be more specific about the strategic intelligence data base compiled in step one. Bowman summarizes the strategy model implicit in many corporate policy textbooks and is more specific about the source and nature of strategic information. His model is visually represented as follows:<sup>4</sup>



<sup>4</sup>Bowman, Edward H., "Epistemology, Corporate Strategy, and Academe," Sloan Management Review, Winter 1979, pp. 35-50.

This model begins with goals, which include profit, growth, risk aversion, and social responsibility objectives; these may be conflicting and reconcilable only through tradeoffs. The environment dimension is an assessment of the levels and trends of products, customers, competition, technology, and the implied opportunities or risks for present, near, and potential products/markets. The company's strengths and weaknesses are measured relative to its own past, other firms, and normative or ideal standards. Strategy is the decision of how to expand, add, modify, or eliminate some aspects of the company's "product/market domain." This may be done with market segmentation, product differentiation, innovation, price leadership, etc. In effect, the strategy is an attempt to earn monopoly rents on factors unique to the firm.

#### II.A.2 Goals and Objectives

Implicit in the above models is the idea that goals, objectives, and strategies have different levels corresponding to levels and business units in the organization. We will use the term "goals" to refer to general, open-ended aspirations of an organization, such as maximizing profits or improving the community arts programs. "Objectives" will mean specific, achievable targets which are necessary steps in the attainment of goals. As such, an objective requires the goal, a target value, and a time frame within which the target value is to be realized.<sup>5</sup> Goals and objectives at any level of the

<sup>5</sup>Hofer, Charles W. and Schendel, Dan, Strategy Formulation: Analytical Concepts (West Publishing Co., 1978) pp. 20-22.

organization should be consistent with themselves (or ranked with priorities to resolve conflicts) and with available strategies.

There is some disagreement in the literature over when goals, objectives, and strategies should be set in the strategic planning process. In practice, they are probably all defined iteratively, but it is useful to partially separate goal and strategy formulation. This allows the organization to set higher aspirations than it might if the two were merged while allowing moderation of unrealistic desires. Strategy is not comprised of marginal changes in existing operations to improve efficiency; it is concerned with appropriate responses to infrequent changes in the conditions for effectiveness.

The specification of tentative objectives is also a necessary precursor to strategy formulation; these may be refined after specific strategies are selected. To keep the goals and strategy tightly linked in the implementation phase, it is a good idea that final objectives be defined in terms of variables used to assess and select the strategy. These objectives identify the performance expectations for each business or program in terms of sales, growth, market share, return on investment, net income, cash flow, etc.

### II.A.3 Levels of Strategy

In order to be operationally useful, corporate objectives should be factored into business unit objectives and then into business functional objectives. Corresponding to objectives, there are three levels of strategy:



1. Corporate level, addressing the question of what set of businesses the firm should be in;
2. Business level, addressing how to compete in particular product/market segments; and
3. Functional level, addressing the maximization of resource productivity at the business level.

#### II.A.4 Strategy and Organizational Structure

It is important to recognize that a strategic decision may require a change in organizational structure. This interaction of strategy and structure is described in much of the literature; indeed it is the main thesis of Chandler's Strategy and Structure that "structure follows strategy." Greiner is more specific on this relationship.<sup>6</sup> He suggests that as firms grow through stages from the entrepreneurial, single product business to multi-product/market enterprises, there will be transitional crises in the capacity of the organizational structure to meet the demands placed upon it. At such times it will be insufficient to simply enlarge the organizational structure with more layers and more people. Instead, complete reorganizations will be necessary with the structure (and particular managers) chosen based on the ability to accommodate the problems of the organization in the new phase. Moreover, this evolution of organizational structure is a reasonably well-defined sequence observed in most firms: from entrepreneurial to functional, product-divisional, central with divisionalization, and finally matrix structure. Thus, an important input and

<sup>6</sup>Greiner, Larry E., "Evolution and Revolution as Organizations Grow," Harvard Business Review, July-August 1972, pp. 37-46.

output of strategy analysis is organizational diagnosis. Some of the key elements to be considered are:

- |                            |                                 |
|----------------------------|---------------------------------|
| .size of organization      | .reporting/measurement process  |
| .organizational structure  | .reward system                  |
| .program structure         | .communication channels         |
| .formal and informal norms | .management style of key actors |
| .source and locus of power | .types of personnel             |

#### II.A.5 Strategy Definition

Synthesizing the ideas in the above descriptions of strategy, we see that a prerequisite to strategic planning is the compilation of a data base 1) on the opportunities and risks in the environment of each of the firm's business areas and 2) on the company's strengths and weaknesses in terms of specific and hopefully unique skills and resources. This should include a profile of the formal and informal aspects of the organizational structure. Corporate goals should be formulated and expressed in operational terms as objectives. A strategy can then be formulated as a specific set of action plans and resource allocations at the corporate and business levels which modify the firm's participation in its product/market segments to achieve a fit between the firm's skills, opportunities, and objectives.

To move this definition out of the normative realm and into the applied, it must be related more specifically to the operational realities of corporations. It needs methods or constructs to depict and compare strategies and processes to integrate strategy formulation with the points of access to information and loci of decision making in the firm. The next section addresses these issues.

## II.B. Constructs for Strategy Formulation

### II.B.1 Introduction

There are a few concepts which are the economic framework for most of the corporate strategy methods and models in widespread use. These will be introduced and described in this section of the thesis.

The first is the Strategic Business Unit (SBU), which is the basic unit of analysis for strategy formulation. Roughly speaking, SBUs are the firm's clusters of product-market segments related to each other by demand or supply-side factors. Strategic plans are directed at manipulating SBUs, which may not strictly correspond to organizational units.

There are three simple models of production and market growth which are fundamental to the common strategy methods:

- .Experience Curve (EC) - the pattern observed in many firms that product unit costs fall by 15-30% for every doubling of cumulative production

- .Economies of Scale (ES) - decreases in unit costs due to increasing the scale of production (or distribution, etc.) to an efficient level

- .Product Life Cycle (PLC) - the marketing concept that the per period dollar volume of industry sales for a product starts slowly, grows rapidly, then levels off.

Each of these effects has implications for the performance of SBUs and for corporate strategic plans. We will examine three strategy models which rely heavily on these three concepts: the growth/share portfolio, the market attractiveness business position profile, and the industry maturity-position portfolio. For each we will discuss and briefly critique the methods of

determining corporate and business level strategy. Academic concepts from finance and industrial economics will provide alternative views of firm valuation and performance.

### II.B.2 Strategic Business Units

The business units below the corporate level for which objectives and strategies must be specified are called strategic business units (SBUs). SBUs are basically intersections of products and markets combined (or broken down) such that each is

"the largest monolithic segment that allows for a proper assessment of internal strengths and environmental opportunities, and that can be treated as a separate entity in terms of the resource allocation process."<sup>7</sup>

The appropriate definition of SBUs is an extremely important step in the strategic planning process as all measurements and recommendations are made with respect to these units. Some definitions will lead to superior results than others. Unfortunately this is one of the less well-developed areas of the theory, but there are a few guidelines for choosing meaningful SBU boundaries.

Abell and Hammond suggest that SBU definition begins with the firm's product-market modules described in terms of three dimensions:<sup>8</sup>

- 1) Customer group - who is being served
- 2) Function - what need is being satisfied
- 3) Technology - how needs are being satisfied

<sup>7</sup>Hax, Arnolndo C. and Majluf, N.S., "Toward the Formalization of Strategic Planning - A Conceptual Framework," Sloan School of Management Technical Report No. 7, M.I.T., December 1978, p.10.

<sup>8</sup>Abell, Derek F., and Hammond, John S., Strategic Market Planning, Problems and Analytical Approaches (Prentice-Hall, Englewood Cliffs, N.J., 1979) pp. 391-407.

To some extent, each of these may be independently manipulated. Hence, it is necessary to make explicit choices on the scope of participation in each dimension. There may be cost efficiencies or different internal functional requirements for broad versus narrow definitions. Obviously the firm must recognize whether it has the skill and resources to handle a broad definition. A related issue is the extent to which the SBU will segment and differentiate its participation under different product-market definitions. Here the issue is the costs and benefits of customizing the product, which depend on the determinants of buyers' behavior and economies of standardization versus penalties or risks from specialization.

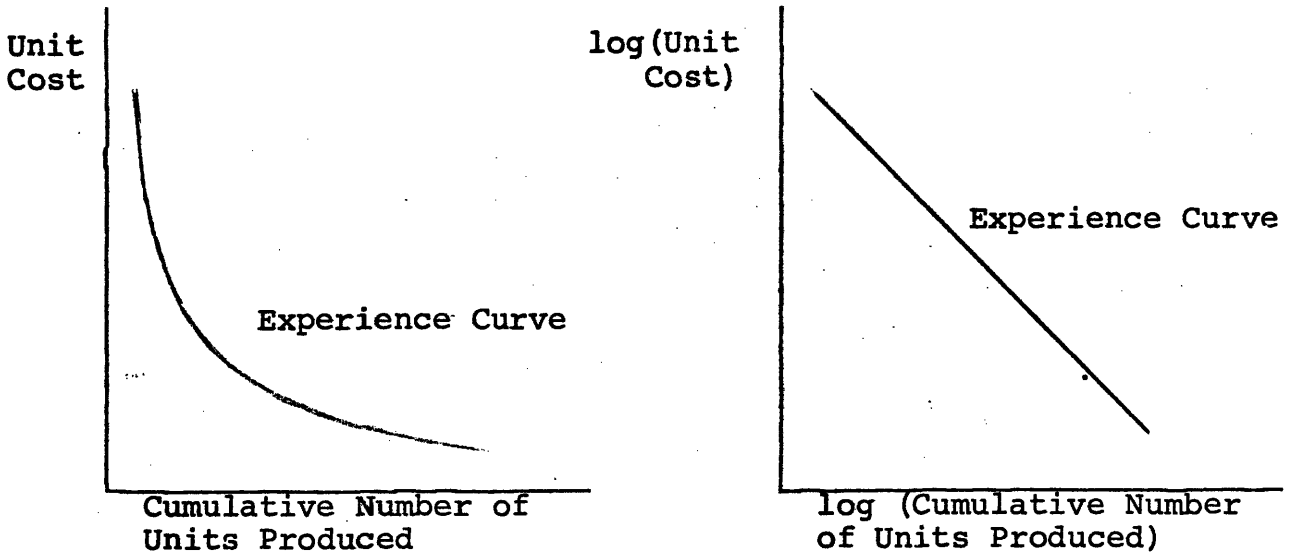
The definition of SBUs should consider both demand and supply side factors in the firm's markets. Hence shared functional systems (particularly production, marketing, and distribution) may suggest using a higher level of aggregation than the most elementary units. Common costs or common critical success factors between units may reveal these joint effects. The availability of information can be a constraint here, particularly if the prospective SBUs do not correspond to existing organizational units. This may limit the definition to units comparable to existing structures, particularly if the firm is undertaking strategic planning for the first time. On the other hand, this is not necessarily bad in that it is necessary and appropriate to recognize the full range of constraints imposed by the formal organizational structure or informal norms and mechanisms of the firm.

Another useful input is the apparent SBU structure used by competitor firms. While this can only be inferred, it can identify strategic opportunities if any major portion of the possible customer x function x technology spectrum is not being addressed. Whatever SBU structure is chosen, the final test should be an intuitive check that the proposed units can be strategically analyzed and autonomously managed.

While the SBU definition may not initially correspond to existing organizational structures, it is reasonable to expect that the two should come into line over successive strategic planning cycles. The conflict between them creates difficulties in the strategy formulation analysis and the control of strategic plans after they are put into operation. However, since organization redesign only occurs discontinuously at widely spaced intervals, there will always be some gap between formal structure and the optimum design for the latest strategy.

### II.B.3 Experience Curve

The Experience Curve (EC) is an empirically observed pattern of unit costs' behavior. For the products of many manufacturing firms, each firm's product unit costs tend to fall by a constant percentage with constant percentage increases in the cumulative number of units produced; 15-30% reductions for every doubling of cumulative production are commonly cited. Thus, the logarithm of unit costs is a linearly decreasing function of the logarithm of cumulative units produced.



EC effects arise from many facets of a firm's production: there may be a learning curve for labor and management, improved processes (line balancing), product (and component) standardization, or a more efficient input resource mix, and so on. For a firm to capture its experience curve benefits, it must look at the cost histories of individual components of products and at components' current or potential shared experience between different products. Recognizing such interactions is important in beginning to identify supply-side factors in defining SBUs.

#### II.B.4 Economies of Scale

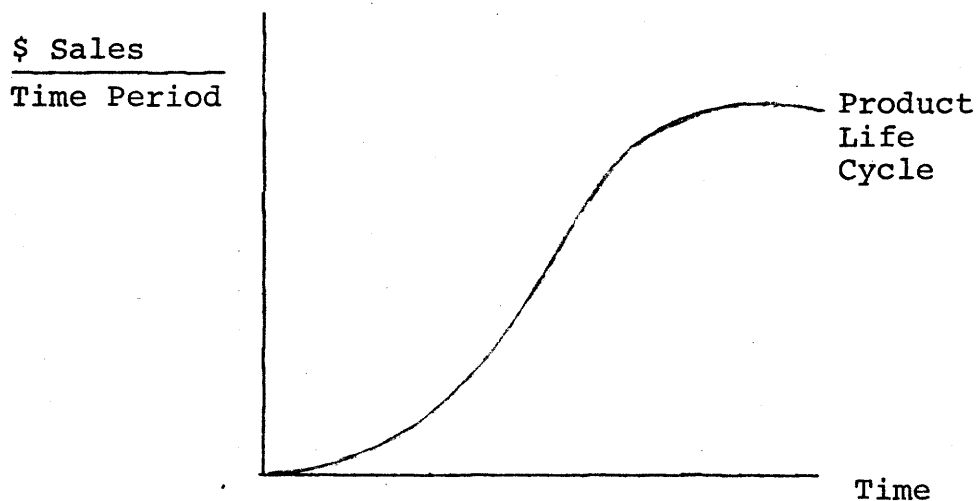
Economies of Scale (ES) are present in the technology of production if it is possible for the firm to increase its outputs with a less than proportional increase in the total cost of inputs. Clearly this is related to experience curve effects. However, in common usage the two are separated by restricting the former to mean benefits from increasing the scale of production.

ES effects may occur for several reasons. There may be techniques of production which are very efficient but only

possible for large scale operations. If a firm's output is large enough, it can have its staff specialize in particular tasks to capture learning curves more quickly. There may also be scale economies arising from the more stable behavior of a large number of customers; for example, product inventory may not need to increase proportionally to sales.<sup>9</sup> While many ES cost reductions come from the scale of production facilities, they may also arise in marketing, distribution, purchasing, etc. and in managerial overhead functions like information systems.

#### II.B.5 Product Life Cycle

The Product Life Cycle (PLC) is another observation which has a more empirical than theoretical basis. It is the S-shaped pattern of a product's industry sales per period plotted against time. Equivalently, sales growth is low when a product is first introduced, but it climbs rapidly after consumer acceptance and ultimately levels off to the growth rate of the economy as a whole (or even declines):



<sup>9</sup>Mansfield, Edwin, Microeconomics (W.W. Norton & Co., Inc., New York, 1975) pp. 142-143.



At different stages over a product's life cycle, there will be different functional requirements or management activities that are necessary and appropriate for serving the market. Some of these will be summarized subsequently. One difficulty with the PLC is that it cannot be readily measured until after the fact.

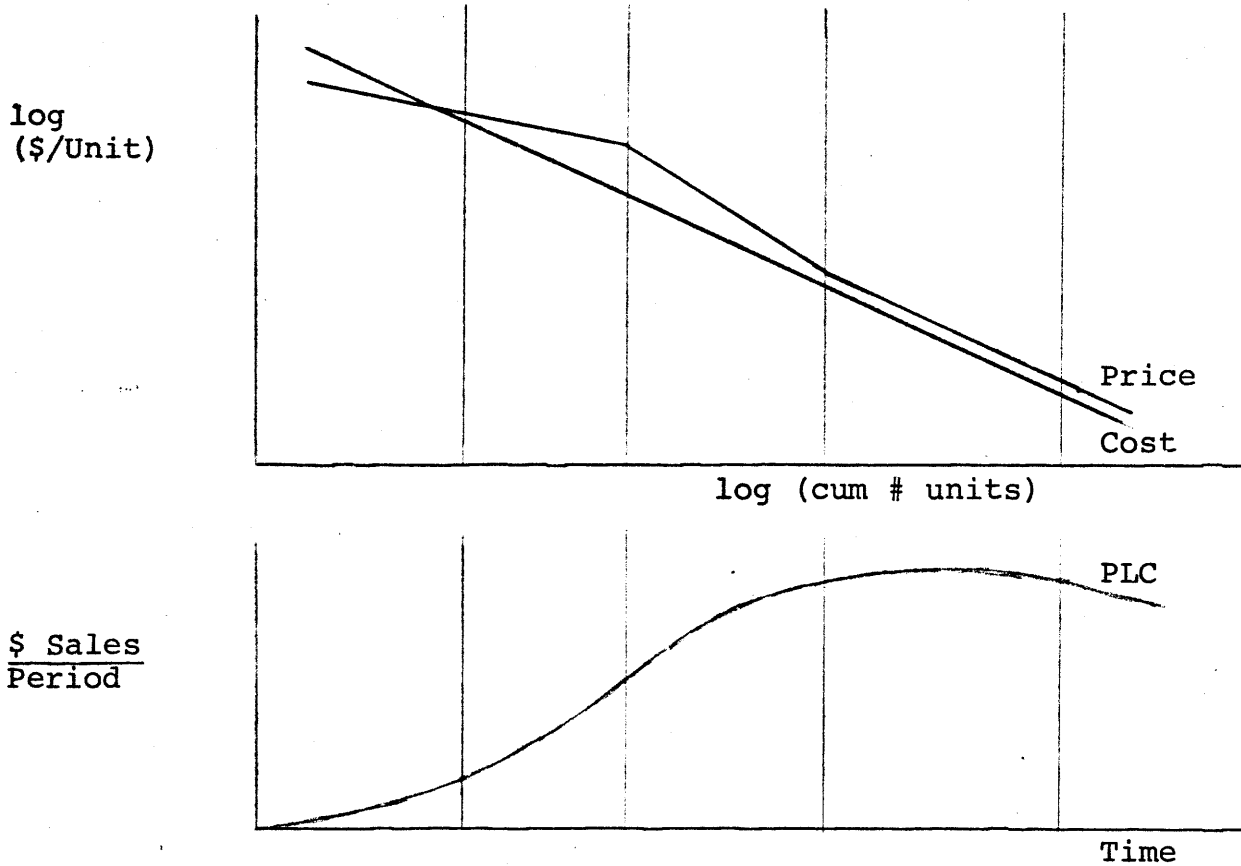
#### II.B.6 Integration

The Boston Consulting Group has studied the relation of price to cost for goods which exhibit EC and PLC effects. It finds the price often starts below cost but does not decline as rapidly as cost until the high margins attract competitors. Their entry causes the price to fall rapidly until appropriate profits are realized; subsequent margins remain roughly constant over the rest of the EC.<sup>10</sup> This pattern plus some of the functional requirements at different stages of the PLC are summarized in Figure 1.<sup>11, 12</sup>

<sup>10</sup> Abell, op cit., p. 116

<sup>11</sup> Hofer, op cit., p. 108

<sup>12</sup> Hax, op cit., p. 38



	Time				
PLC Stage	Embryonic	Growth	Shakeout	Mature	Aging
Managerial Style	Entrepreneur	Market	Manager	Critical Administrator	Opportunistic Milker
Planning by:	Product/ Customer	Product and Program		Product/ Market/ Function	Plant
Communication System	Informal, tailor-made	Formal, tailor-made		Formal, Uniform	Little or None
Technological Change, Product: Process:	Very Great Slight	Great Moderate	Moderate V. Great	Slight Moderate	Slight Slight
Major Functional Concern	Market Research, R & D	Engineering	Production	Value Analysis Data Processing	Purchasing

FIGURE 1  
EXPERIENCE CURVE, PRODUCT LIFE CYCLE, AND MANAGERIAL ACTIVITY

## II.C. Applied Strategic Planning Techniques

### II.C.1 Introduction

There are several strategy formulation methods which apply these concepts to corporate and business level planning. The most well-known is the growth share portfolio of the Boston Consulting Group (BCG); this model relies almost exclusively on experience curves, economies of scale, and product life cycles to design strategy. A more general approach is the market attractiveness-business position portfolio developed by General Electric and McKinsey & Co. In this method, EC, ES, and PLC are only one of several inputs to the planning process. Arthur D. Little, Inc. (ADL) has a hybrid method, analyzing corporations in terms of the PLC and general business position factors.

### II.C.2 Growth/Share Portfolio

#### II.C.2.a Method

The BCG approach to strategic planning begins with the awareness that the PLC and EC/ES effects are complementary; it is easiest to double a product's cumulative production in the early stages of its life cycle. A firm that vigorously invests in production when a new product is introduced may quickly gain a cost advantage over competitors and consequently have the lowest price. As the low price attracts and keeps customers, the low cost producer gains market share, allowing further benefits from economies of scale and additional experience curve efficiencies. The market leader will enjoy the largest volume and highest profit margin.

BCG has developed a method for integrating and coordinating the attempts of all of a firm's SBUs to exploit market leadership and experience curve effects. First, the firm should determine the market growth and relative market share for each of its SBUs. Market growth rate is a surrogate measure of the PLC; relative market share (SBU market share/market share of the largest competitor) is a measure of position on the EC. All SBUs are then classified as:

	<u>Symbol</u>	<u>Market Growth</u>	<u>Relative Market Share</u>
Cash Cows	\$	low	high
Dogs	X	low	low
Stars	*	high	high
Question Marks	?	high	low

The corporation as a whole can then be represented as a portfolio (or menagerie) of these four SBU types.

BCG assumes each type of SBU will have a different financing need. Cash cows are more than self-sufficient, generating cash beyond their reinvestment requirements. Dogs will break even or lose cash, and stars will break even or generate a small excess. Question marks will need injections of cash from other sources to finance their growth.

BCG does not distinguish sharply between corporate and business level objectives. "Every business within a corporation has a purpose, and that purpose is to generate cash or generate growth."<sup>13</sup> This is in effect a qualitative net present value (NPV) maximization objective. BCG is more specific in recommending corporate level strategy. The proposed approach is to

<sup>13</sup>Zakon, Alan J., "Growth and Financial Strategies," The Boston Consulting Group, 1971, p. 28.

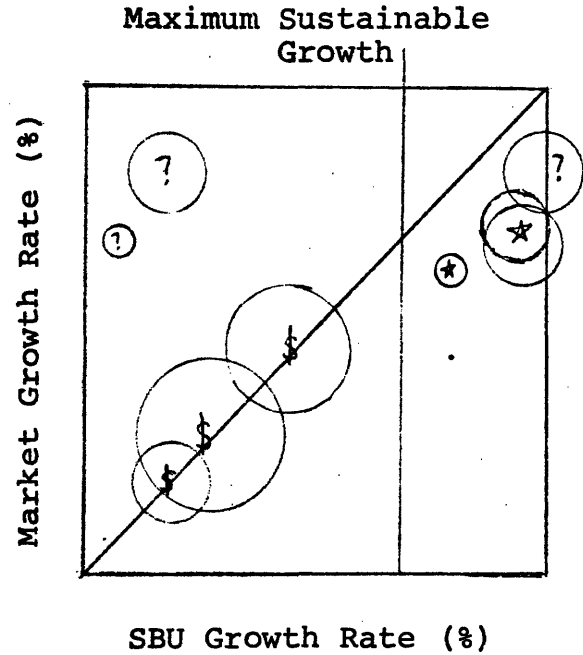
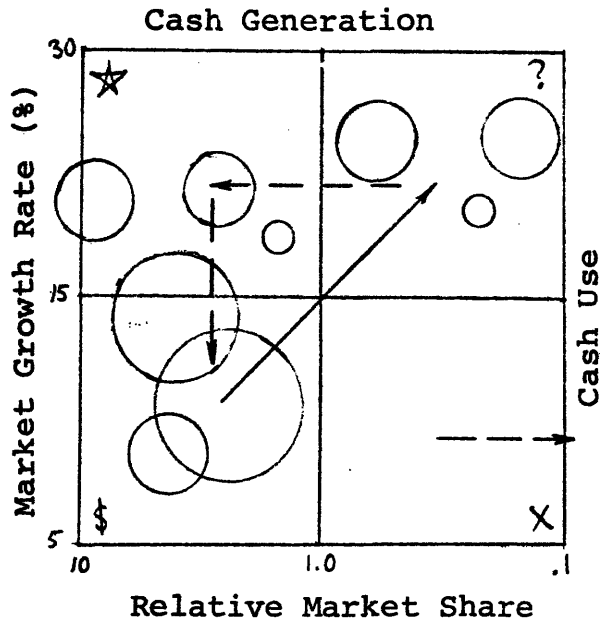
utilize the SBUs' differing financing needs to integrate their respective efforts to move down the EC in such a manner that the performance of the firm as a whole is optimized. This may require some SBUs to pursue strategies which would be suboptimal if they were stand-alone businesses; on the other hand, it allows other SBUs to pursue strategies more aggressively than they otherwise could.

Specifically, the optimal corporate strategy is to use excess cash from the cash cows to grow the better question marks into stars. Since the question marks are not their markets' leaders, this will require rapid investment to increase market share, particularly concentrating on market segments which potentially can be dominated. The weaker question marks should withdraw from their markets or at most hold share by keeping prices and costs below the market leader. Stars should strive to move further ahead of their followers (competitors) by investing in anticipation of future need. Eventually they will evolve into cash cows. Cash cows in mature markets should hold their dominant shares and, as mentioned, spin off cash to question marks. Cows in declining markets should be "harvested," i.e. tapped for maximum cash flow at the expense of market share by not reinvesting them in Dogs should be removed, either through gradual withdrawal or through divestment.<sup>14</sup> The strategic positions and intended movements of all the firm's SBUs can be visually displayed in a growth/share portfolio chart. The example in Figure 2 depicts an

<sup>14</sup> Abell, op. cit. p. 185

optimal portfolio of SBUs in that there is a nice balance in the number and sizes of cash cows, stars, and question marks.

A firm should strive for its stars and good question marks to grow faster than their markets, dogs and bad question marks to grow slower (or not at all), and cash cows to stay even with their market's growth. If the weighted average of growth rates for a firm's SBUs is below the firm's "maximum sustainable growth rate," the firm can achieve higher growth. The maximum possible rate is calculated assuming no new equity financing; it is a function of the after tax return on assets, the after tax cost of debt, the debt/equity ratio, and the earnings (cash) retention rate. The growth performance of each SBU should be displayed in a growth/gain matrix. The matrix in Figure 2 corresponds to the growth/share portfolio; it depicts SBUs whose growth rates are optimally related to their markets' growth.



BCG Growth/Share Matrix

( optimal portfolio of SBUs)

- = SBU, area proportional to sales
- \* = star ? = question mark
- \$ = cash cow X = dog

- > = optimal cash allocation pattern
- - - - -> = optimal evolution of SBUs

BCG Growth/Gain Matrix

( optimal SBU growth rates)

Maximum Sustainable Growth:

$$G = \frac{D}{E} (R-i)P + R \cdot P$$

D/E = debt/equity

R = after tax return on total assets

i = interest rate on debt

P = % earnings retained

FIGURE 2

BCG CONSTRUCTS FOR SBU POSITION AND GROWTH ANALYSIS

In summary, the BCG strategy is to have SBUs pursue market leadership through quickly capturing experience curve effects at the beginning of each product's life cycle. The corporate portfolio of SBUs is optimized by funneling cash from the strong, mature SBUs to those with the greatest PLC/EC potential, with the objective being to generate cash or growth. Corporate strategy strongly determines the objectives of individual SBUs, but there is little guidance given on how those SBUs should pursue their targets, i.e. business strategies are not proposed.

#### II.C.2.b Critique

The strength of the BCG method is its simplicity and clarity. Using the growth/share chart, it is very easy to interpret and compare the positions of SBUs and to understand the economic implications of proposed strategies. It is most applicable to firms in which the production function exhibits the underlying PLC, EC, and ES effects, such as manufacturers of commodity-type consumer goods. Even in those environments, it is imperative that the planner ascertain that the supposed relationship between market share, market growth and cash flow is a reality.

On the negative side, it basically recommends only one kind of strategy, that of standardization and low cost market leadership. An equally or more attractive strategy might be to pursue product customization, where features other than price would be critical to success. Service industries are in this category. In general, the more intangible the



product, the less useful is the BCG method of analysis. Another significant problem is that the model has many assumptions about capital markets which violate the theories and empirical findings of financial economics. In particular, the ideas of maximum sustainable growth and benefits of internal financing are questionable, but a discussion of these problems is beyond the scope of this study.

### II.C.3 Market Attractiveness/Business Position Profile

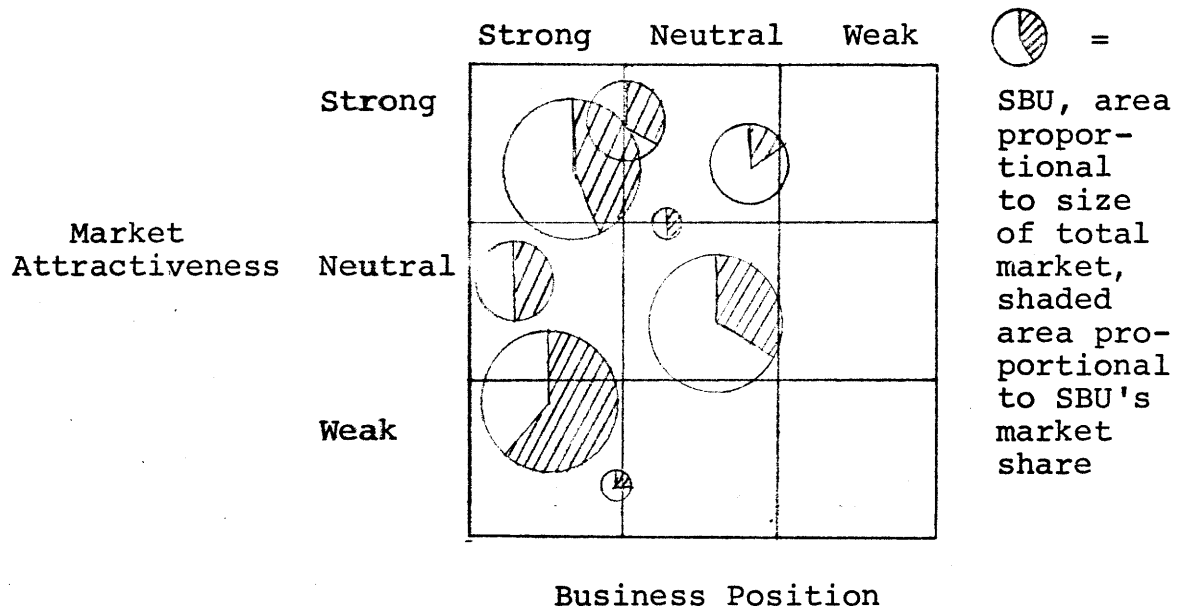
#### II.C.3.a Method

A more general approach to strategy formulation is to consider market growth and relative share to be only two of many factors affecting performance, and cash flow or growth to be only a subset of possible goals for the firm. The market attractiveness/business position (MA/BP) profiling method (used by General Electric Corp.) allows managers to set multiple criteria for assessing the strategic position of SBUs relative to a multiple objective set.

This method begins with the managers of each SBU identifying six to eight critical market factors (CMFs) which are attributes making any market "attractive" for entry by their business unit. A similar list of six to eight critical success factors (CSFs) is compiled; these are attributes of the firm or industry environment which the managers can manipulate to alter the competition positions of firms in that market. For both lists, the factors are weighted in terms of relative importance, the desirable direction of each factor is identified, and the SBU is rated on each factor for its position relative to the optimum. That is, the SBU's industry attractiveness is rated relative to all industries, and the SBU's business position is rated relative to its competitors in its current industry. These weights and ratings should be ordinal measures, although expressed numerically; using cardinal measures would be extremely difficult and arbitrary. A weighted average of the ratings on each list is compiled to determine overall

market attractiveness and business position measures. These should be checked against intuition, as the formality of the process can distract the user from recognizing that it is very qualitative.

Once the above composite measures of business attractiveness and business position are estimated for each SBU, the firm's portfolio of businesses can be plotted on a chart similar to the BCG growth/share chart:



To determine a corporate strategy, this profile must be supplemented by several others. First, each SBU should reassess its market attractiveness and business position, this time projecting its profiles several years ahead (typically five, or whatever the planning horizon is) under the assumption that the current strategy is continued with no change. These projected positions should be displayed on an identical profile chart to make the firm's momentum visually explicit.

(A history of profiles can be developed over several planning cycles to track the movement of SBUs.) This will reveal strong and weak expected performances, and the process of analysis will identify factors (CMFs or CSFs) explicitly responsible for the change.

Second, an MA/BP profile should be developed for major competitors. Although doing this is very difficult, it does make the manager explicitly go through the exercise of diagnosing his competitor's strategies and positions. Competitor profiles can be compared to the firm's own to identify opportunities or threats for specific SBUs.

Out of these patterns of expected SBU movements under the current strategy plus similarities or differences with respect to competitor profiles, the firm may set a corporate strategy. Moreover, because SBU-specific information has been used to analyze the corporate portfolio, it is relatively easy to move to business strategies from the SBU objectives set at the corporate level. The CMF and CSF profiles are the baseline. These can be extended to identify SBU distinctive competences or potential competitive advantages by quantifying the SBU's strengths and weaknesses in its basic resources: financial, human, organization, physical, and technological.<sup>15</sup> Opportunities and threats can be revealed by performing detailed analyses of the components of market and industry structure, including suppliers, distributors, etc.

<sup>15</sup> Hofer, op. cit. p. 145

### II.C.3.b Choosing Critical Factors

A potential problem for this method is that market attractiveness and business position are very ambiguous concepts, particularly the former. Market attractiveness is strongly dependent on the relative business position of an SBU. Unfortunately if this intuitively reasonable concession is allowed, the variables measured on the axes of the MA/BP profile chart are not independent or orthogonal. This makes it very difficult to interpret the economic implications of SBU movements to new positions on the chart.

There are two approaches to choosing CMFs and CSFs, neither of which fully alleviates this problem. The first method is to compile a large list of attributes describing market and industry structure. Abell suggests numerous factors measuring aspects of market demand, competition, financial and economic structure of the industry, technology, and socio-political considerations.<sup>16</sup> For each of these he appraises the attractiveness of the SBU's market. Then he redesigns the list such that the same factors are maintained but are described in terms applicable to a single SBU. (For instance, the market technological factor "patents and copyrights" becomes "your patent protection.") For each of these revised factors, the SBU's position is assessed. The problems of collinearity are enormous; a market factor will be identified as attractive largely to the extent that the SBU is in a strong position on the corresponding success factor. Either list could almost be used without the other.

The second and recommended method is to try to separate the CMFs and CSFs as much as possible. CMFs should include only those market factors which are critical to any firm in the industry and are similarly valued for all such firms.

(These may be factors noncontrollable by the individual firms.)

A good place to start looking for a list of such factors is the structure-conduct-performance framework of analysis used in industrial economics. This includes:

- . minimum efficient scale
- . cost fixity
- . vertical and horizontal integration
- . regulatory constraints
- . barriers to entry
- . strategic groups/mobility
- . produces concentration
- . buyer and supplier concentration
- . demand growth
- . demand elasticity
- . product differentiation

In general, determinants of rivalry among firms should also be included. Porter has done an excellent job of cataloguing these.<sup>17</sup>

With CMFs defined as above, CSFs should be chosen from factors on which the SBU is different from most firms in the industry and which are to some extent controllable by the individual firm. This list can be drawn from particular functional skills and resources held by the firm. With that, one achieves as much independence as possible.

<sup>17</sup> Porter, Michael, "Note on the Structural Analysis of Industries," Harvard Business School Note 9-376-054, November 1977.

### II.C.3.c Critique

On paper, this is a very appealing and apparently powerful method, and indeed it has many attractive features. One is the flexibility and generality of accommodating multi-dimensional objectives and measures of performance. This makes it suitable for many more diverse industries than the BCG framework, with a good chance that it will have greater explanatory power in each. Much more important than this is that it is a very instructive and thought provoking process in which the managers themselves participate quite extensively. It forces them to identify the key factors in their SBU's performance and to assess these horizontally with respect to competitors and longitudinally with respect to themselves over time, including projections into the future. This is an extremely valuable exercise even if it does not directly identify an optimal strategic plan.

Another significant benefit is that the process of strategy formulation at the corporate level leads neatly into implementation at the business level. First, there is a relatively easy conversion of SBU objectives into SBU strategy, and then there is an easy transition to implementation and control (compared to the transitions from other models). This ease arises because the corporate strategy formulation process identifies those CSFs which will move or should move, as well as how to measure (monitor) them. (We use this portfolio method in the case study.)

However, its weaknesses are also nontrivial. The foremost problem is the ambiguity in defining market attractiveness and business position as already discussed. Another problem in choosing CMFs and CSFs is the need to have the critical factors be uncorrelated among themselves within the CMF and CSF sets. If several of the CSFs have cause and effect relationships, there will be double counting of certain attributes in the composite assessments. In principle, this could be avoided by using multiple regression techniques to identify and weight critical factors.

The final problem of using composite MA/BP measures for different SBUs is that displaying them all on a common profile chart creates a false sense of comparability. In fact, since each SBU has a different set of CMFs and CSFs (only the composite measures have the same dimension), their relative positions are not comparable in the sense that they are for a BCG growth/share portfolio. That is, the economic basis for the difference in position is not revealed. Moreover, if an SBU moves to a new position or tries to assess how it would be positioned in a new market, its set of critical factors changes. Because of the complexity of the MA/BP profiling process, this can be a constraint on considering alternative strategies.

To some extent, these criticisms are more academic than operational. The user of this model does need to be extremely careful to be as systematic and rigorous as possible. He will not overcome these problems, but neither will they cripple his

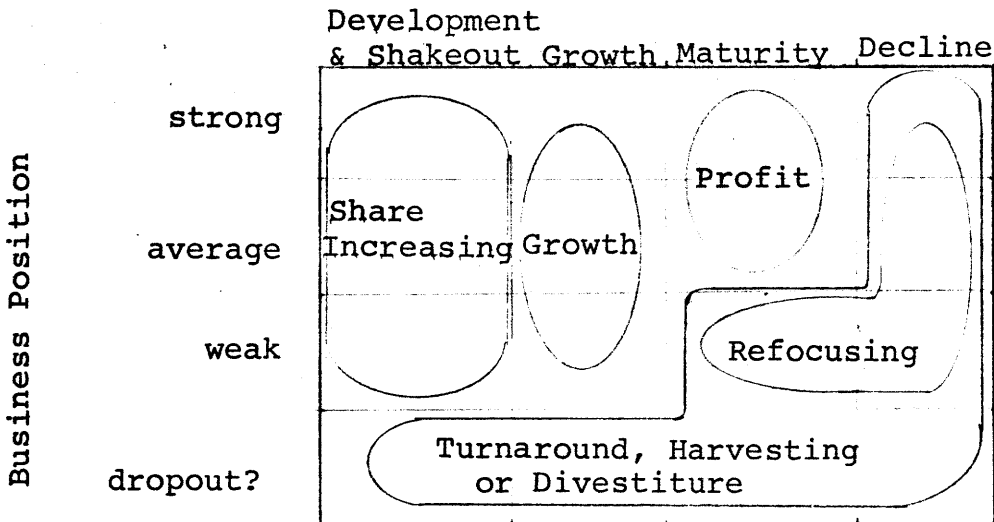


analysis. Strategy formulation is more of an art than a science, and the MA/BP profiling method is a useful concept of sparking creative thinking.

#### II.C.4 Industry Maturity - Position Portfolio

A third construct for strategic planning is that used by Arthur D. Little, Inc. (ADL). It is a hybrid method much like the MA/BP profile except that market attractiveness is replaced by industry maturity, i.e. the PLC. Business position is determined as a weighted average of critical factors, as before. Corporate strategy is set much as in the MA/BP case, but with an added awareness of suggested objectives for SBUs based on their position.<sup>18</sup>

#### Product Life Cycle



Strategies Based on Business Position and Industry Maturity

<sup>18</sup>Hofer, op. cit. p. 104.

Business strategies follow in part from the CSFs used to estimate position, plus there are many guidelines for managerial emphasis on different activities at different life cycle stages (see Figure 1.) This method basically offers no new academic insights, but it may be more appropriate than either the BCG or the MA/BP approach under certain circumstances. By using the PLC instead of market attractiveness, the ADL approach avoids much of the problem of having non-orthogonal axes.

#### II.D. Strategy Formulation Process Model

We have proposed a definition of strategy and have reviewed three methods of systematically collecting strategic information, assessing the current strategic position of SBUs and developing strategic plans which optimize the performance of the corporate portfolio of businesses. The flow chart in Figure 3 represents one method of organizing the inputs and outputs of those strategic planning tools in a manner which links the corporate and business level objectives and strategies. This is a model of the analytic process of strategy formulation; it is not a model of a strategic planning system relating flows of information to organizational structure. We will discuss the decisions or information processing at each major node of the process, indicated by the numerals 1 through 8.

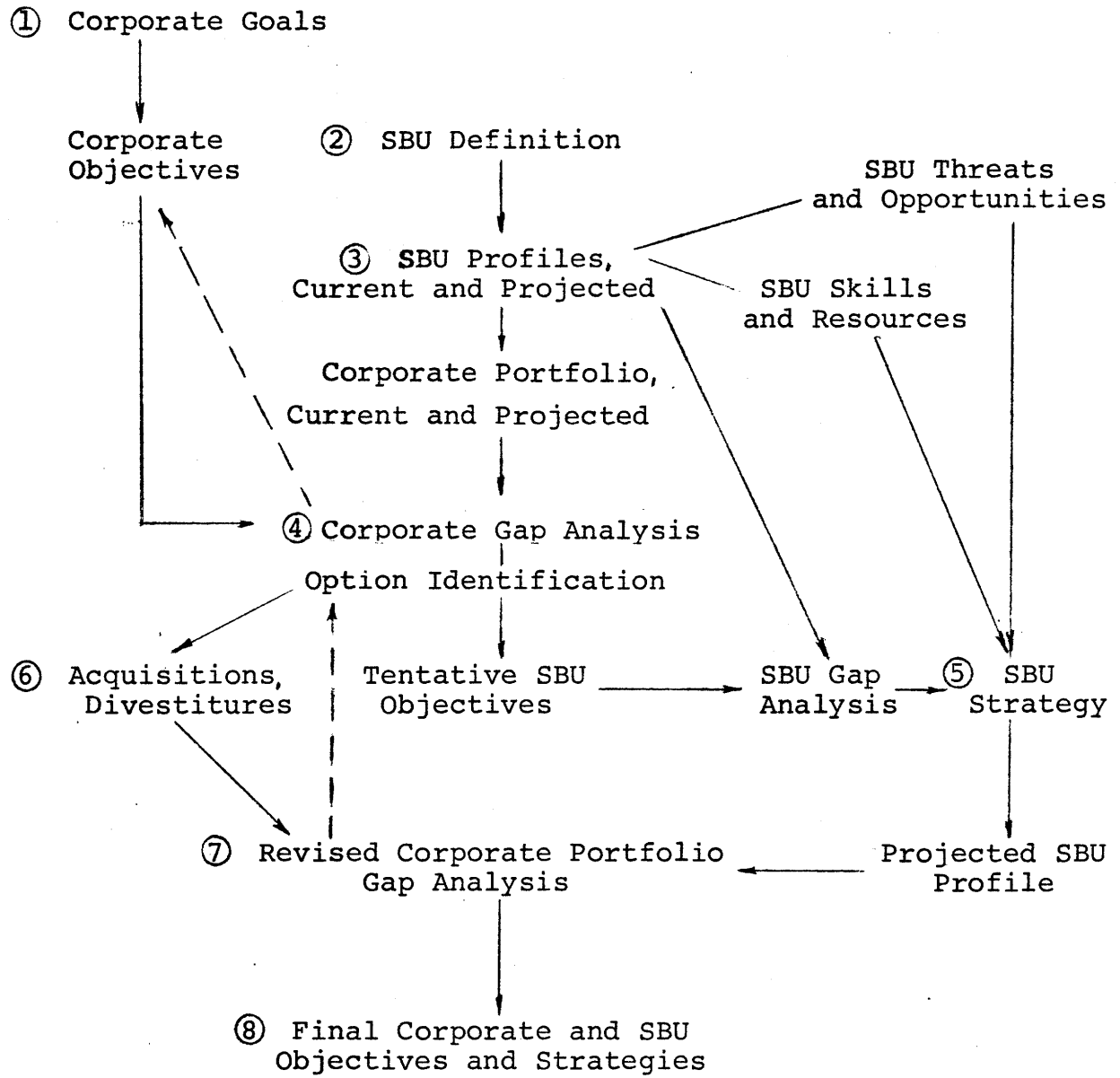


Figure 3

A MODEL OF THE ANALYTIC PROCESS OF STRATEGY FORMULATION

1. Initial corporate goals and objectives are established.  
These will reflect the preferences for profit, risk, growth, and social responsibilities of all parties to whom the firm has responsibility, with strong priority given to shareholders.
2. Strategic Business Units are defined in terms of the scope and manner of participation in customer x function x technology product-market segments. The selected structure should be amenable to strategic analysis and manipulation.
3. The current strategic position of each SBU is determined. This initial assessment considers environmental threats or opportunities and SBU resources and skills in a general manner, i.e. not in the total possible detail. CMFs and CSFs or PLC-EC measures may be used as appropriate for the firm's economics. The future profile of each SBU is also compiled based on the supposition that the firm's current strategy is maintained over the planning horizon.
4. The firm's portfolio of current and projected SBUs is compared to corporate objectives and gaps are analyzed. Gaps may arise from:
  - poor portfolio balance - too many dogs and question marks
  - SBUs performing more poorly than would be expected based on their strategic position
  - special opportunities or threats inferred from comparison with competitors
  - resource availability not equaling needs

Gap closing alternatives are identified; these will specify tentative SBU objectives.

5. After SBU profiles have been compared to the tentative SBU objectives, the SBU formulates its own strategy to close gaps. This requires a more detailed examination of the SBU's resources and opportunities than was conducted in step 3. The result of the SBU strategy analysis is:
  - an approval of the SBU's tentative objectives or a proposal for an alternative objectives set
  - tentative resource utilization plans
  - tentative functional strategies
6. Gap closing alternatives may include acquisition or divestment.
7. The corporate portfolio is reviewed after proposed revisions in objectives from the SBUs. If it is determined there are no gaps, the flow drops down to 8) formalization. If there are gaps, the process iterates back to 4), option identification. It is possible to revise corporate objectives as one gap-closing option.
8. After sufficient iterations, agreement is reached on corporate and SBU goals, objectives, and strategies. Any or all of the following are specified:
  - resource allocations or procurement plans
  - budgets and control mechanisms
  - contingency plans
  - changes in organizational structure

This captures all of the strategic intelligence data required by the definition of strategy and is viable for use with any of the specific tools of analysis presented in this thesis.



### III. INTRODUCTION TO CASE STUDY

The strategy formulation model (hereafter referred to as the G/W model) described in Section II.D. is applied to the strategic planning process of a consulting firm. The market attractiveness/business position profile serves as the main diagnostic tool throughout the planning process. SBU managers choose the critical factors for both dimensions. Interviews with clients and competitors serve as a check to balance any subjective biases introduced by SBU manager business position assessments.

The case study begins with a chapter devoted to providing background industry and company information to the reader. Although not directly involved in the formal strategic analysis, this chapter supplies the reference basis which shaped our questions and method of analysis. Chapter V defines the business units which are studied for the remainder of the report. Salient business dimensions are tested for manageability, organizational structure constraints, and strategic meaning to determine strategic business units. SBUs are profiled for business position and market attractiveness according to a four part process in Chapter VI. The analysis is based on information from four sources: SBU manager interviews, industry sales histories, client interviews, and competitor interviews. Each of the last three sets adds a refinement to the initial profile obtained from interviews with SBU managers.

Chapter VII concludes the case study with gap analysis

and option identification. The current strategic positions of each SBU are projected over a meaningful planning horizon. A broad and qualitative set of apparent goals for the firm is postulated. Four strategic options are outlined in operational detail which attempt to move the company close to our estimate of corporate goals. Tradeoffs between the alternatives, such as risk and expected time to achievement, are addressed but not resolved; goals and objectives need to be refined in order to be confident of how to choose among them. Nonetheless, without this refinement we make a cautious recommendation that Econology pursue a market planning/research strategy. In addition, general recommendations on operational and organizational effectiveness are provided which are applicable under any strategic choice. The case concludes with suggestions for further strategic planning by Econology. Our strategic analysis carries us only through step four, corporate gap analysis and option identification, in the G/W model, the subsequent steps should be performed by the company to modify and refine this strategic analysis.

The name of the consulting firm is changed to protect its identity. Certain descriptive statistics are also altered in cases where the logic of our analysis would not be disturbed by the change. In addition, specific information sources are not identified to protect the candid and unbiased responses of interviewees.

#### IV. GENERAL INFORMATION ON FIRM AND ENVIRONMENT

##### IV.A. Overview of Econology

##### IV.A.1 History

Econology (E) was founded in 1956 by its current executive officers. The original orientation was to provide consulting services on the effects of changing technology in industrial markets. Since then the firm has switched its focus from changing technologies to general market research and analysis for industrial firms. Except for a no-growth period in the 1975 recession, E has experienced 20-30% nominal annual growth in fee revenues since 1970, with fee revenues in fiscal year 1979 at \$8.4 million. (Services are provided on a fee plus out of pocket (OoP) expenses basis; the above figures do not include revenues accrued to cover OoP expenses.)

E now has 112 professionals nearly all of whom are based in the headquarters office in Minneapolis, Minnesota. All but a very few have an undergraduate degree in engineering plus an MBA degree, usually obtained from a midwestern university. The company has a set of international affiliates which are managed by a few members of the domestic professional staff.

##### IV.A.2 Description of Services

Within all industry areas, repeat business (by firm) constitutes from 60-80% of revenues. All industry areas provide essentially two kinds of services:

**Proprietary** - Conducted for a single client, these are usually market penetration studies of how a client's new product can enter a market or how an old product can enter a new market, although studies range from basic market profiles to acquisition analyses. Typically the market and the problem to be investigated are both specified by the client.

A proprietary study requires one to six man months of effort, averaging perhaps two to three man months, and it will cost the client from \$5000 to \$25000. An international study is often more expensive.

**Multiclient** - Conducted for several clients, these are studies of broad issues affecting all firms in a particular market giving a profile of levels and changes in the supply and demand for a product, its production technology, etc.

A multiclient study may require up to nine man months; it will be available to clients for \$8000 to \$15000.

For all of these studies in all industries the E research and client interaction methodology are essentially the same, although the scope of the studies may vary. Each study begins with a short meeting with the client to bring all parties' perception of the problem into harmony and to conduct a brief review of the internal capabilities and structure of the client. The E consultants begin the research with a review of any secondary (i.e. public) information on the problem. This is followed by many face to face interviews with the client's suppliers, distributors, customers, and competitors in which the perceptions of all parties acting on the client are polled and aggregated into a picture of the market opportunity. At the midpoint of the contract there is a meeting with the client to discuss the evolving picture and to modify the direction of the remainder of the study if necessary. The last 10-20% of

the contract period is spent in analysis of the data and in writing up the document summarizing the information and giving an interpretation. The analysis lies in appropriate segmentation and representation of the market based on the collected data. Little complex modelling or mathematical analysis of the data is attempted. The contract is closed with a one day verbal presentation of the study to the client. Because the method is so standardized and homogeneously carried out throughout the firm, it is reasonably accurate to consider costs a fixed percentage of fee revenues. (The control and compensation system are discussed in more detail later.)

The multiclient studies serve as major marketing devices for E in that they are a good method of exposing a client to E's services at little cost to him. They are also countercyclical, either due to the price or because E promotes them more heavily when the economy slows down. The following graph (Figure 4) shows the recent fee revenues for the firm as a whole plus its multiclient and proprietary domestic components and international components. The countercyclicity of the multiclients is fairly striking.

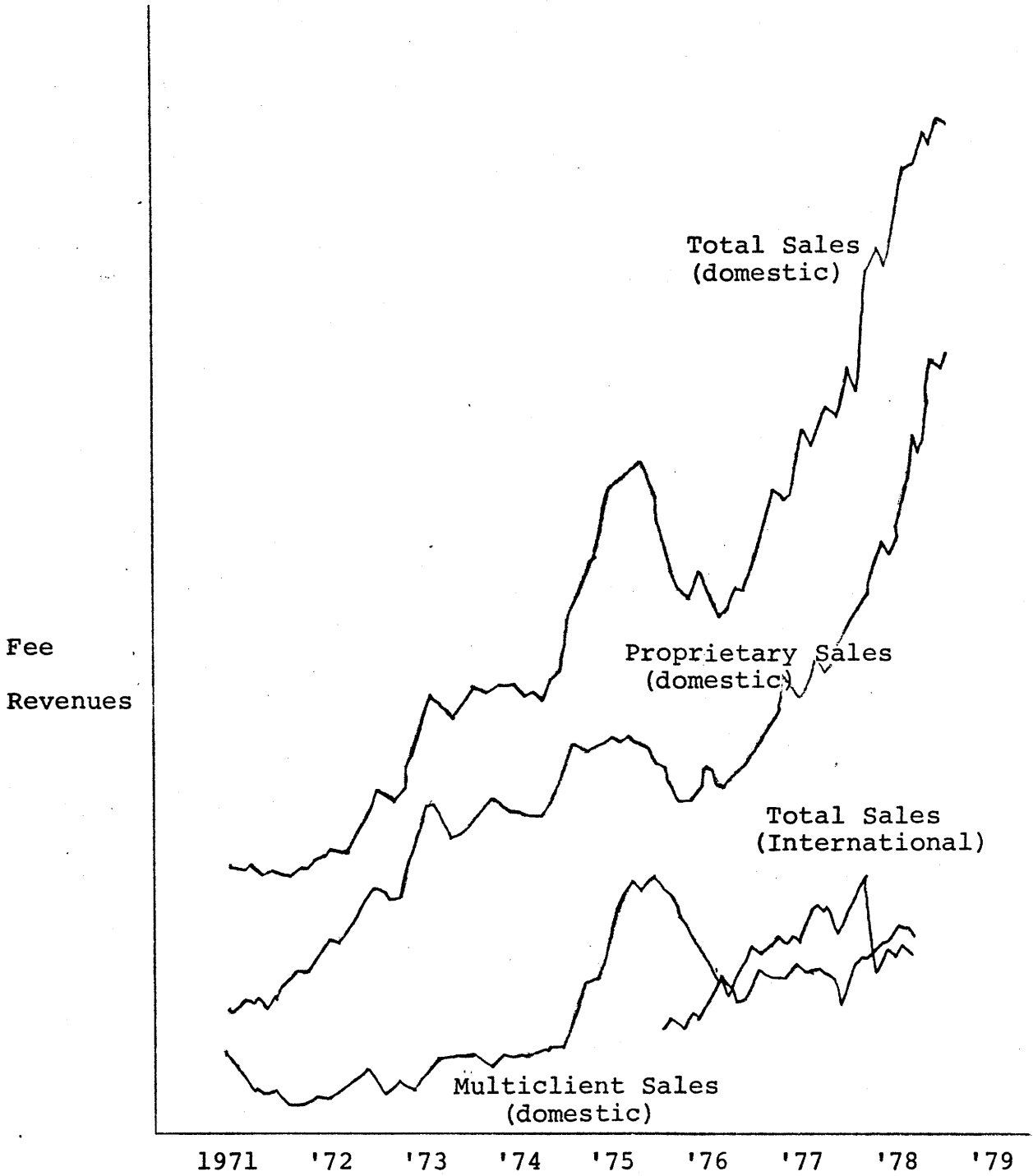


FIGURE 4

TEN YEAR FEE REVENUE HISTORY FOR ECONOLGY

#### IV.A.3 Client Base

The client is generally a senior middle manager or staff member in a Fortune 500 firm. Representative levels of contact with the client firm would be the divisional manager or the divisional or corporate V.P. of marketing, corporate development, or R & D.

#### IV.A.4 Organization

Econology is privately held with a majority of the firm owned by the President and the Chairman of the Board (CoB), and the residual held primarily by a few principals. The President, CoB, Executive Vice President, and Vice President serve in three capacities: administrators, line officers, and active principals (consultants). There are twenty-two principals each concentrating on one or more industry areas. Each principal manages \$150,000 to \$600,000 of business annually (including revenues for OoP expenses) and has a staff of three to seven professionals. The officers and two principals serve on the executive committee (E/C) which controls all major firm policy.

An organizational structure diagram is shown in Figure 5, followed by a description of the levels of responsibility in the personnel hierarchy in Figure 6.

In practice the duties and responsibilities are not so finely delineated as specified in Figure 6. The responsibilities outlined should be used more as guidelines and examples of commonly performed work.

Staff promotion through the organization hierarchy is not based on a standardized and regular schedule. For example, advancement from consultant to senior associate may take anywhere from 4 to 6 years. Econology has a staff turnover averaging 10% annually. This figure is within the range of many consulting firms, although several experience much higher rates.



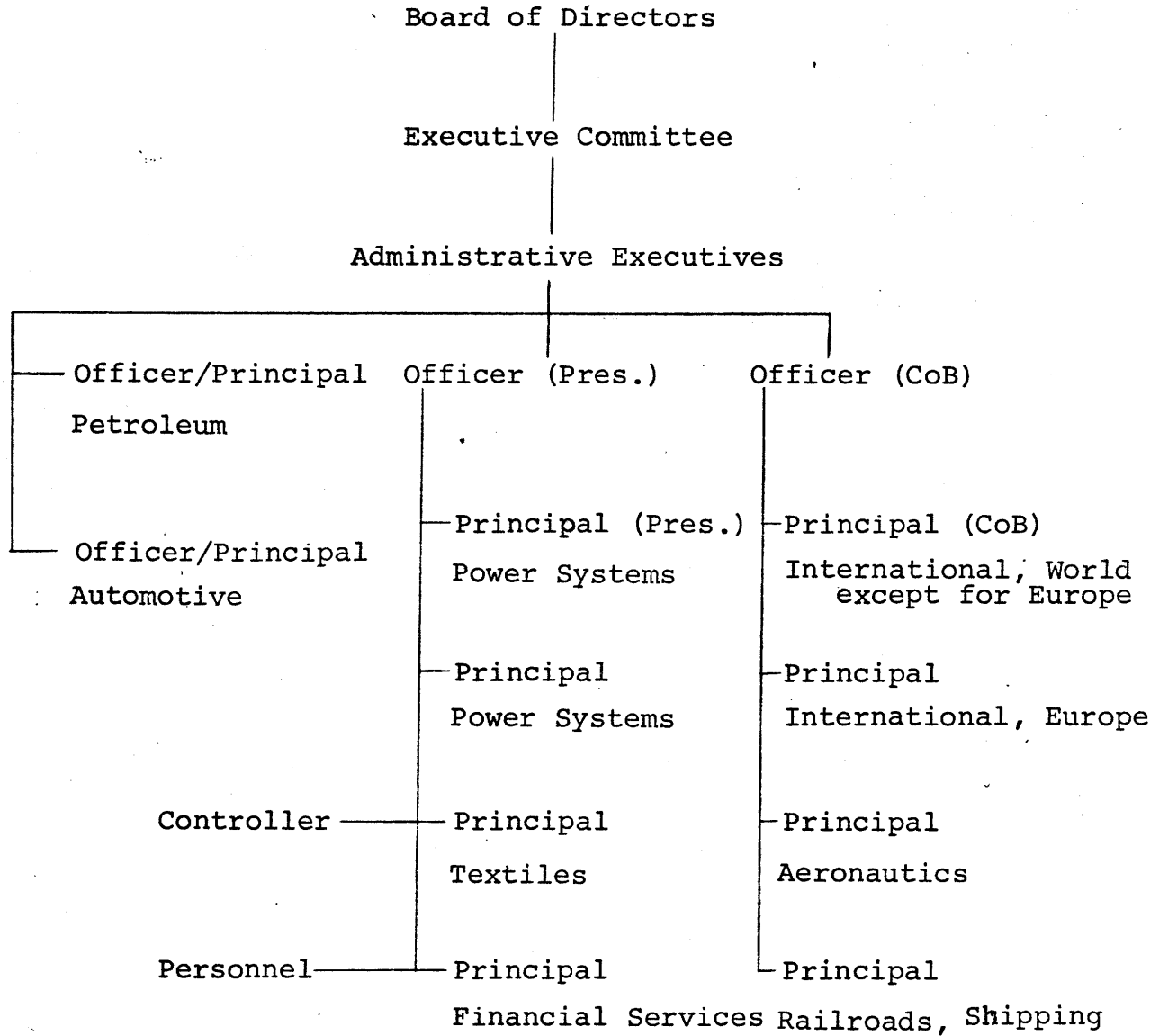


Figure 5

ECONOLOGY'S ORGANIZATIONAL STRUCTURE

<u>Approximate Number of Staff</u>	<u>Title</u>	<u>Position Description</u>
22	Principal Associate (management level)	<u>Management Responsibilities</u> -recruiting new staff -evaluation of business directions -staff performance reviews -ancillary management functions <u>Primary Professional Responsibilities</u> -minimum level of annual sales -active promotional contact: clients/ prospective clients -supervise project quality <u>Secondary Professional Responsibilites</u> -aid professional development -increase E's public exposure
8	Senior Associate (top consulting level)	<u>Primary Responsibilities</u> -manage and control conduct of assigned projects -assist in development of assigned staff in methodology, questionnaire, design, and interviewing -minimum level of annual sales <u>Secondary Responsibilities</u> -outline promotional activites -secondary liaison with client Reports to Principal
16	Associate (experienced consultant)	<u>Primary Responsibilities</u> -supervise study under the control of principal or senior associate -conduct field work -draft interviews -oral client presentations <u>Secondary Responsibilities</u> -assist in proposal preparation -be aware of promotional opportunities Report to principal or senior associate

FIGURE 6

LEVELS OF RESPONSIBILITY IN THE PERSONNEL HIERARCHY

<u>Approximate Number of Staff</u>	<u>Title</u>	<u>Position Description</u>
18	Senior Consultant (reasonably experienced consultant)	<u>Primary Responsibilities</u> -prepare questionnaires and interview guides -plan own interview schedule -conduct field and telephone interviews -deliver oral presentation <u>Secondary Responsibilities</u> -assist in development of study program -assist in proposal writing Report to principal, senior associate or associate
30	Consultant (inexperienced)	<u>Responsibilities</u> -prepare interview guides -interpret interview results -draft reports and presentations -recognize elements of program budgets Reports to principal, senior associate, or associate
14	Senior Research Ass't and Research Ass't (professional staff)	<u>Responsibilities</u> -support staff -literature search -statistical data -telephone interviews -selected personal interviews Reports to principal, senior associate, or associate
16	Administrative/Support Staff	

FIGURE 6 (continued)

LEVELS OF RESPONSIBILITY IN THE PERSONNEL HIERARCHY

#### IV.B. Overview of Industry

##### IV.B.1 Introduction

The consulting industry is discussed at three levels, 1) overview of the entire industry, 2) distinguishing features of the market research industry, and 3) characteristics of the industrial market research industry. The majority of Econology's businesses operate within the industrial market research/planning industry, which is well described by the industrial market research industry. Econology differs only in its heavier than usual emphasis on analysis.

##### IV.B.2 The Management Consulting Industry

There is no tight definition of what constitutes management consulting. Roughly it could be described as giving expert advice as a professional in areas of business or organizational management. These areas may be segmented by industry, such as steel, utilities, and electronics, or by function, such as marketing, finance, and operations research.

Although accurate statistics are difficult to acquire because most firms are privately owned, estimated total revenues are around \$2 billion for 1979 and have been growing at roughly 15 to 20% since 1979.<sup>19</sup> Strategic planning and consulting has

<sup>19</sup> Kennedy, James H., A Cross-Section of the Management Consulting Business (Fitzwilliam, N.H., Consultants News, 1979.)

contributed to much of this growth, for example the Boston Consulting Group (strategy consultants) have experienced 558% growth since 1971 - 55% within the last year. However, strategic planning is not the only growth area. Rapid growth has occurred and is forecasted in many specialty areas, such as in information systems, energy issues, and environmental issues. James Farley, Chairman of Booz, Allen, & Hamilton believes specialization (or issue orientation) is crucial for future success in consulting, "No consultant will be here five years from now who doesn't understand that issue orientation is the way to go".<sup>20</sup>

This spectacular growth, especially compared to the '50s or '60s, is attributed to a new complex operating environment. Firms today are faced with added Federal regulations, attractive foreign markets, and inflation. To help attack these complexities management techniques have evolved rapidly, introducing sophisticated information processing, economic analysis, and quantitative modelling to the consultant's tool kit. Complicated tools, as well as unstructured growth, have caused many consulting firms to seek only professionals with graduate business school training. Competitive bidding for graduates of the top business schools has driven up starting salaries, now ranging from \$20,000 to \$75,000. MBAs going into consulting from MIT's Sloan School of Management are

<sup>20</sup>"The New Shape of Management Consulting," Business Week, May 21, 1979, p. 98.

receiving average salary offers of \$33,900; MBAs from other prestigious schools receive comparable offers.<sup>21</sup>

Although there are a multitude of consultants (estimated from 25,000 to 50,000), the revenues of the industry are concentrated within a few firms. The top 15 firms (composed of 13,000 professionals) account for over one-half the industry revenues. As the chart below shows, only 118 firms bill over \$1 million.<sup>22</sup>

FIRM REVENUE CATEGORIES		
<u>Revenue Bracket</u>	<u>Number of Firms</u>	<u>Total Revenues (millions)</u>
under \$100,000	128	\$ 6.4
\$100 - 500,000	239	\$ 59.75
\$500,000. - 1 million	81	\$ 52.65
\$1 - 5 million	74	\$ 185.0
\$5 - 10 million	14	\$ 91.0
over \$10 million	30	\$ 1383.0
	Total 583	\$ 1777.8

The remaining 2000 (estimated) firms share a market of \$.2 billion.

Consulting firms are similar in that they strive to improve management and analyze business problems. Most also have an organizational structure with Principals or Partners at the top, Associates and Consultants at the bottom, and Senior

<sup>21</sup>

M.I.T. Sloan School of Management Placement Report, 1979

<sup>22</sup>

Kennedy, James H., op. cit.

Associates (or Senior Consultants) at the middle management levels. Annual turnover in these organizations is highly variable ranging from 25% for BCG to 5% for Hewitt Associates.

Firms vary considerably in size, location, type of work, methodologies, atmosphere, and personal style. One possible categorization places consulting firms into four groups: 1) large general management firms offering a vast variety of services (e.g. McKinsey; Booz, Allen, Hamilton; Arthur D. Little; A.T. Kearney; 2) medium and small firms specializing in one or several facets of management (Technomic Consultants; Temple, Barker & Sloane; Hewitt Associates; Resource Planning Associates; Index Systems); 3) Highly technical and quantitative firms (e.g. Wharton Econometrics; Data Resources, Inc.); and 4) management advisory services of the Big Eight accounting firms, whose intimate knowledge of SEC rulings and accounting has allowed them to specialize in government regulation compliance, information systems, and control consulting.

#### IV.B.4 The Market Research Industry

Marketing Research is the systematic gathering, recording, and analyzing of information about problems and opportunities relating to the marketing of goods and services. In 1974 over \$380 million was spent on marketing research;<sup>23</sup> assuming a 15% growth rate this market grew to over \$700 million by 1979.

<sup>23</sup>

Haynes, Joel B. and Wilkens, Paul L., "The Pricing of Marketing Research Services", Business Horizons, October 1974.

Roughly 22% of consulting firms identified themselves as offering services in this marketing area.<sup>24</sup>

The competitive environment is determined by three basic elements. First is the number of firms in competition. Most marketing research firms face only one or two competitors for a project. This is due to the preference of research buyers to work with one supplier, the refusal of some research firms to bid competitively, research firm specialization, and geographical dispersion.

The second element is the size of firms in competition. Generally competing firms are of the same size; this is because specialists tend to compete with specialists and generalists with generalists. The specialists are larger firms who conduct standardized studies (store audits, copy tests, audience measurements) and for that reason tend to compete on the basis of price with sales and production orientations. The generalists are smaller firms who handle any type of research problem (custom designed studies) and are more price insensitive with a profit orientation.

The third element is the degree of service differentiation. Research firms differ greatly in experience, competence, and fields of specialization. A vaguely defined problem may easily find bids recommending use of sophisticated research equipment and methodologies with small samples for \$3,000 ranging up to comprehensive interview with large samples for



\$13,000. Another source of differentiation may be psychological differences based on firm reputation.

Twelve factors thought to be important in obtaining business were ranked by research firms in a 1974 study by Haynes and Wilkén.<sup>25</sup>

<u>RANK</u>	<u>FACTOR</u>
1	Quality of work
2	Understanding the client's problems
3	Reputation
4	Professional integrity
5	Experience
6	Referral by satisfied clients
7	Personalty of key personnel
8	Individuals who will work on project
9	Firm specialization
10	Personal contact (solicitation)
11	Price
12	Advertising

Price is of relatively low importance; the study suggested that clients consider price only if it exceeds a certain ceiling price. Price may also be used as a proxy for quality, especially when the buyer is inexperienced or the study complex. For this reason, the more profitable firms used a simple formula (e.g. (per hour rate x time) + out-of-pocket expenses) to get a ball park target margin and then subjectively adjusted this

<sup>25</sup>Haynes, Joel B. and Wilkén, Paul L., op. cit.

price considering job size, value of project to client, client's ability to pay, possible competition, present work load, and urgency of job to maximize profit.

#### IV.B.4 The Industrial Market Research Industry

Marketing research can be subdivided into consumer and industrial goods marketing research. Although the dollar volume of transactions in industrial goods and services is twice that of consumer goods and services, marketing research expenditures are dominated by consumer research. This may be due to the availability of consumer information, gross margin or value-added differences (enabling consumer goods firms to spend more for market research), closer relationships between industrial buyers and sellers eliminating the perceived need for much market research, or the relatively advanced state-of-the-art for consumer research relative to industrial market research.

Other factors have been proposed to explain the relative lack of industrial marketing research. Wilson<sup>26</sup> concluded in 1969 that Great Britain was ahead of the rest of the world in industrial market research. He attributed this development to Britain's lack of adequate secondary data. The US abundance of reliable secondary data may have stifled industrial research growth in the 1960s was a result of the new emphasis on long range planning and its information demands.

<sup>26</sup>Wilson, Aubrey, "Industrial Marketing Research in Britain," Journal of Marketing Research, vol. 6, February 1969, pp. 15-27.

Differences between industrial and consumer goods markets lead to differences in the research markets. There are three important differences. First, the demand for industrial goods are derived from demand for related consumer goods. The longer the chain of demand, the more likely industrial goods demand will be on a "boom - bust" cycle, stemming from changes in inventories and expectations. Demand for market research may be determined more by budget than need and thus ride the same volatile cycle.

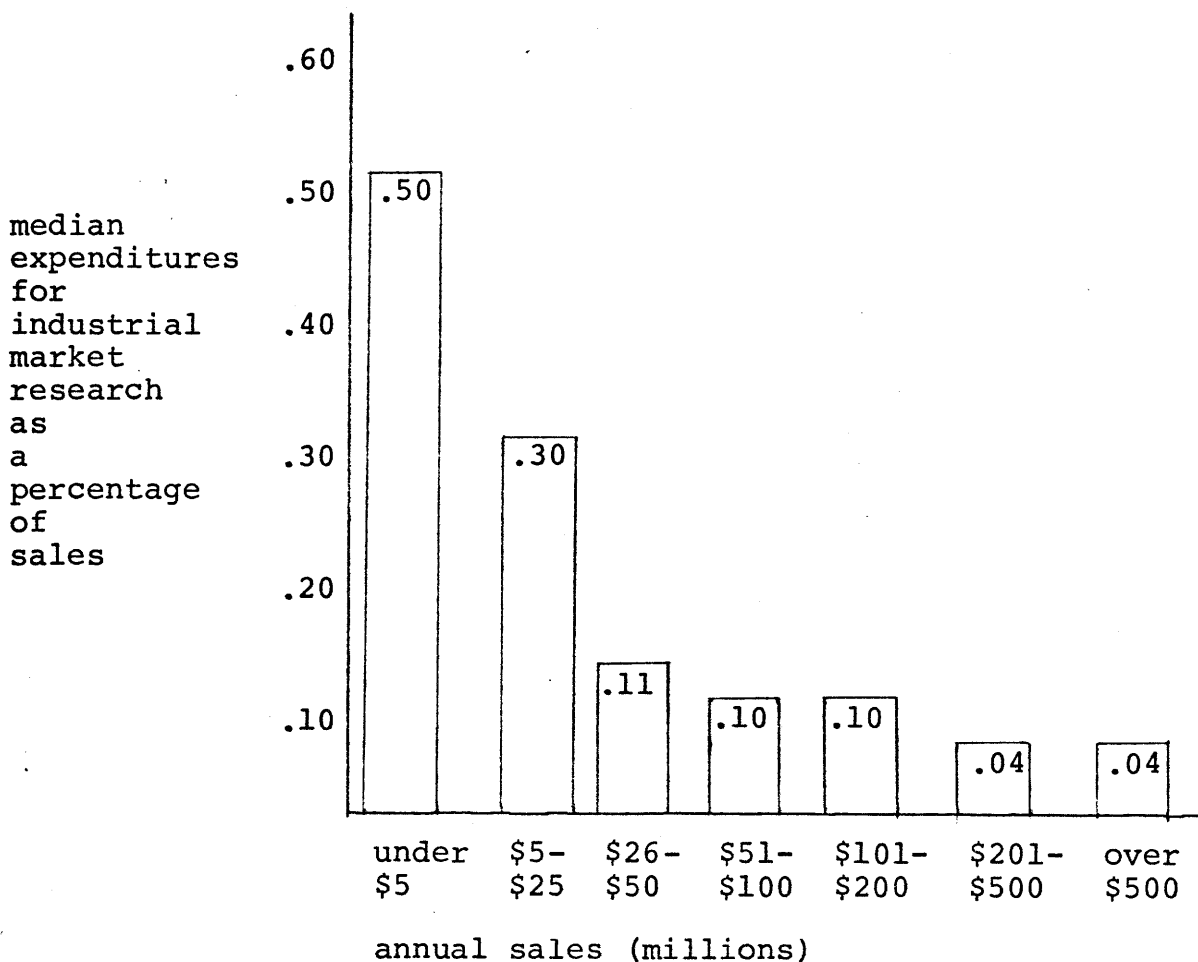
Second, industrial markets are marked by geographic, industrial, and purchasing concentration. Industrial concentration results from the very nature of industrial goods to serve limited markets. Purchasing concentration is created by having only a few firms account for many of the sales. Concentration in goods markets concentrates marketing research around only a few clients, goods, or geographical regions.

Third, more individuals and purchasing procedures are involved in an industrial purchasing decision. Individuals are economically oriented and knowledgeable about the product. Generally the relationship between the buyer and seller is close, strong, and continuous. How adequate one considers existing channels of communications to be is directly related to the amount of marketing research effort.

Industrial market research/consulting firms compete with corporate market research departments, as well as with other consulting firms. In fact, 75% of all industrial goods

firms with sales over \$100 million have their own market research departments. Nonetheless, larger industrial firms demonstrated a strong tendency to purchase outside research services. In 1973 about 25% of the marketing research budget was allocated to outside firms.

Expenditures for industrial marketing research as a percentage of sales decline as annual sales increase, with a median figure of 0.1% for all companies.<sup>27</sup> This pattern is shown below:



<sup>27</sup> 1973 Survey of Marketing Research. (American Marketing Association, Chicago, 1973).

#### IV.B.5 Summary

This chapter provided a brief overview of the consulting industry and marketing in particular. Certain aspects of this description are very relevant to Econology and are explored in this study:

- Strategy consulting is a profitable and rapidly growing field attracting consultants who already possess one or more of the necessary skills.
- Specialization and focus are essential to consulting firms. In fact, this may be a crucial factor for service firms in general.
- The professional atmosphere of a consulting firm makes organizational and personnel issues very important, as suggested by high staff turnover rates.
- The general factors important to market research buyers may or may not hold for a specific consulting firm. (These general factors are later used in client interview to explore the particular buying behavior of Econology clients.)
- Promotion is critical in industrial marketing, where perceived needs are reduced due to the intimacy of industrial product buyers and sellers.
- Average ratios of marketing research expenditures versus industry sales may be used to estimate market share. Later in our analysis industry sales are used to project future firm growth.

## V. DEFINING THE BUSINESS

V.A. Basic Dimensions of BusinessV.A.1 Methodology

Establishing strategic business units (SBUs) with an appropriate level of aggregation of Econology's product-market segment is a fundamental precursor to strategy formulation. As described in Section II.B.2, some SBU definitions will be superior to others. To determine the most meaningful SBUs, we began by interviewing each principal about the three basic dimensions of the business he was responsible for -- customer groups, function (i.e. what needs do they satisfy in the market place), and technology (i.e. methodology and skills used to serve clients). Within these basic dimensions there are subdimensions which may discriminate between SBUs:

<u>Customer</u>	<u>Function</u>	<u>Technology</u>
industry	purpose of study	research method
subindustry	circumstances	sources of data
contact with client	requiring study	expertise required
firm		scale of study
type of study		
new or repeat customer		
geographic locations		

Obviously many of these are interdependent, but they are also not perfectly correlated. To probe which of these attributes were significant, the following questions in Figure 7 were used as an interview framework. The questions were arranged around the above three dimensions and a general category. The general category questions are directed at confirming or refuting

the appropriateness of the SBU definition derived from the customer-function-technology questions.

- Customer:** What is the client industry, type, size of firm?  
 What is served market segment?  
 Who is the client firm; who is the contact?  
 Where are they located?
- Function:** What is the client's purpose for the study?  
 - to confirm a problem or possibility  
 - find new options or choose among known alternatives  
 - define a marketing strategy, set prices  
 How is the study used and by whom?
- Technology:** What size is the contract - time and staff and money?  
 How distinct is each study - could it be done by a person from another industry group?  
 How important is industry or functional expertise?  
 Are there special analytic techniques required?  
 What is the product unit of service?  
 Are there any experience curve effects or economies of scale?  
 What kinds of cost structure differences are there between studies within or across industries?
- General Category:**
- What are the reasons for or against taking the industry practice areas as SBUs?
- Are there common client contacts between principals?
- What functions at Econology allow you to take advantage of these?
- Critical success factors for the tentative SBUs?
- Who are your closest competitors and how do you encounter them in the market?
- Can the proposed SBUs be independently expanded, contracted, and managed without significantly affecting each others' operation?

FIGURE 7

## SBU QUESTIONNAIRE



We find that those attributes related to the customer group dimension delineated the E services most effectively. The function and technology dimensions are essentially the same for all of E's business areas; when there are distinct business modules by those dimensions, they are the same as those defined by customer group attributes.

Each dimension is discussed separately below. On certain subdimensions the business area of international marketing differs from the industrial marketing areas. Recently Econology has started consulting in the financial services industry. This group is attempting to break into strategic planning for financial institutions. It is in its formative stages so no general statements can be made concerning typical clients, function, or technology. However, their targets in each of these dimensions will be mentioned and business will be segmented on this basis.

#### V.A.2 The Customer Dimension

Generally all of the principals conduct market/product studies for corporate development or marketing managers of divisions of major Fortune 500 firms. The scope of these studies is quite uniform across all principals, involving essentially only market analysis of a situation specified by the client. Occasionally E works for the CEO of the client firm, which might be a basis for defining an SBU if there were enough such contracts; the number is too small to justify the division.

In contrast, the clients for the international marketing business area are divisions of American-based multinational corporations (MNCs) with business in Europe, Japan, Australia, the Middle East, and Latin America. Contact with the client is typically with the country or area (e.g., Latin America) manager. The industry of the MNC division seeking a study is not a relevant factor, however, the region in which the division operates is relevant.

The financial services group intends to serve top executive officers and planners of regional financial institutions. These corporations would include savings and loans, commercial banks, and credit unions of medium size, not including Fortune 500 or money center institutions.

Repeat business is difficult to quantify, as two contracts with a large firm may have a large span of time between them and the points of contact with the client firm may be different departments and/or different people for the two studies. When should a subsequent study be considered "repeat business"? There is no general agreement or accounting practice for this at E, so these statistics reflect the judgment of the individual principals. Generally, business is repeat if it is with the same department with less than three years elapsed since its predecessor.

#### V.A.3 The Function Dimension

The circumstances motivating the client to use E for a study are also quite similar across all principals: the client

has a staff shortage, needs an internal conflict resolved, is not capable of conducting such a study itself, etc. If there were consistent patterns associated with groups of clients, e.g., a group with very lean internal staff requiring frequent outside consulting versus a group of those incapable of conducting an E study due to competitive position (or lack of knowledge of how to do so), this would probably merit being a basis for an SBU segmentation. Conceivably the groups might be approached with different marketing tactics, prices, or even methodologies. Unfortunately, the information about how to segment clients into such groups was not available (and there may not be such consistent patterns at all).

Like domestic industry studies, 99% of the work in the International area is market entry studies with the potential entry by exporting, direct foreign investment, acquisition, joint venture, or licensing. It is very rare for E to get a worldwide study which includes the US market. Occasionally they conduct a one-country study on several products, but more commonly the work is a one-product study for several countries.

The financial services strategic planning group attacks problems which are less pre-defined than those done by other SBUs; the emphasis of financial services is helping clients adapt to a changing environment. Financial institutions are believed to be entering a particularly arduous period of new regulatory and competitive pressures. The group intends to

bring a marketing, rather than financial, expertise to strategic planning. Whether financial markets bear enough resemblance to real product markets that a traditional product-market analysis of demands and supply is appropriate and valuable has yet to be tested in the market place.

#### V.A.4 The Technology Dimension

With respect to the technology behind the E product, studies for all industries and principal business areas (including International) are conducted in the same general manner. The basic tool is field interviews with the client's suppliers, distributors, customers, and competitors, with analysis arising in the appropriate use of that information to segment and understand the market for the client's product. There are three aspects of this methodology which differ between some principals:

- some of the clients have markets heavily affected by consumers (rather than firms), making it necessary to include statistical consumer market research in the E studies. This is usually sub-contracted
- some of the clients have heavily concentrated industries in their suppliers and buyers, requiring fewer interviews per study than a client dealing with numerous firms
- large studies may require less managerial time by the principal per dollar of revenues, creating a kind of economy of scale. This is particularly exemplified by international studies.

Even when these differences are fairly stable, either they are also captured by segmentation by industry or there is little

strategic significance to disaggregating that finely.

For the industry marketing business areas industry expertise is obviously correlated with customer group, hence adds no refinement to a SBU definition. Moreover, for those industries with little technology focus it may only require a year for staff to acquire sufficient experience to be comfortable and effective in the industry area, i.e. industry expertise is not constraining in the long run. However, there is relatively little rotation of staff between areas, making this distinction stronger than it need be.

An international study is conducted like a domestic one, but it is more complicated. Wholly owned affiliates of foreign consulting firms having exclusive agreements with E are the primary vehicle for conducting the studies. The E principals do essentially all of the marketing, as well as writing of the proposals and designing the research process. The affiliates perform the information gathering, identifying and meeting with the interviewees. The E principals then do the analysis, interpretation, recommendations, etc. and write the reports. Quality control problem and lack of sophistication in the affiliates necessitates this approach.

In some cases, a U.S. E principal other than those in international consulting will work on the international projects; this is especially true when domestic industry expertise is important. International studies do not encompass any broader range of functional expertise (e.g., finance, planning)

than domestic ones. International projects are larger and more costly than their U.S. counterparts because it takes more effort to accumulate the equivalent amount of information due to segmentation of cultures, markets, and business norms plus transportational and communicational difficulties.

International marketing studies cover many industry areas; in this sense the consultants in this area are considered generalists. Their expertise is based on understanding a geographic region and its culture, rather than on specific industry knowledge.

Financial Services will rely much more on public information than the rest of Econology, which prides itself in gathering primary data. A knowledge of industry specifics coupled with a working understanding of strategic planning tools (e.g. growth-share matrix, product life cycle, and economies of scale) are the essential skills used to perform client studies.

## V.B. Salient Subdimensions

### V.B.1 Potential Segmentation Criteria

A table summarizing the salient differences in E's business areas is shown in Figure 8. The columns represent subdimensions from which SBUs can be constructed. All of the dimensions except industry (the first two columns) are inappropriate to consider as SBU separation criteria. One problem common to all dimensions but industry is lack of accounting data. There is very little accounting data available to evaluate the past performance of business units broken down along these lines. This problem will be discussed first, followed by rationales for segmenting or not segmenting along certain subdimensions.

### V.B.2 Lack of Accounting Data

The lack of accounting data means it is difficult to study the differences, if any, in the economic behaviour of business units. Generally accounting records are by principal, and when there are two principals dividing responsibility for an area along subsidiary lines, it is potentially meaningful to use the finer SBU breakdown. For those industries where this is

Principals' Major Business Areas	Subindustries	Study Type	Repeat Business (3-5 Year period) by firm	Point of Contact with Client Firm
Power Systems	Utilities Steel	Proprietary 70% Multiclient 30%	60-70%	V.P.-Marketing at corporate or divisional level
Textiles	Natural Fibers Synthetics	Proprietary 70% Multiclient 30%	60-70%	"
Automotive	Auto Equipment Parts Glass and Steel	Proprietary 65% Multiclient 35%	66%	"
Petroleum	Pipelines Refiners Distributors	Proprietary 55% Multiclient 45%	80%	"
Aeronautics	Aerospace Commercial Airline	Proprietary 85% Multiclient 15%	60-70%	"
Railroads, Shipping	Railroads Trucking Waterways	Proprietary 100%	60-70%	"
Inter-national	Europe Rest of World	Proprietary 100%	80%	Country of Area Manager
Financial Services	Regional banks Savings & Loans Credit Unions	Proprietary N/A Multiclient N/A	N/A	Corporate Planning

FIGURE 8  
POSSIBLE SBU DIMENSIONS



Principals' Major Business Areas	Function/Purpose of Typical Study	Technology	Primary Expertise Required
Power Systems	Market/Product	Field Interviews plus some consumer research	Industry
Textiles	"	"	Industry
Automotive	"	"	Industry
Petroleum	"	Field Interviews	Industry plus Engineering
Aeronautics	"	Field Interviews	"
Railroads, Shipping	"	"	"
International	Market entry for areas	"	Marketing Cultural General Management
Financial Services	Strategic response to regulatory change	Field Interviews plus Internal Consulting	Industry, Finance Marketing

FIGURE 8 (Continued)

POSSIBLE SBU DIMENSIONS

a possibility, it is not clear to us that there is any advantage in considering the areas to be two SBUs each. However, some principals commented that the critical success factors for their subsidiaries do differ somewhat. As these sub-areas grow in size, they may well become SBUs for future strategic planning.

### V.B.3 Study Type

This attribute has some potential as a basis for SBU segmentation as the size of the firm increases. More detailed accounting data than is currently available could reveal whether there are significant economic and functional differences between study types to justify using them for segmentation. Multiclient studies serve three purposes not duplicated by the other study types: they are a countercyclicity buffer when recessions hit the proprietary business, they are a useful training tool for consultants new to an industry, and they are a marketing device for developing future proprietary business. Hence, it is conceivable that they could be a target for special managerial attention within an industry area.

However, the study-type dimension was not chosen for SBU segmentation because of joint production reasons. Proprietary, multiclient, and planning program studies all use basically the same marketing, analysis skills, and technical knowledge within an industry group. Because of this shared production a multi-client SBU could not be effectively managed autonomously from a proprietary study SBU. Another argument against study segmentation is the preferences of the staff. Most of those interviewed prefer a certain mix of multiclient and proprietary work;

they would not be pleased with a permanent shift in this mix.

V.B.4 New-Repeat

New versus repeat business is an extremely critical dimension to successful consulting, repeat business having great advantage because it is less competitive to win contracts when a long-standing relationship with the client exists. Developing new business is a demanding activity and the marketing skills and incentive system required may be somewhat different from those required in preserving repeat business, all factors justifying specific managerial attentions. Nonetheless, forming SBUs around this criteria has one crucial drawback - it destroys continuity in client relationships. Clients would be "allocated" to a new group of people as soon as they became comfortable with the new business SBU people. Also, a segmentation on this criterion would result in SBUs that were very interdependent; growing the repeat client SBU would hinge strongly on growing the new client SBU.

V.B.5 Firm Contact - Function/Purpose - Technology - Expertise

All these dimensions are either highly correlated with the industry dimension or are captured by an industry segmentation. For instance, where the function/purpose dimension would form three SBUs - industrial marketing, International marketing, and financial services - the industry dimension would identify those same SBUs and would more finely delineate the industrial marketing SBU into each of the individual industries.

#### V.B.6 Industry

This is the chosen segmentation for two primary reasons. First, all principals agreed that this is the most reasonable segmentation to use. This support probably stems from observable attributes of their business plus their strong orientation to that framework based on tradition at Econology, in itself an important consideration supporting the choice of industry SBUs.

Second, these SBUs are independently manageable units. Few synergies presently exist between industry areas, although more may be possible. For instance, some industry marketing principals suggest that it might be worthwhile to link international business to domestic industries, gradually developing international practices in all industries. However, the industry-type SBUs are currently quite independent, each having its own client base, labor pool, and methodologies (with international having a distinct methodology because of its complex affiliate relationships.)

#### V.C. Other Factors Defining SBUs

Data from principals, clients, and competitors concerning critical success factors (CSFs) were also factored into the definition of SBUs. (CSFs for SBUs are examined in detail in the next section.) Although principals emphasized industry expertise, the general finding from client and competitor interviews was that this was not as much a CSF as the principals suppose. Instead, functional expertise (i.e. industrial and

consumer marketing) was emphasized, supporting a grosser SBU segmentation.

Having only a limited amount of interview data reduced the possible refinements we could meaningfully consider as bases for SBU definition. It is not useful to define the SBUs at a level of detail beyond that for which it is possible to obtain information about strategic position. Principals were able to effectively address distinctions in strategic position between the industry practices. However, we were only able to interview a small sample of clients and competitors, too few to make very strong and reliable conclusions about E's businesses at the industry level. Thus, we limited much of our analysis derived from client/competitor interviews to statements probably true for all of E's SBUs. Nonetheless, at any stage in our analysis, we differentiate as much as the information allows with respect to eight SBUs:

Industrial Marketing SBUs

- Power Systems
- Textiles
- Automotive
- Petroleum
- Aeronautics
- Railroads, Shipping
- International
- Financial Services

## VI. SBU Profiles

### VI.A. Explanation of Procedure

An understanding of E's corporate strategic position is possible through detailed examination of the individual SBUs. Although the relevant strategic factors will not be the same for each SBU, they can be categorized under two dimensions: market attractiveness and competitive business position. Market attractiveness is a composite measure of factors describing how desirable it is to participate in the SBU's particular market; this attractiveness is measured relative to all consulting markets. Competitive business position is a composite measure of the factors essential for success in the SBU's current market, measured relative to the SBU's competition. A factor is called a critical success factor (CSF) when pertaining to business position and a critical market factor (CMF) when pertaining to market attractiveness.

Measures of these critical factors were only occasionally directly quantifiable, such as gross revenues and SBU growth. Many measures are not quantifiable such as rate of change in client's technology, price competition, or industry expertise. Whether or not something is tangible does not necessarily relate to its measurability. Some tangibles cannot be measured, such as how the loss of key consultants or how the number of professionals affects an SBU's business position. However, some of the tangibles can be measured, e.g., depreciation. The only requirement we placed upon a critical factor is that it be strategically meaningful.

To be meaningful, we avoid what might be termed "false concreteness." For example, claiming a 26% market share when the variance on this estimate is very large gives a false sense of precision which may cause a wrong decision. For this reason, we chose qualitative measures that are more accurate, such as weak, neutral, or strong, when assessing the SBU position relative to a critical factor.

Our analysis is in four parts, each part centered about a certain source of information, 1) information from SBU principals, 2) industry sales analysis, 3) information from client interviews, and 4) information from competitor interviews.

SBU principals each identified five to eight CSFs and CMFs; each is discussed concerning its importance and effects. Organizational factors are emphasized and in particular the compensation system is described along with its effects. Critique and recommendations of the organization or compensation system are reserved for the conclusion of this report. An initial composite assessment of each SBU's strategic position is made.

Historical and projected industry sales are analyzed relative to SBU sales. This data basically confirms principal interview data concerning anticipated industry growth. Also, the concept of limited sales per principal is introduced and supported by revenue data.

Information from client interviews is divided into five major issues, which relate directly to SBU CSFs and CMFs. The

marginal impact this information has on the initial SBU position assessment is summarized at the end of the section. Our selection of clients was based on lists provided by Econology; clients for the Financial Services were not included on this list. (Presumably Financial Services is too young a business, two to three months, to have developed a client base.)

Information from competitor interviews is primarily relevant to CSFs. Two types of competitors are studied, those in direct competition with E (i.e. industrial marketing consultants) and those which would be in competition with E if E changed its focus to general management or strategy consulting. Although clients themselves compete with E through internal market research departments they are excluded from this section having already been discussed in the client interviews section. Information from direct competitors reveals nothing new about E's competitive position with respect to each CSF, but it does indicate that functional expertise is a more important CSF than was believed by E's principals. Interviews with strategy and general management consultants disclose an entirely new set of critical success factors to be contended with if E's strategy changes.



## VI.B. Profile Results

Before discussing the four sections, we give the results of our complete analysis concerning the current status of E's SBUs. The tables in Figures 9 and 10 summarize the CSF and CMF for each SBU. A position (weak (W), neutral (N), or strong (S)) is given only for those factors of critical importance as assessed from principal interviews. A plus (+) or minus (-) sign indicates that interviews with clients or competitors marginally influenced our original position assessment. A composite rating (W,N,S) of market attractiveness and competitive position for each SBU is formed, based more upon subjective considerations than any quantitative algorithm. E's current strategic position is visually constructed on a market attractiveness/business position profile in Figure 11; using the composite ratings each SBU is plotted on that matrix as a circle with area proportional to its 1979 annual sales. Recommendations for further actions to improve this portfolio are given in the conclusion of this report.

Critical Success Factor	Market Share	SBU Growth	Buffering of Cyclicalities	Sensitivity to Client's Market Trends	Pricing	Number of Professionals (Size of Firm)	Proprietary Accounts	Economies of Scale and Experience Curves	Sophistication of Service	Industry Experience/Expertise	Functional Experience/Expertise	Marketing/Sales Effort	Quality of Analysis	Image and Reputation	Visibility	Top Management Effort	Staff Development/Middle Management Competence	Composite Position
Power Systems	S	N				+	S		W	S+	+	-		S-		W	W	S+
Textiles		S			W	+	N			S+	S+	N-	S	S-	S		N	S
Automotive						+	W			S	N+	-	N	S-		W	W	S-N
Petroleum	W					+	N			S-	+	N-	N	W		W		W
Aeronautics				N		+	S			W-	+	N-		S-	W	W		N-W
Railroads, Shipping	W			W		+	S			S-	+	W		S	W		W	W
International						+		S			S+	N-	S	N-	W	N	W	S-N
Financial Services	W					W	W		W	N	W	-				W		W

FIGURE 9

PROFILE OF BUSINESS POSITION FACTORS FOR EACH SBU

Critical Market Factor	Volume	Real Growth	Cyclicality	Rate of Change of Client's Market	Rate of Change of Client's Technology	Price Competition	Client Industry Concentration	Service Uniformity	Repeat Business Opportunity	Composite Attractiveness
Power Systems	S	W		N		S +			S +	N-W
Textiles	S	W		S	S	+			+	N-W
Automotive	S	N		W		+		N	+	N
Petroleum	S	S		N		+		S	+	S-N
Aeronautics	S	S		S	S	+			+	S
Railroads, Shipping	S				S	+	S	N	+	S
International	S			S		+			+	S
Financial Services	S	N		S	S	+			+	S

FIGURE 10  
PROFILE OF MARKET ATTRACTIVENESS FACTORS FOR EACH SBU

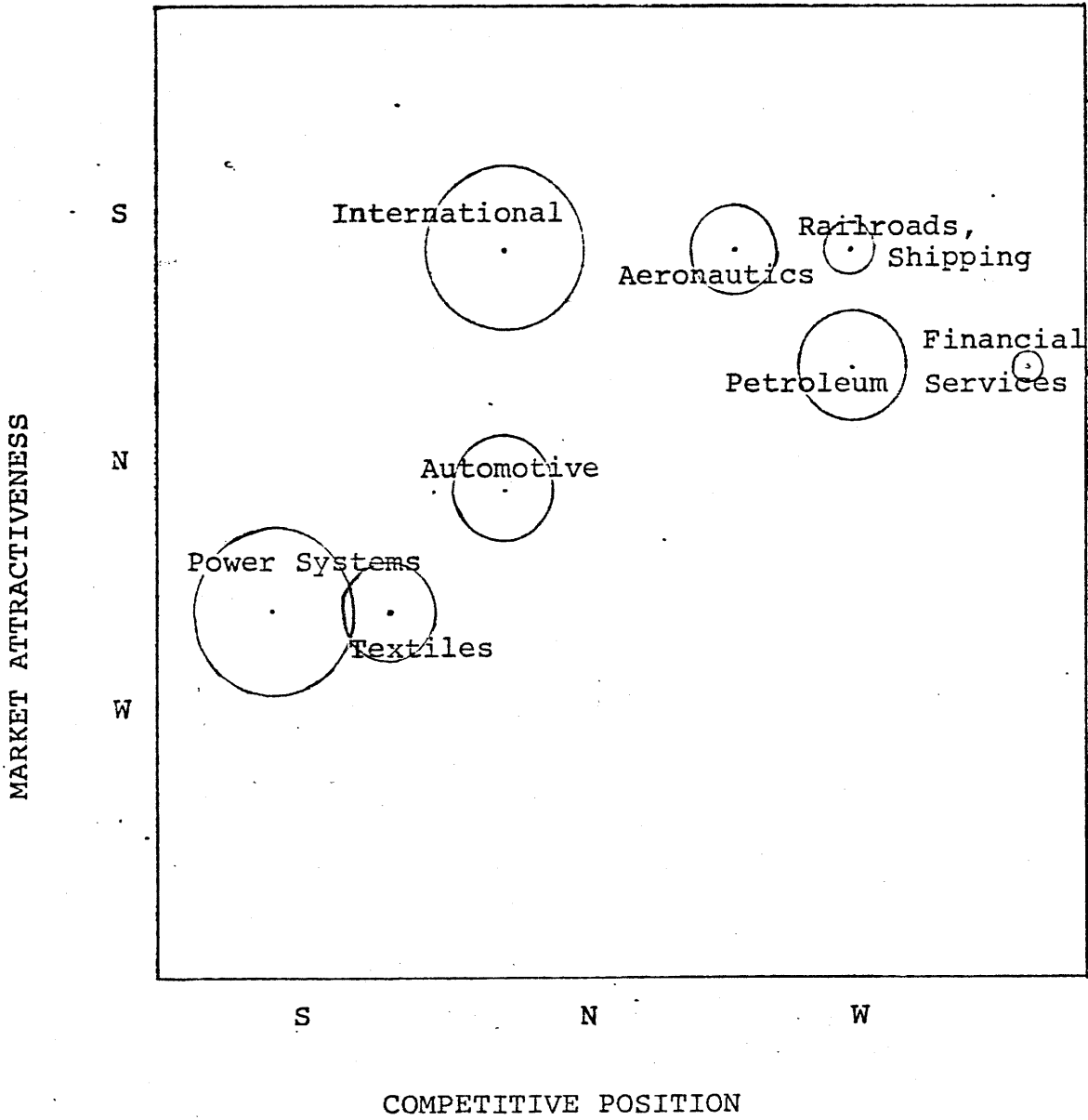


FIGURE 11

STRATEGIC POSITION PROFILE

## VI.C. Information From SBU Principals

### VI.C.1 Methodology and Results

Two to three hour interviews were held with each principal discussing factors relevant to their SBU. Interviews were held at the corporate office and focused around a list of potential CSFs and CMFs. Casual discussions prior to these interviews provided suggestions for critical factors which were organized into a questionnaire to be filled out during the subsequent interviews. The questionnaires, shown in Figures 12 and 13, listed potential critical factors (blanks were left for additions during the interview) and requested the weights, optimal condition, and SBU position for each critical factor. Weight referred to the importance of the critical factor in determining the position of an SBU; in utilizing the questionnaire it was only possible to use weights to separate important from unimportant factors. Optimal condition described the manner in which the critical factor would improve the SBU position. SBU position was measured as weak (W), neutral (N), or strong (S) on the basis of the SBU's current status. Each principal identified five to eight CSFs and CMFs of critical importance to his SBU. This data is summarized in two tables, in Figures 14 and 15. To explain the meaning of these positions each CSF and CMF is defined in the subsequent pages.

For most factors, SBUs differed on weights and position, although all principals of the industrial marketing SBUs felt each CSF or CMF would affect their SBU in the same general

direction. For example, principals for both Chemicals and Packaging felt market share had a positive influence on their competitive position but Chemicals ascribed a much larger importance to it.

The SBUs were similar in weight and position on only those factors directly related to Econology's organization. These were the CSFs of management effort and staff development.

	<u>WEIGHT</u>	<u>CRITICAL SUCCESS FACTOR</u>	<u>OPTIMAL CONDITION</u>	<u>WEAK</u>	<u>POSITION</u> <u>NEUTRAL</u>	<u>STRONG</u>
1	_____	MARKET SHARE	_____	_____	_____	_____
2	_____	SBU GROWTH	_____	_____	_____	_____
3	_____	BUFFERING OF CYCLICALITIES	_____	_____	_____	_____
4	_____	SENSITIVITY TO CLIENT'S MARKET TRENDS	_____	_____	_____	_____
5	_____	PRICING (LOW, HIGH, LEADERSHIP)	_____	_____	_____	_____
6	_____	# OF PROFESSIONALS (SIZE OF FIRM)	_____	_____	_____	_____
7	_____	PROPRIETARY ACCOUNTS	_____	_____	_____	_____
8	_____	ECONOMIES OR DISECONOMIES OF SCALE	_____	_____	_____	_____
9	_____	VERTICAL INTEGRATION (TEACHING OR IMPLEMENTATION)	_____	_____	_____	_____
10	_____	BREADTH OF SERVICE LINE	_____	_____	_____	_____
11	_____	SOPHISTICATION OF SERVICE	_____	_____	_____	_____

FIGURE 12  
CSF QUESTIONNAIRE

	WEIGHT	CRITICAL SUCCESS FACTOR	OPTIMAL CONDITION	POSITION		
				WEAK	NEUTRAL	STRONG
12	_____	GEOGRAPHIC DISTRIBUTION OF CLIENTS	_____	_____	_____	_____
13	_____	INDUSTRY EXPERIENCE/ EXPERTISE	_____	_____	_____	_____
14	_____	FUNCTIONAL EXPERIENCE/ EXPERTISE	_____	_____	_____	_____
15	_____	IMAGE AND REPUTATION	_____	_____	_____	_____
16	_____	MARKETING/SALES EFFORT	_____	_____	_____	_____
17	_____	QUALITY OF ANALYSIS	_____	_____	_____	_____
18	_____	_____	_____	_____	_____	_____
19	_____	_____	_____	_____	_____	_____
20	_____	_____	_____	_____	_____	_____
21	_____	_____	_____	_____	_____	_____
22	_____	_____	_____	_____	_____	_____
23	_____	_____	_____	_____	_____	_____

FIGURE 12 (continued)

CSF QUESTIONNAIRE



WEIGHT	CRITICAL MARKET FACTOR	POSITION		
		OPTIMAL CONDITION	WEAK	STRONG
1	VOLUME	_____	_____	_____
2	REAL GROWTH	_____	_____	_____
3	CYCLICALITY OF CLIENT'S INDUSTRY	_____	_____	_____
4	RATE OF CHANGE OF CLIENT'S MARKET	_____	_____	_____
5	RATE OF CHANGE OF CLIENT'S TECHNOLOGY	_____	_____	_____
6	PRICE COMPETITION OF CONSULTING FEES	_____	_____	_____
7	CLIENT INDUSTRY CONCENTRATION	_____	_____	_____
8	SERVICE COMPLEXITY	_____	_____	_____
9	UNIFORMITY OF SERVICE METHODOLOGY	_____	_____	_____
10	SERVICE LIFE CYCLES	_____	_____	_____
11	BARRIERS TO ENTRY	_____	_____	_____
12	BARRIERS TO EXIT	_____	_____	_____

FIGURE 13

CMF QUESTIONNAIRES

Critical Success Factor	Market Share	SBU Growth	Buffering of Cyclicalities	Sensitivity to Client's Market Trends	Pricing	Number of Professionals (Size of Firm)	Proprietary Accounts	Economies of Scale and Experience Curves	Sophistication of Service	Industry Experience/Expertise	Functional Experience/Expertise	Marketing/Sales Effort	Quality of Analysis	Image and Reputation	Visibility	Top Management Effort	Staff Development/Middle Management Competence
Power Systems	S	N					S		W	S				S		W	W
Textiles		S			W		N			S	S	N	S	S			N
Automotive							W			S	N		N	S		W	W
Petroleum	W						N			S		N	N	W		W	
Aeronautics							S			W		N		S	W	W	
Railroads, Shipping	W			W			S			S		W		S	W		W
International						N		S			S	N	S	N	W	N	W
Financial Services	W					W	W		W	N	W					W	

FIGURE 14

ASSESSMENT OF SBU BUSINESS POSITION FROM PRINCIPAL INTERVIEWS

Critical Market Factor	Volume	Real Growth	Cyclicality	Rate of Change of Client's Market	Rate of Change of Client's Technology	Price Competition	Client Industry Concentration	Service Uniformity	Repeat Business Opportunity
SBU									
Power Systems	S	W		N		S			S
Textiles	S	W		S	S				
Automotive	S	N		W				N	
Petroleum	S	S		N				S	
Aeronautics	S	S		S	S				
Railroads, Shipping	S				S		S	N	
International	S			S		S			S
Financial Services	S	N		S	S	S			S

FIGURE 15

ASSESSMENT OF SBU MARKET ATTRACTIVENESS FROM PRINCIPAL INTERVIEWS

## VI.C.2 Definitions of Critical Success Factors

### Market Share:

Market share is measured as the ration of SBU sales of market planning/research firms competing in the same market niche. It has a positive impact on competitive position, primarily because it improves visibility and image. The intangible nature of a consulting project makes the product difficult to examine before purchase, so a buyer is likely to heavily weigh any available comment on the firm's quality. Visibility and client awareness are essential for services not amenable to grocery-style distribution. For instance, ADL gets some sales simply because it is well-known; corporations with no previous consulting acquaintances have called ADL asking for "Dr. Little."<sup>28</sup> At Econology, principals commented:

"Being larger demonstrates experience, gives contacts, establishes reputation. ADL and SRI have this."

"For some industries, such as the regulated ones, large market share is important. It is not so important for other areas."

### SBU Growth:

Growth is defined as real growth in sales dollars. Other more abstract dimensions of growth, such as growth in professional knowledge or growth in becoming more known to the markets, are reserved for discussion with other critical factors. Real growth can benefit the organization by creating more opportunities for promoting staff and by serving

<sup>28</sup> Discussion with ADL staff member.

as testimony to potential clients that E does good work. Principals feel growth has a positive influence on position unless taken to the extreme, when it may cause organization and quality control difficulties.

#### Buffering of Cyclicalities:

Reducing the impact of business downturns is not a critical factor for any SBU. There are four possible explanations for this attitude: 1) recent periods of business prosperity have dulled awareness of the potential effect of a recession, 2) marketing planning/research market is so unsaturated that its growth trend cannot be perturbed by a recession, 3) marketing research/planning is not affected by cyclicalities even in a mature market, or 4) E multiclient studies effectively buffer cyclicalities. The fourth explanation appears to be the dominant argument:

The perishability of services, unlike a manufactured product, make it impossible to have inventory and thus have smooth production throughout demand fluctuations. The multiclient study evades some of the perishability arguments by being salable over a period of time (perhaps in excess of a year) to many clients; in other words, multiclients may be inventoried. Another buffering feature of multiclients is their low per client price which makes them attractive to cash poor businesses. Principals felt multiclients increase the visibility of E. Essentially E trades immediate profits for long-run increases in profits (through visibility)

during business slowdowns. E's multiclient emphasis during business downturns is displayed in Figure 4 (Chapter III). An unresolved issue is whether multiclients appear countercyclical because of their innate characteristics or because they are promoted with added intensity during business downturns.

#### Sensitivity to Client Market Trends:

An in-depth understanding of the client's business makes a consultant more marketable and reduces start-up costs in performing a particular project. Multiclients assist E in understanding a client's industry by keeping them informed in specific areas of a market they are interested in. One principal commented, "We use multiclients to keep informed and thus use them more during rapid market evolution."

#### Pricing (high, low, leadership):

Although on appearance a tangible attribute, the price per unit is quite vague because of the ambiguity surrounding the definition of a service unit. Nonetheless, principals have a clear concept of E's consulting price relative to competition. Because price may be perceived as indicating quality, its effect on business position is ambiguous. With the effects of price implying service quality removed, all feel price negatively affects SBU position. Most principals feel that prices, within a broad range around their own, are not critical factors.

#### Number of Professionals:

Principals feel the number of staff generally has a positive impact on position. Size increases visibility, credibility, and can serve as a resource by making E more efficient. For example, a large staff can lead to added efficiencies through increased specialization and reduced production stress during minor demand fluctuations. Competitors cite 50 to 100 professionals as the ideal size for any one geographical location. They also feel at least a few million dollars in sales is necessary for the firm to be relieved from minor demand changes or scheduling problems.

#### Proprietary Accounts:

Long relationships with clients who frequently use their services are considered a positive influence on SBU position. Companies tend to use a consultant they have known for a long time because he is the first to come to mind and because he intimately understands their business. One principal identified three additional advantages; "First, it is more expensive to get new accounts, second, proprietary accounts are a sign of success, and finally, they are less sensitive to economic downturns."

#### Economies of Scale and Experience Curves:

One form of efficiency may be derived from having larger studies; in other words, a \$50,000 study may be more profitable than two \$25,000 studies. Most feel this can be the case in some instances, i.e. the \$50,000 study could be more

profitable. The effect is most pronounced in the SBU with the largest average study size, International. One principal pinpointed the critical elements of savings and cost with a larger study.

"Large studies have economies of scale with management time. Maybe we have one more meeting on a large scale study than a small one. So twenty \$10,000 studies would involve 60 meetings whereas one \$200,000 study would have only 4 or 5 meetings! But profit margins are built into the billing scheme so profitability is somewhat a constant percentage to sales. Actually, big studies can be less efficiently executed when first encountered so profitability can fall."

Another form of efficiency may be derived from experience curves. It takes approximately one year for a green staff member to become a reasonably experienced consultant. Principals felt they did not differ significantly from their competitors on this factor.

#### Sophistication of Service:

This refers to E's methodology relative to competitors and to the state of the art. Fancier services may improve position, but in many cases, either clients would not fully recognize the added quality or complicated recommendations would be more difficult to implement. One principal commented:

"As clients get more sophisticated they want more numbers. They would like to see consumer research type tools applied to industrial marketing. I do not always feel this consumer approach has merit in industrial markets."



**Industry Experience/Expertise:**

As the industry-segmented organization suggests, E emphasizes industrial expertise. Most principals feel it is a major asset. The International SBU differs in that it relies on regional expertise and within that geographic region works with all industries. Principals in industrial marketing mentioned several advantages to having industry experience.

"Clients don't want to pay a consultant to learn about their industry."

"Clients think it is very important for a consultant to understand their industry thoroughly. Sometimes I think they may overemphasize its true value."

**Functional Experience/Expertise:**

Although a positive influence on position, only half of the principals feel functional experience/expertise is a critical factor. This factor concerns the market research/planning function for industrial markets.

Other functional knowledge felt useful in consulting at E included strategic planning and certain technical engineering competence. Principals disagreed over E's

expertise in strategic planning and some felt E's technical competence had faded in recent years.

**Market/Sales Effort:**

Marketing improves the position of all SBUs. Marketing is differentiated from the hardsell. Hardselling is perceived as not identifying markets and cultivating needs but rather force fitting the clients into an available product through perhaps extreme techniques. Marketing requires a flexible service, adapting to satisfy customer needs, and most importantly, developing an awareness of client needs. Promotion develops this awareness and, in addition, develops client awareness of E and what it can do. Most principals feel more promotion is needed.

"Promotion is a crucial element and for my business group we certainly need more of it, either through freeing up more of my time to promote or by getting more principals into this industrial market."

**Quality of Analysis:**

As expected, high quality studies improve SBU position. Much of the quality stems from other CSFs, such as industry and function expertise. Principals see quality as essential for repeat business, although some feel that quality beyond a certain point is not recognized by the client. This may be a consequence of insufficient marketing - the client must sometimes be shown that the work is of high quality. Some principals feel E's staff is not improving the studies at a pace equal to E's growing professional standards.

"At times the staff can be too parochial. They do not add enough extras to the studies to satisfy my gradually increasing standards of quality, such as adding comments on financial analysis."

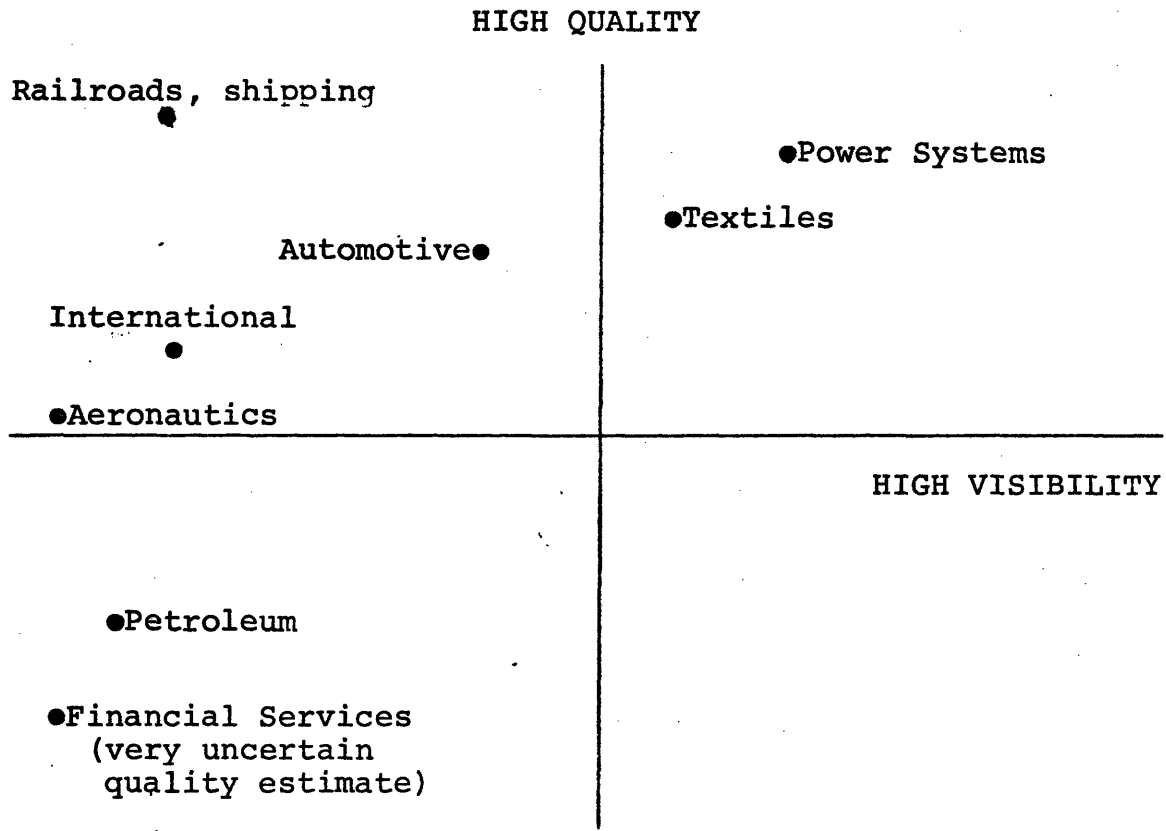
#### Image and Reputation:

All principals accentuate the importance of this factor. The key to its importance lies in intangibility of consulting services. Since you cannot touch, try on for size, or even quantify a marketing study, a client must put much weight on his subjective perception of the consultant. He hopes the image and reputation are unbiased estimators of the quality of the consultant's work. Client organizational politics also play a role in making image important in consultant selection; as one principal pointed out, image can leverage a consultant into a firm under political circumstances.

"This factor is very important. There is a tremendous burden on the client to hire a well-known and respected consultant. If he doesn't and the project goes bad, he can expect the boss to say, 'Why didn't you hire Booz, Allen & Hamilton?' If he does hire a Booz and the project goes bad, he can always say, 'But I hired Booz, Allen.'"

#### Visibility:

This factor measures the market's awareness of E, independent of whether this perception is good or bad. Most feel this is a critical factor which improves an SBU's position, assuming the SBU has a high quality reputation. The plot below shows SBU positions relative to quality and visibility. Both measures are relative to competition and are constructed from our own perceptions gained through interviews.



**Top Management Effort:**

When discussing CSFs pertinent to the organization, it is important to stress that the viewpoint used is an absolute one, not one relative to competition. Assessing E's organizational strengths and weaknesses relative to its competition would require sensitive competitive information on professional growth and satisfactions rarely available in reliable form. Nonetheless, the factors are competitively informative since improvements in organization design may strengthen E's strategic position.

Principals identify a lack of management at the corporate level. This is not attributed to an incompetent or

untalented administration, but simply to an inadequate amount of time being allocated to the chores of management by top management personnel. The chores of management are segmented into two levels pertaining to the responsibilities of the Chairman and the President and pertaining to the responsibilities of the Principals.

Some of the duties of the Chairman and President:

- Corporate-wide planning
- Organization development

The duties of the Principals are SBU specific and emphasized the following:

- Staff development
- Business promotion

The budgeted breakdown for managerial time is consistently violated by many top personnel. Promotion and administration are usually sacrificed for project work. It appears that forsaking staff development for project work could endanger the quality of the staff, leading to even more Principal attention being devoted to projects in order to maintain quality. This cycle of exchanging staff development time for direct consulting time leads to a less competent staff. Requiring Principals to spend even more time on consulting can easily stunt firm growth, unless management is willing to sacrifice short-run sales derived from project work to educate and develop their staff.

Some typical interview statements commenting on the lack of time devoted to management are:

"The Chairman and President "play manager" 5 to 10 days per year, consulting the rest of the time. Who is running the company? Not the executive committee; it is composed of people running their own consulting projects. The President and Chairman are good consultants but may not be so good as managers - they fall back to the areas of least resistance. The principals in general should do more promoting."

"Econology is very poor at forecasting its own expected volume of business, always underestimating and ending up understaffed. The result is not enough time for the principals to develop new clients. Someone must run E."

"E is undermanaged, especially with respect to planning. Top management has been afraid to look at administration for fear that their personal businesses would fail if they did so."

"Principals could/should do more promotional work. I could really sell because of my reputation, but I can only make very few calls on new business per year (less than 10). Most "promotional time" is really other administrative work or answering RFPs."

"Most principals could contribute by doing more selling and promotion but they perceive themselves as stuck in their current roles because they can do the work better than their subordinates."

"I currently spend 2 1/2 days as a symbolic participant on every project in my division (at meetings with the client)."

(This principal has twelve to fifteen projects in process at any time, each about two and one-half months long.

This means he spends 12 to 15 days/month as an observer at meetings - with three years of 25 - 30% growth, he will be spending all his time in such meetings as an observer.)

This last quote is indicative of how strongly management can be constrained by the current structure.

Why managers are not managing is addressed from several angles: (1) the Principals, and especially the Chairman and the President, are irreplaceable in their consulting roles; in other words, staff skills have not evolved to the point of assuming a significant share of the present project work burden from the Principals, and (2) the financial compensation scheme does not provide incentives to assume managerial duties. Their first reason concerns staff development, which is a common CSF for all Principals.

#### Staff Development:

Inadequate staff development can have dire consequences on the longevity, as well as the growth, of any professional service organization. In service firms all levels of staff have contact with the client, creating pressure to present highly competent professionals. The human nature of a professional firm's assets creates added pressure to maintain a competent staff. A senior principal may die, wish to retire, or simply switch into a more complex or different work area; therefore, it is essential to have a reasonable replacement on hand. All these factors make staff development a high

priority to Econology.

Interviews data indicated Econology has a weak position in reference to this critical success factor. However, where Econology stands relative to its competitors is unresolved. One principal commented that, "Although Econology is weak on staff development and training, it seems most consulting firms are also weak."

The manifestations of weak staff development are highlighted in the following areas, which are supported by interview comments.

- A. Middle management is too slow. Principals are forced to perform a disproportionately larger amount of work just to meet deadlines.

"Middle staff cannot handle my work because they are too slow and less skilled. I can write a proposal in one hour and my subordinates need two days (and a request for proposal may often come in with only two days to respond)."

"I have several MBAs on my staff who could interpret the data they collect if they had enough time, but it takes them twice as long as me."

- B. Principals do not have faith in the unsupervised quality of staff. Note that the conservative use of staff may lead to this self-fulfilling expectation, i.e., no responsibility for staff leads to few skills, leads to no responsibility, etc.

"The staff members gather data; the principals analyze. Promotion depends on how quickly the staff member volunteers and is capable of analysis (Note: the majority of principals have not been promoted internally.) The principals' involvement is to



insure quality control throughout, reviewing interviews to see if a subtle point was missed by the interviewer which should be emphasized in the future."

"The stability/competence of the staff is a critical success factor (CSF) for Econology as a whole, on which we are weaker than we would like."

"Staff development is a CSF; our career development is weak."

C. Some middle management people are leaving Econology.

"We have had a problem with middle management leaving because of stagnation just below the principal level. Also, new recruits who were quite qualified have left Econology due to the initial "stress test" they were subjected to as a result of E having no emphasis on staff training.

D. Insufficient number of middle management staff members, as evidenced by the number of professionals at different hierarchical levels (shown in Figure 6.).

There are eight reasons cited for poor staff development:

1. There is not enough internal promotion.

"Econology should promote staff internally, not implant principals from the outside (less than half of E's principals are homegrown). If you do the latter, you lose seasoned, valuable middle level staff."

2. Consultants do not have close contact with principals.

"We have discussed the need for a training program since 1974. The President believes training is the responsibility of the principal. At present there is a one day process orientation plus new consultants spend 60 days at half-billing rate to get on-the-job training. In the past when the company was small, new staff worked closely with the principals because the principals were the true consultants. Now the principal only participates on projects at the client meetings, so the consultant only sees the principal (and receives his otj training) on the airplane to the final client meeting. There is little vertical communication and correspondingly little training."

3. The consultant has nowhere to go to safely complain or air his grievances.

"The principal controls the life of the consultant (since he only works in one industry group); the consultant has nowhere to go if he is not getting along with his principal."

4. Standards of employment have dropped making it more difficult to train and rotate people within Econology.

"Econology needs to be more aggressive about filtering out its weak people."

"There is infighting over technical versus nontechnical people. Thus recruiting standards are not common and rotating people among various SBU becomes more difficult."

5. Rotation of staff is minimal, impeded by different recruiting standards (as discussed above), the efficiencies due to staff specialization, and the staff wanting to develop an industry reputation to gain sales (a major determinant in salaries and promotion).

"Mobility of staff between industries would be desirable for breadth, but it is not possible for the more technical industries (like mine)."

"Rotation of staff between industries would be useful at the low levels but it is risky for the principals to use inexperienced staff."

6. Principals feel clients resist a heavy delegation of business responsibility to their associates.

"... has had some negative feedback from clients when he tried to shift business to associates. It is difficult to delegate responsibility downward."

"There is a crisis at the associate level - we need to push responsibility downward but you cannot just reassign clients to subordinates; the client must accept the subordinate as the primary consultant and contact."

7. No formal training exists to bring consultants smoothly into Econology's operations.

"New people are given a two-day orientation and 60 days at half-billing."

8. The compensation system is geared to short-run sales; only the owners have any long-run incentives to invest in the development of the staff. Perhaps not coincidentally, the only two principals who have developed other principals to work for them are the Chairman and the President, both of whom enjoy large ownership of the firm.

"I feel that career development may be better in Power Systems (the industrial SBU which the President runs) than in the other groups."

In summary, Econology is perceived by its own management as weak concerning staff development. Even if not weak relative to its competition, Econology could substantially improve its position by improving staff development.

The compensation system was repeatedly referred to as a factor affecting Econology's position on its management and staff development CSFs. Although this system itself is not a CSF, its importance warrants discussion.

**Compensation:**

This section is in three parts: description of the current compensation system, analysis of this system suggesting possible deleterious side effects, and interview comments supporting the critique.

**Description of the System**

Compensation is based on sales dollars and subjective factors, with the relative weighting depending on the hierarchical position of the employee. Employees receive both a base salary and a bonus which ranges from 10-50% of the base salary. The proportion of bonus to salary increases with seniority.

Salaries are based on position and performance. Bonus is based on sales credits plus subjective factors. A portion of the price of a project is awarded as a sales credit to employees according to their participation in the contract. Sales credits are granted for passing contacts, giving a lead on a contract opportunity, proposal writing, and closing sales. The majority of credit accrues to whomever closes the sale. The total allocation of sales credit to participants must equal 100%.

If a subordinate does not believe he has been given enough sales credit for his contribution, and his principal

will not adjust the allocation, he may take his claim to "arbitration". Three disinterested principals will decide if he should be given different credit. This has been done on several occasions and the credit was granted; however, in some cases ill-will was created.

In order to get a bonus for sales credit dollars, one's credits must first exceed some absolute amount (roughly as follows):

Principals	\$ 100,000
Senior Associates	40-50,000
Associate	20-30,000

For those who exceed these thresholds, there is an amount which will be algorithmically calculable as the bonus. It is based on the division of the total bonus pool among those who qualify in proportion to their excess credits over the thresholds.

The subjective component is smallest for principals, while it is the sole factor below associates. The officers review the principals, and the Executive Committee reviews all other professional staff employees (down to research assistants). All employees are ranked by all their superiors for whom they have worked. High marks from many superiors means a good bonus. The committee looks at the sales credits earned by associates, etc. to see whether they were earned through the employee's own initiative or through work assigned to them by others. The more of the former, the higher the subjective component of the bonus.

The bonus pool is approximately 25% of Econology's operating profits. Portions of the bonus pool are allocated to different components of the compensation:

<u>Portion of Bonus Pool</u>	<u>Allocated to</u>
1/3	selling staff based on algorithmic calculation
1/6	selling staff based on subjective factors
1/2	entire staff based on subjective factors

### Analysis

The goal of a compensation system is to reward people strictly on the basis of their contributions to the value of the firm. Although useful as a basis of comparison, such a goal is impossible to achieve in any practical application because of the immeasurability of the value of the firm and the individual contributions to that value. To see how close Econology is to achieving this goal we must understand 1) what sort of employee behavior is induced by the system and 2) how does this behavior affect the value of the firm.

The first order effect on employee behavior appears to be aggressive selling. In fact, basing the algorithmic calculation of bonuses on the proportion of sales credit in excess of the thresholds reinforces competitive behavior within the firm, i.e. it pays to be the top selling principal. For example, consider a firm with two principals, one with sales credits of \$125,000, another with credits of \$600,000. The principal with the higher sales is much better off under Econology's allocation scheme rather than a scheme dividing up the bonus pool as a straight proportion of sales.

Percentage of sales-based pool  
allocated to principal with:

	<u>\$600,000 sales</u>	<u>\$125,000 sales</u>
Proportion of sales	83%	17%
Proportion of Excess Sales (Econology scheme)	95%	5%

To escape this costly effect, a principal may quickly increase sales to high values in the general range of other principals (approximately \$400,000 to \$600,000). Once at that level the principal has very little time to manage or develop staff.

The strength of this sales incentive depends upon the factors used for the subjective bonus distribution and the amount of the base salary. If the subjective factors are related to sales and the base salary is low (so the bonus constitutes a large proportion of personal income), then the sales emphasis is exacerbated. One principal did comment on a low base salary.

"At the principal level, compensation is a problem because income is so volatile. Base salary increases and bonuses move up or down together. This is hard on people in terms of setting a standard of living. With inflation continuing, this may be a real danger in the future."

Assuming sales are emphasized, the compensation may have a deleterious impact on the long-run firm value. Principals may not find enough time to develop their staff, stifling firm growth. They may also find little incentive to pass along good contacts or leads to their subordinates and reserve

the difficult sales for themselves. Comments from principals support these possibilities.

"Principals are motivated by the bonus system to protect their client base. They are not eager to give leads to developing staff or to the new principals working in SBUs acquired by the firm."

"Incentives are not in place to help others within the firm."

"Our internal structure cannot meet the market opportunities. There is little motivation for principals to develop staff. Financial incentives could help if designed with that goal in mind."

We return to this issue when outlining our recommendations to Econology in Chapter VII.

#### VI.C.3 Definitions of Critical Market Factors

##### Volume:

The dollar size of the SBU's market adds to the market attractiveness. Most principals viewed their markets as very large, although the growth may be small or decreasing.

##### Real Growth:

Real dollar growth of the SBU market excludes nominal dollar growth through inflation. Again, most principals felt this had a positive impact on attractiveness. Real market growth measures growth in the entire market, in contrast to SBU growth which only measures growth of the SBU's share of the market.

##### Cyclicality:

Boom and bust cycles in the SBU market, whether or not due to fluctuation in the client sales, detract from



market attractiveness. The shorter the cycle, the more violent will be staff transfers, hires, and layoffs.

**Rates of Change in Client's Market:**

Market changes refer to alterations in the client's target market, consumer's buying behavior, distribution channels, etc., independent of changes in the physical product. All markets are dynamic and the greater the rate of change, the more attractive the market is to the SBU. As one principal noted, "E virtually thrives on changes and opportunities in the market place."

**Rate of Change in Client's Technology:**

Technological changes, which alter the physical product sold by the client, usually have substantial impacts on the market. A new product or feature will require market investigation into the size and form of demand. Thus, this CMF improves attractiveness.

**Price Competition:**

Competition in any form is hazardous to attractiveness. Price competition may be deleterious to attractiveness but it is not a significant CMF for many SBUs. Industrial marketing is viewed as a price insensitive market within a certain range. The services are so differentiated that price is not a meaningful measure to compare across competitive bids.

**Client Industry Concentration:**

Having many clients improves the firm's stability and exposure. What constitutes excessive concentration was not identified, but as a rough indication, Power Systems is quite comfortable with 4 or 5 clients comprising 60% of their business, implying an industry consisting of 5 or 6 large firms is tolerable.

**Service Uniformity:**

The factor is a measure of the homogeneity of the services in the SBU market. The more customized or varied the product, the less intense the competition. However, a customized product has a minor negative side effect: it reduces the ability of the individual firm to standardize its methodology. Taken together, the principals perceived uniformity of service as an attractive factor.

**Repeat Business Opportunity:**

For the same reasons explaining the proprietary accounts CSF, repeat business adds to market attractiveness. Long relationships incur little marketing expense and the studies can be more valuable because the consultants gain an intimate knowledge of the client. Some of the other CMFs such as rate of change in client's market or technology may be correlated with this factor.

#### VI.D. Industry Sales Analysis

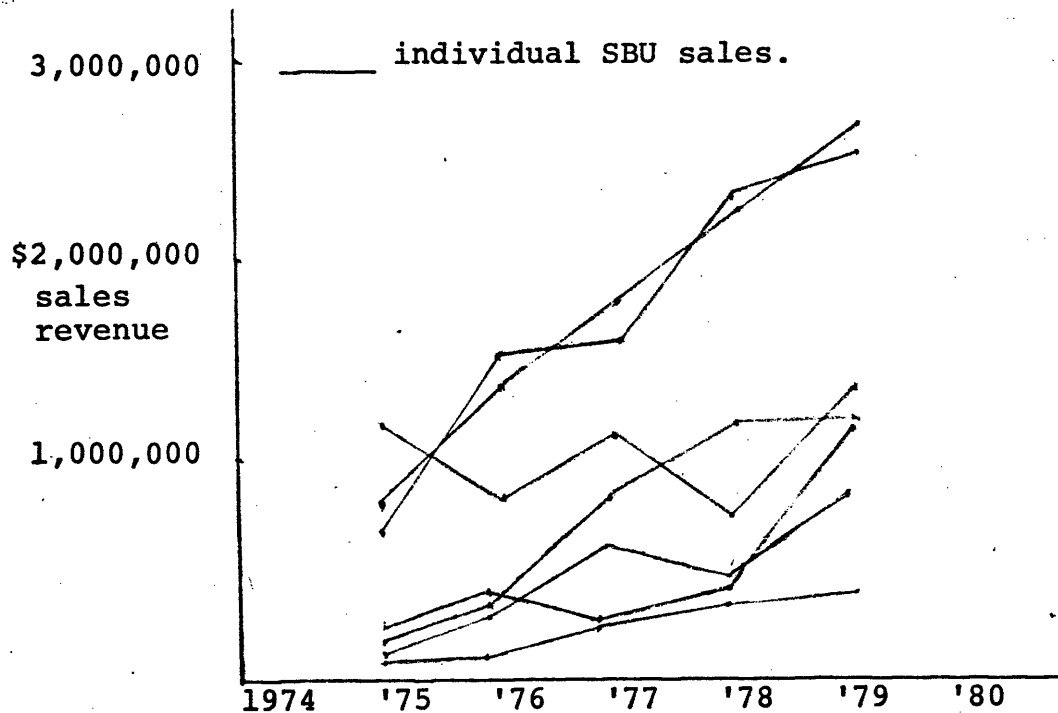
Measures of industry sales are compared to SBU sales to check for correlations or trends. Sales figures begin in 1974 on the end of the most recent economic recession, so data will not reflect Econology's susceptibility to long-term business downturns. Historical data and projections are from the U.S. Department of Commerce 1980 Industrial Outlook.

Ideally, ratios of SBU sales to industry sales could be used as a rough measure of market share and saturation. As discussed in the previous section on the overall industrial market research industry, industrial goods firms spend approximately .1% of sales on market research. Twenty-five percent of this expenditure is for outside research/planning firms. Thus, about .025% of industrial goods sales will be distributed to outside industrial market research firms. This ratio was not computed for Econology's SBUs due to a lack of industry sales information sufficiently specific to the industrial markets served by E's SBUs.

Industry sales data were available for certain industry segments of some SBUs. Although these segments are not reasonable measures of total industry sales volume (because only sale from major product areas are included), they do give reliable estimates of sales growth. In the subsequent analysis the general term "industry sales" refers to the sum of these industry segment sales. These real growth estimates are compared to estimates of the real market growth made by principals managing SBUs. The comparisons confirm the prior

evaluations, so no readjustment is necessary. Since only sales growth is studied, all data have been normalized such that 1975 Figure equal 100. A table summarizing these results is shown in Figure 15.

Before individually examining SBU sales versus industry sales, SBU sales are compared to each other.



A cursory glance at nominal sales dollars hints at a \$500-600,000 sales ceiling per principal. The two SBUs that climb above two million dollars in sales differ from other SBUs in having four principals associated with the business unit; the other SBUs average two principals. One hypothesis explaining this behavior would be a \$500,000 sales (which must be continually adjusted for inflation) maximum per principal; similar limits have been found in other consulting firms (such as Putnam, Hayes and Bartlett, Technomic, and McKinsey). At this point Principals may become severely constrained in the

amount of time they can devote to each of their studies and further studies are impossible without significant quality reductions. The impact of this effect on future SBU growth is shown in the right hand column of Figure 15.

## MARKET ATTRACTIVENESS FACTOR

## Projected Real Growth

	<u>Results From Principal Interviews</u>	<u>Results From Industry Sales Analysis</u>	<u>Allowed SBU Real Growth Assuming Limited Sales Per Principal With No Additional Principals</u>
Power Systems	N	W	W
Textiles	W	W	W
Automotive	N	W	W
Petroleum	S	S	W
Aeronautics	S	S	N
Railroads, Shipping	S	-	S
International	S	S	W
Financial Services	N	N	S

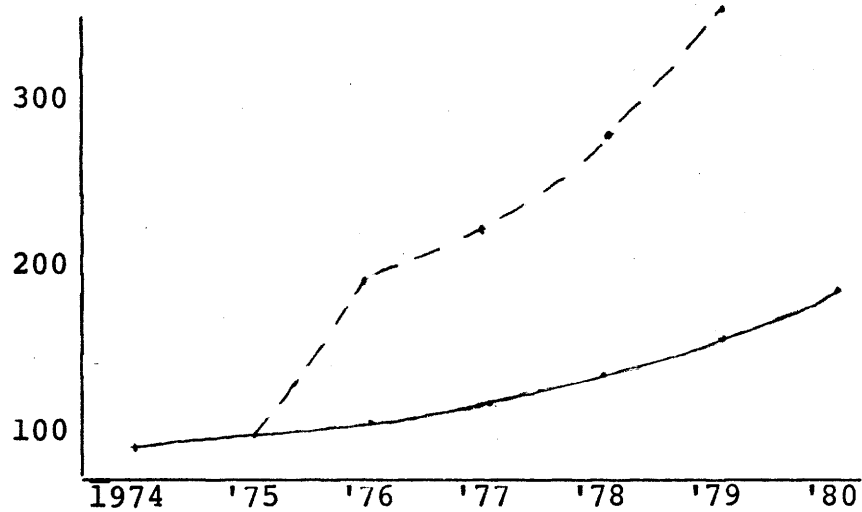
Note: Results from principal interviews concur with results from industry sales analysis

Note: Limited sales per principal hypothesis implies constraint on how much of the industry sales growth can be transformed into SBU sales growth.

FIGURE 15

## SUMMARY OF INDUSTRY SALES ANALYSIS

## POWER SYSTEMS



\_\_\_\_\_ industry sales:

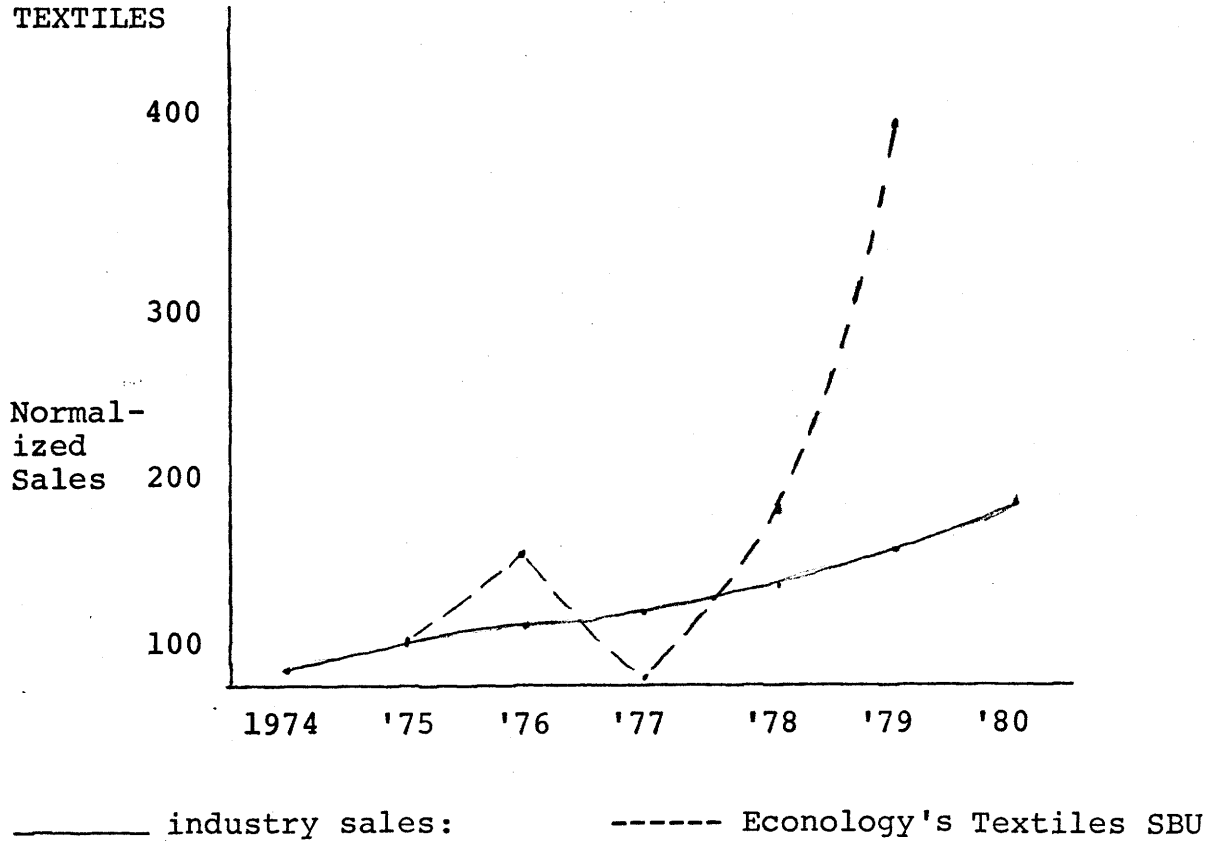
-----Econology's Power  
Systems SBU

## ANNUAL SALES GROWTH

SBU	INDUSTRY	
(4 year average)	(6 year average)	(projected to 1984)
35% (nominal)	10% (nominal)	3.8% (real)

Historical SBU growth figures do not support the prior low growth positioning of this SBU. However, this high SBU growth rate exceeding the market's overall growth may imply an eventually saturated market. This SBU's large market share makes saturation a more likely proposition, especially when coupled with the low real sales growth projections. (Note that historical SBU and industry growth rates will always be reported as nominal rates, whereas the projected industry sales growth is reported in real terms.)

TEXTILES

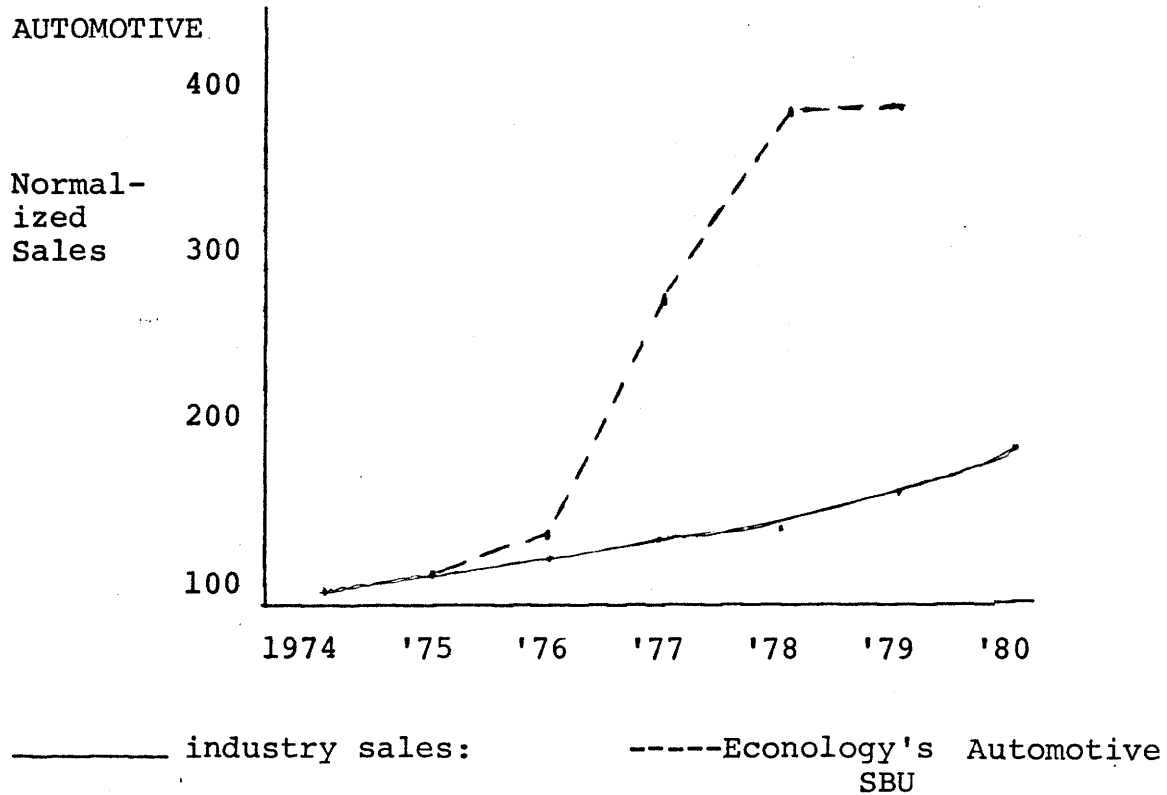


ANNUAL SALES GROWTH

SBU	INDUSTRY	
(4 year average)	(6 year average)	(projected to 1984)
39% (nominal)	11% (nominal)	3% (real)

The data for this SBU follow the same pattern as the Power Systems SBU arguments, other than the inexplicable dip in 1977. The growth rate for E and the Industry (historical and projected) are virtually identical to Power Systems. The Textiles SBU may also saturate its market in the future.

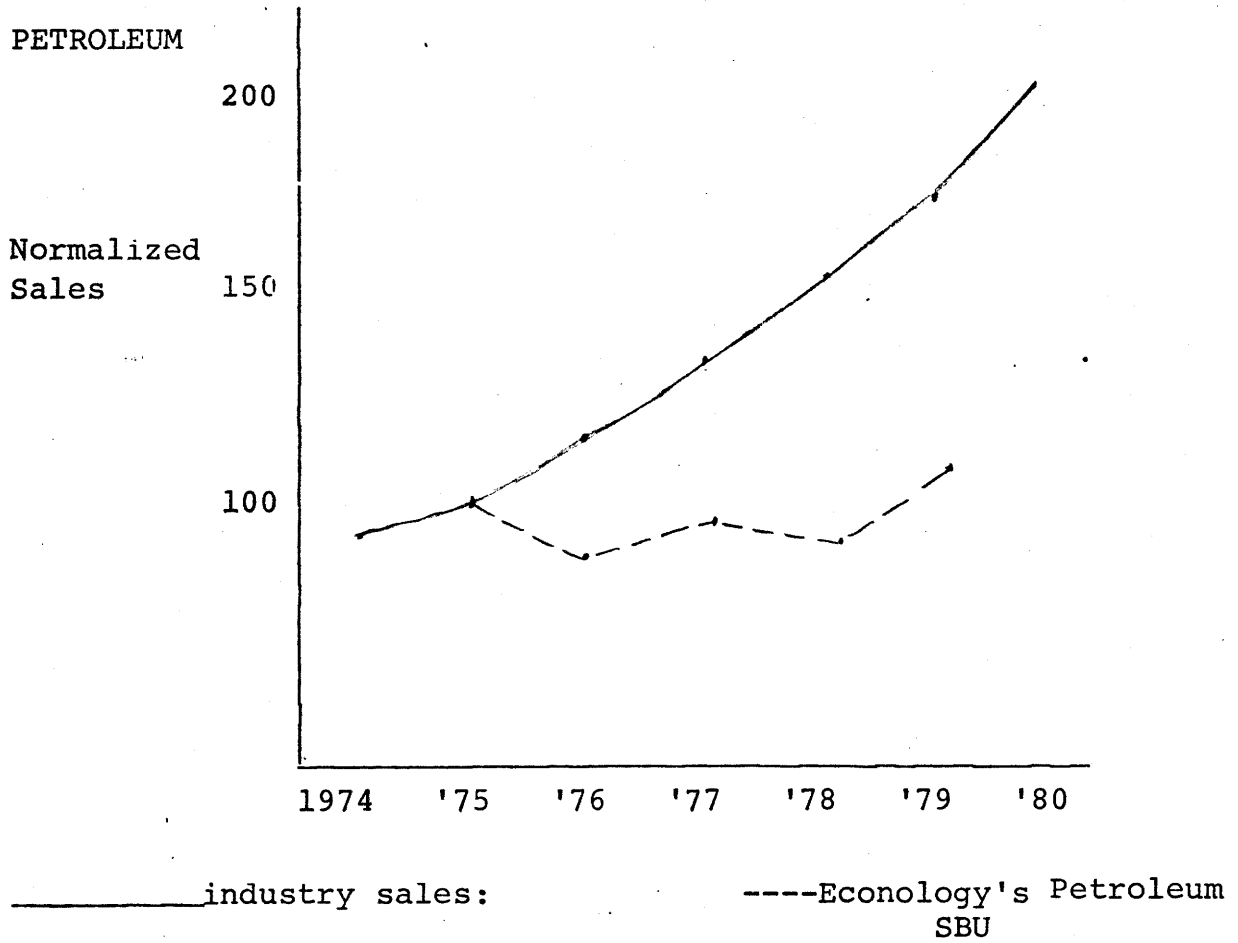




## ANNUAL SALES GROWTH

SBU	INDUSTRY	
(4 year average)	(6 year average)	(projected to 1984)
41% (nominal)	12% (nominal)	3.3% (real)

The Automotive SBU's history is similar to the previous two except for a noticeable leveling in this SBU's sales beginning 1977. Whether this is a stochastic fluctuation or a more permanent plateau is uncertain. If not organizationally constrained, it is odd that this SBU's sales would suddenly grow at a rate less than the automotive industry's sales.

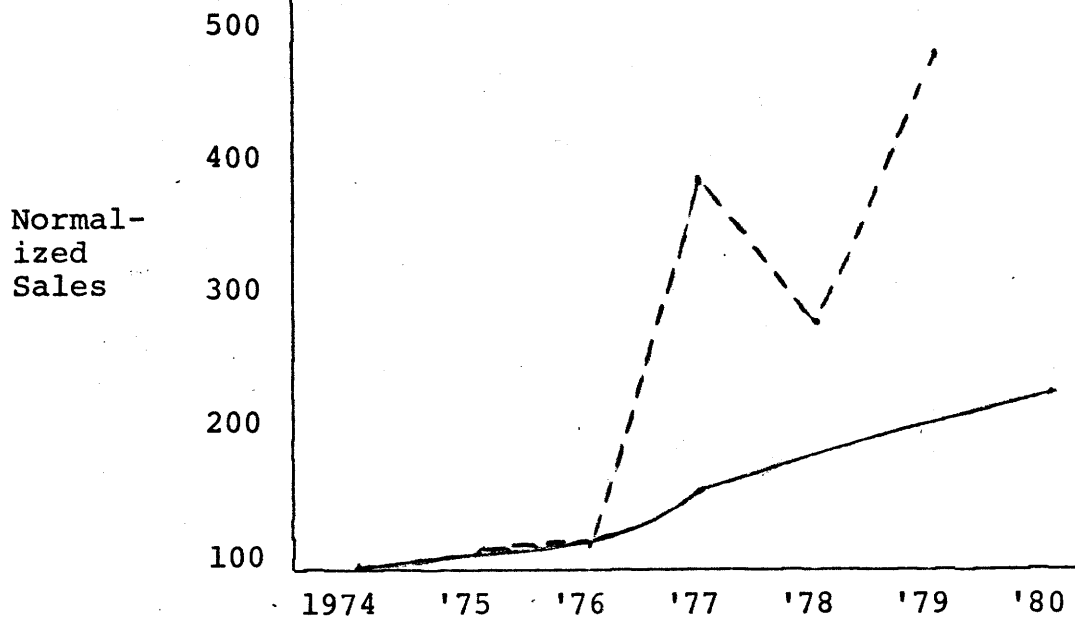


ANNUAL SALES GROWTH

SBU	INDUSTRY
(4 year average)	(6 year average) (projected to 1984)
<u>2% (nominal)</u>	<u>13% (nominal) 4-5% (real)</u>

Historical and projected growth support high market attractiveness. Low SBU growth indicates a weakening market share position.

AERONAUTICS



\_\_\_\_\_ industry sales:

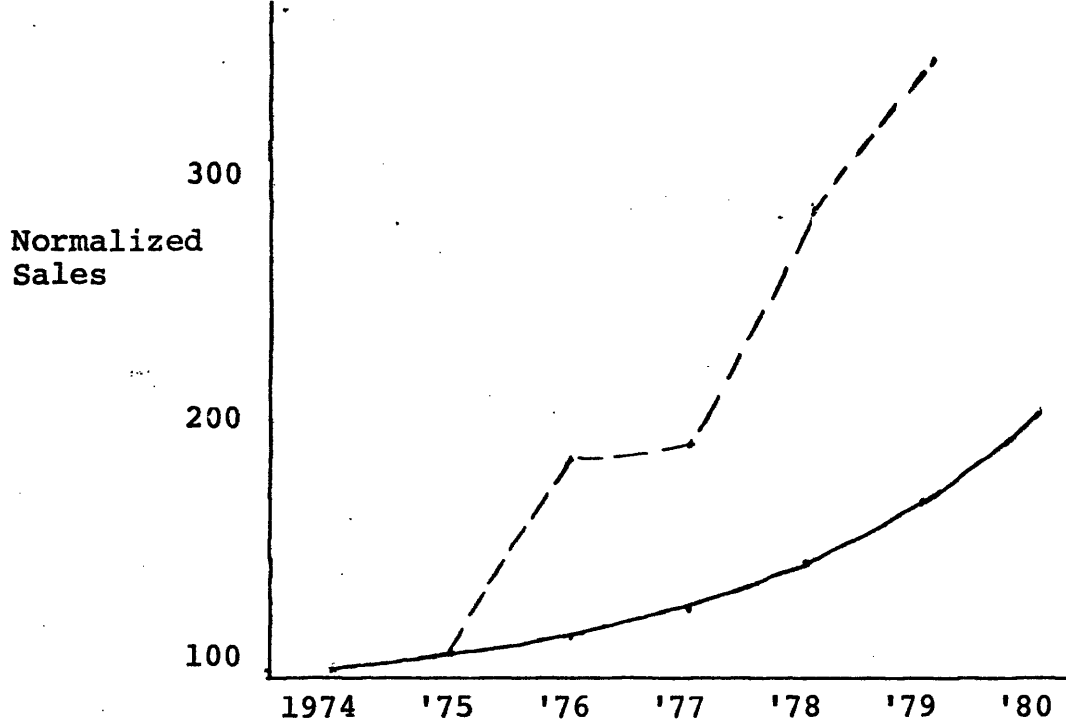
--- Econology's Aeronautics SBU

ANNUAL SALES GROWTH

SBU (4 year average)	INDUSTRY (6 year average)	INDUSTRY (projected to 1984)
48% (nominal)	11% (nominal)	8-10% (real)

Industrial growth is expected to be phenomenal through the 1980s, providing a vast market for this SBU to attack. SBU sales have grown rapidly and consistently, except for a drop in 1978. Future market growth greater than that of any other E industry area supports the prior high market attractiveness position surmised from principal interviews.

## INTERNATIONAL



———— industry sales:

-----Econology's International  
SBU

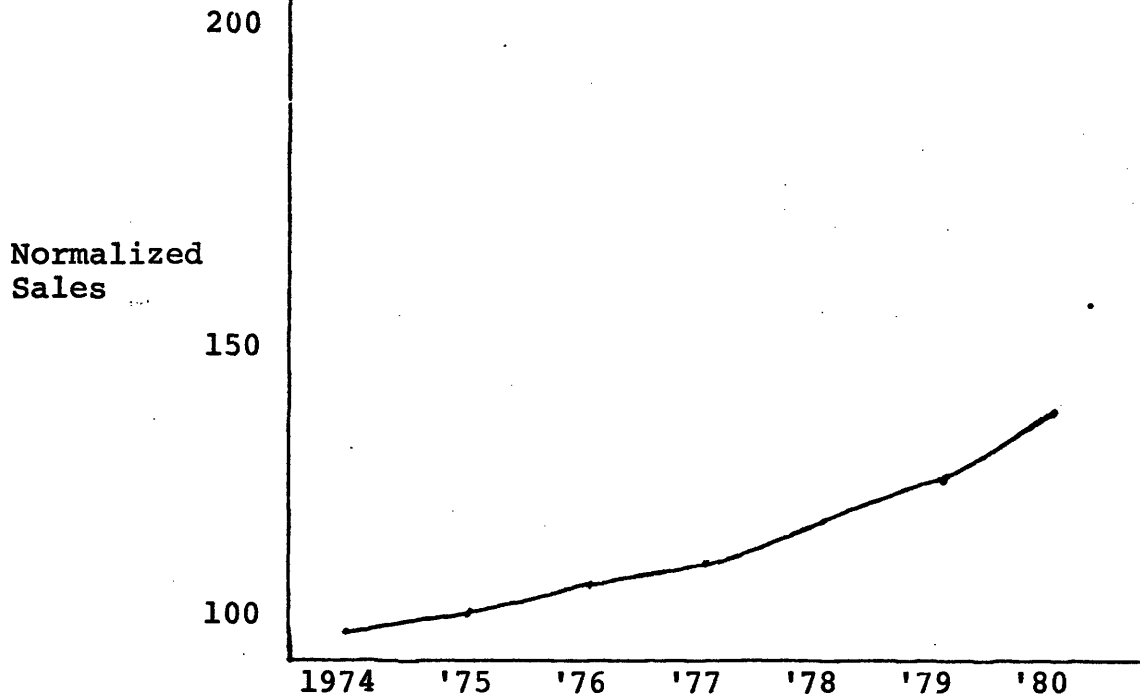
- US exports
- Power Systems
- Aeronautics
- Textiles
- Petroleum
- Automotive

## ANNUAL SALES GROWTH

SBU (4 year average)	INDUSTRY (6 year average)	INDUSTRY (projected to 1984)
36% (nominal)	14% (nominal)	unknown

The historical industry sales growth is slightly higher for international than previously mentioned SBUs. Projected export sales were not available in the U.S. Industrial Outlook but all interviews suggested future growth would be high. The higher projected growth partly confirms International's high growth status.

## FINANCIAL SERVICES



———— industry sales:

commercial banking assets

## ANNUAL SALES GROWTH

## INDUSTRY

(6 year average)

(projected to 1984)

9% (nominal)

unknown

As a rough estimate, the Financial Services industry can be expected to grow at the historical rate. However, the attractiveness of this market lies in its being an untapped market for consulting rather than in its absolute growth. This SBU is in its formative stages and has no reliable sales growth or volume.

Reliable statistics were not available for the Railroads, Shipping SBU.

## VI.E. Information From Client Interviews

### VI.E.1 Methodology

To substantiate, corroborate, or modify the preliminary profile of E's SBU business position and market attractiveness, we conducted interviews with several of E's clients. Each principal recommended several possible candidates for interviews. We selected from these based on trying to meet with clients for each principal and for several types of E services: new and repeat clients on multiclient, planning program, and proprietary studies. Unfortunately, time constraints prevented us from obtaining observations from each cell of the (principal) x (new - repeat) x (study type) array. Moreover, we generally only have one or two observations in those cells we did fill, making it unreasonable to attribute any high "statistical significance" to the sample outcomes. In fact, considerable subjective judgement is necessary to assess the importance of any particular comment by a client and to then assess whether any overall patterns are credible.

Specifically, we met with thirteen representatives of eleven firms. Many of these firms had experience with two to three principals on proprietary and multiclient studies. All interviews were conducted at the E client's facility, usually requiring one to three hours each. A prepared questionnaire (Figure 16) was used as a framework for the interview but it was not strictly followed. Whenever it was more fruitful, questions were developed on an ad hoc basis to elicit the

client's perception of E's position in the consulting industry and his level of satisfaction with E's services.

The questions on the first page of Figure 16 are focused on broad issues affecting E's position generally with an emphasis on market attractiveness. The next page is more specific to E, seeking explicit appraisal of E's services as contrasted to what other consulting firms do or what is desired in a normative sense; these questions are more related to business position than to market attractiveness.

The responses show a surprising amount of homogeneity even across industries and study type. In the following summary of the client interviews, there are five broad issues:

- general use of consultants
- shopping policies
- use of specific consulting firms
- value-added from Econology studies
- satisfaction with Econology services

Each of these issues is presented with a textual summary of the significant findings, and some representative comments paraphrased from the interviews to display the range of opinions. After all five issues are presented, there is a tabular summary of our judgements of the implication of this information for the SBU market attractiveness/business position profiles.

In the paraphrased interview excerpts, ellipses (...) are used to indicate a deleted name of a client firm or a staff members (of the client firm or Econology).

How did you first become aware of Econology? What work have they done for you?

What is your firm's general attitude towards hiring consultants? Are there capital constraints? Pressures to use (not to use) them for particular purposes?

What conditions in your environment or organization motivate you to use consultants? And for Econology in particular?

How do you shop for consultants? What RFP and bidding procedures?

Do you hire a consulting firm or a particular person within it? Is this the same for small and large, well-known firms?

Do you use other consulting firms? What are the decision criteria for choosing between them? Is price a factor? Size of the firm?

Do you have a strategy consulting firm? How were they selected? How long-lived is your relationship with them (and how long is it likely to be)?

Do you prefer long relationships with a few firms? How much inside information do you provide to consulting firms (and E particularly)? Why?

Who do you perceive to be Econology's competition? What are their features relative to E? How available are they? How do they compete for your business (marketing tactics and their effectiveness)?

FIGURE 16

CLIENT QUESTIONNAIRE, MARKET ATTRACTIVENESS



What distinguishes Econology from other consultants you might use? Price? Staff expertise (in what area)? Method, service, reputation?

Do you have any strong image of E with respect to whether it is a marketing research firm or a strategic planning firm. In what ways is that distinction significant for you?

Why do you buy an Econology study? Because they have special skills, an intelligent (engineering-trained) staff? You want objectivity or a new perspective? You are short of staff or cannot collect the information from your position?

What is the value of an E study? Information, analysis, problem identification, recommendations? What is the nature of E's analysis? Do you implement their recommendations? How? For how long is the study valuable?

Do any other divisions of your firm use Econology, and how did they meet Econology? Are you aware of the consultants used by other groups in your firm? What else does E do besides what they have done for you?

At an Econology principal's recommendation, would you introduce/refer another E principal with whom you have not worked to heads of other divisions in your firm? What if you were so introduced to one?

How much time do you think the staff of Econology spends on the studies they do for you at different levels of responsibility?

How much confidence do you have in the staff of Econology at different levels of seniority and responsibility?

Can you forecast how much you might use Econology in the future?

What relationship would you like to have with Econology (and with consulting firms generally)? Cold calls, implementation, etc.

What could E do to serve you better? More internal consulting, more functional skills, more contact and involvement with many stages of problem solving, more data and analysis, different report or presentation formats?

FIGURE 16 (continued)

CLIENT QUESTIONNAIRE, BUSINESS POSITION

## VI.E.2 General Use of Consultants

### Environmental and Organizational Conditions Motivating Use:

Most of the firms interviewed have contact with Econology at a central, divisional or corporate market research or planning department. This is advantageous in that a common role for such departments is to serve as a clearing house for directing and referring consultants and line divisions to each other.

At the level in the client firm where Econology has contacts, consultants are rarely used to provide general advice or to address recurring, vaguely defined problems. Almost invariably they are hired to find the solution to a specific problem identified and specified by the client. Surprisingly, seeking an objective or third party viewpoint is not a common motive for hiring consultants. More typically there is a lack of internal staff capability, either due to having a small staff working at capacity or because the problem is in a new and unfamiliar area. Occasionally consultants are looked to for special techniques.

### Constraints on Use - Political/Budgetary:

There are often political motives for using and choosing consultants: to cover your flanks on a new venture, because the CEO likes a particular consulting firm, etc. Roughly half of market research or planning departments have their own budget for outside consulting and/or take primary responsibility in contracting for those services. The other half serve in a more purely information clearing house capacity with the decision

to hire consultants in the line units. It appears to be preferable for the consulting firm to work closer to a central, budgeted group than to line units which hire consultants on an ad hoc basis.

Paraphrased Interview Excerpts, General Use of Consultants:

....will generally buy a study because of the lack of internal capability due to the position or availability of their own staff; it is not so much a question of getting an impartial, objective view.

Even in the international projects, .... will come to Econology with a specific problem and even key issues or questions to be answered.

.... now uses consultants regularly for business level strategy and market plans. Corporate marketing is a roundhouse for consultants to the operating units, and also has its own budget for augmenting divisional budgets.

Political reasons often enter into the decision to use consultants, such as when a manager wants to give credibility to his plans. Sometimes the name of the firm will be critical, sometimes the reputation of a particular individual (quite apart from how prestigious his firm).

The very large, high level studies come at the specific request of a senior line manager. He generally has made up his mind that he wants/needs a study and probably has a specific consulting firm in mind at the time.

Uses consultants only in unfamiliar areas (new products or acquisitions); this is the corporate attitude. Works under budget limit, the use of which is somewhat discretionary. A greater than \$10K expense will be informally discussed with the boss.

.... uses consultants for unfamiliar areas. In addition .... uses them for third perspective. Feels if the market is very young, volume and growth hard to analyze (or impossible) so it does not pay to hire consultants.

Use consultants when: (1) you do not want others to know your firm is looking into market, (2) you do not have staff time, or (3) you desire an outside opinion.

People in most organizations are more receptive to consultants and recommendations the higher they are on the corporate ladder. People in lower ranks are less secure and more defensive, not eager to learn, critical.

### VI.E.3 SHOPPING POLICIES

#### RFPs and Bidding Practices:

Most firms solicit bids from three to five consulting firms; some of the interviewees described an explicit policy of including a new firm among those given an RFP for each study. Getting a few proposals gives the client an idea of the range of price and quality available. Often the client will have a specific consulting firm in mind despite using multiple RFPs.

#### Selection Criteria:

The most critical factors in selecting a consulting firm are the match between the particular skills of the consultant and the nature of the problem, and any previous exposure to the consultant. In general the skills and resources of the entire consulting firm are important, but the match with the specific consultant handling the contract is also checked. The clients generally felt they were hiring the consultant instead of the firm slightly more so for Econology than for other firms.

The size and prestige of the consulting firm also enter the decision. Prestige is always a plus, although this usually means a higher price perhaps offsetting the advantage. Large size is desirable if the problem is large and complex but it may be bad for smaller projects (for the consulting firm), as clients sometimes perceive it as being easier to control the relationship with a smaller firm.

Occasionally, proximity to the client is a factor influencing the selection or RFP procedure. Several clients in

the New York area expressed a preference for consultants in the immediate region for ease of arranging lunch on an ad hoc basis to discuss developing problems.

Price:

The consultant is rarely selected on price; price is usually a negotiable factor after the firm has been selected. The price elasticity of demand for consulting is much higher in the lower line units than in the executive level offices. Econology is perceived as offering a low to medium price. It is always low when competing against ADL and SRI; E is usually medium priced when compared to other market research firms (even including some that do statistical analysis of consumer data).

Paraphrased Interview Excerpts, Shopping Policies

.... adopts a deliberate policy of using smaller consulting firms; they are faster on their feet, less expensive, and more susceptible (or responsive) to .... influence. They are more likely to repeat a study if it does not meet expectations.

Big jobs have more credibility if they are done by a major firm (ADL, etc.)

In the international area, Econology has the good feature of managing projects out of the Minneapolis office, giving the language capability and cultural awareness in the field but staying in close touch with the client.

Pricing is quite competitive in the market diagnosis consulting industry; Econology is perhaps a little on the high side. However, no firm loses a contract solely on the basis of price. Price is looked at carefully but more as a negotiable factor.

.... generally feels an individual is being hired rather than the whole firm. This is true of consulting as a whole, but perhaps a bit stronger feeling with respect to Econology as they have no data bases on their industries to serve as a common resource for all members of the firm. .... does repeat business with firms since these firms know their people and vice versa.

If a study is going to be large and demanding of the resources of the consulting firm, .... makes an appraisal of the overall capacity of the firms before selecting a firm. This includes the library, size of staff, and the nature of their report writing process. If the study will generate a large volume of written report findings, .... is very concerned about the firm having in-house publishing capability (otherwise it is very awkward for the firm to put out a good report on schedule). Econology is medium on the first measure, size, and mediocre on report production.

.... has a very ambivalent approach to the price of consulting services. If a senior manager wants a study, nobody questions the price or even the selection of a particular firm. That particular manager's perception of the consulting firm (often established at a presentation by the firm on its services) determines the undertaking of the project and price is immaterial. Typically, the range could be from \$100K to \$400K and the difference would not matter (or perhaps even be known by the contracting manager). However, in lower operating levels, price becomes ludicrously important. The managers at that level are so concerned about appearing to get a bargain from the consultants that they will cut out critical and valuable steps in the consulting project to bring down the price by a few thousand dollars. This is the organizational level where Econology has its client base; Econology is not known at the top level.

Econology is by far the dominant firm for .... Company's needs. This area is well-suited for E as it lacks much hard data; what data there is is difficult and expensive to obtain the requires experience.

E's price is good for their service. It is lower than .... would expect based on comparison to consumer marketing consulting firms.

#### VI.E.4 USE OF SPECIFIC CONSULTING FIRMS

##### Strategic and Large Multifunctional Consulting Firms:

Most of the client firms visited had either a primary consulting firm as a strategy advisor or a long-lived relationship with one or more large, multifunctional consulting firms for general advice. The choice of a particular consulting firm was often political but quite stable due to the convenience and security of a long relationship. Some clients expressed concern over exposing too much strategic information to their consultants; this fear was minor but was slightly stronger with respect to Econology than with other firms (because of Econology's methodology). Most strategy firms address more general and multifunctional problems than E with contact at an executive level where E is not known. Strategy firms often provide a process of ongoing value, partly justifying the higher price.

##### Direct Competition for Econology:

Econology was compared to both smaller, less sophisticated market research firms and large, multifunctional ones like ADL, but most commented that there was no direct competition for E in industrial marketing research.

##### Marketing Techniques:

It was often difficult to elicit comparisons between E and other consulting firms as the client knew relatively little about what skills and services E has to offer. This arises due to E's marketing tactics. It was frequently commented that the E principals represent themselves, not the firm as a whole. Given that, the promotional techniques are often nothing more

than a hasty call to see if anything new is cooking. In contrast, the large and well known firms sometimes have a marketing person who represents the entire firm to the client, or at least the individual consultants do so when they are seeking their own business. Moreover, the larger firms apparently have a more nonchalant and relaxed style creating less of a sense of hustling for sales volume.

Econology's brochures are considered useful, but other consulting firms use mailings more effectively. Several clients described E's marketing as insufficient; none said it was excessive.

Awareness of Econology's Capabilities:

Every client was unaware of the majority of E's industry practices, most only knowing of one or two areas besides those with which they had direct experience. Most are willing and anxious to make referrals to other functions or divisions once they become aware of Econology's capabilities. This is common practice regarding all consulting firms.

Paraphrased Interview Excerpts, Use of Specific Consulting Firms

Does not know of any other firms doing Econology style studies of the same quality.

E had apparently hoped to use .... as a jumping off point for work with other divisions in the corporation but has never received a call from other divisions for reference on E; E must not have pursued the opportunity.

.... does refer consulting firms to divisions and would transfer information about E and its other capabilities to other divisions.

ADL provides a different kind of competitor analysis than E; analysis of competitors' strategies and management style, etc., not as much specific data on relative market share, etc. ADL



also provides a methodology for the client - this is important for justifying the large expense. Of course, ADL's work on strategy is very multifunctional.

Marketing by the major firms is very low key. They give no appearance of hustling for business, but are more professional like lawyers. Econology does not convey quite such a professional air.

.... works with McKinsey in corporate planning (strategy); E is not known at that level.

Econology's biggest weakness with respect to other consulting firms is its marketing, i.e. selling itself. .... doubts if his E principal has ever contacted the president of his company.

.... perceives E as having no marketing function, just the personal efforts of its principals, although suspects error in this perception. Booz Allen and Arthur Young seem to have a marketing function which is distinct from the efforts of the individual consultants. Other consulting firms have the consultants/principals selling the services of the entire firm. ADL is especially good at this; ADL also has industry groups which are very effective in sending out fliers, sample studies, and canned research findings of entire industries. Perceives Econology as lacking industry groups and not being capable of that kind of marketing.

Some firms (ADL, SRI, etc.) are very active in advertising their industry capabilities, often through brochures or solicitation on participation in industry studies. Other firms fall short in this respect, E among them, and so they tend to fall a little out of forefront of one's thinking. However, it is also possible to do too much selling. E's principals seem to be too busy to do much calling - even when they do, it always seems like they are calling from the airport and are in a hurry.

.... would not like to see a client rep as the marketing instrument of a consulting firm, preferring the consultants themselves as marketers.

.... has ADL and SRI on retainer - for an annual fee of a few thousand dollars, they make their staff available for informal conversation and minor research on functional or technical issues (if projects go above a fairly small size, it is necessary but easy to add a fee for services rendered). This mode of interaction is very effective; divisions and functions throughout .... frequently call these firms for a quick confirmation of a problem or solution. Battelle also offers such arrangements.

Econology tends to key much more on having a single E contact with clients than do ADL and SRI. When.... calls ADL, he is referred to the in-house expert; when .... calls E the principal says he will find out and get back to you. This is not necessarily bad, but it does leave .... with better awareness of ADL and SRI's capabilities than of Econology's.

Would like to see E send out datebooks with material in it concerning recent studies and available services. Other consultants do this. .... does not know range of services offered by E.

There are not many competitors in market survey area, but quite a few in the industry expert area (SRI, ADL). Econology does not compete with the McKinsey, Booz Allen end of the management consulting spectrum.

#### VI.E.5 VALUE-ADDED FROM ECONOLOGY STUDIES

##### Technological, Functional or Industry Expertise:

There was surprising unanimity of client's opinions that Econology's expertise lay in industrial marketing research, efficient and effective information gathering, and market segmentation or profiling. While there are exceptional cases, few clients regarded E as having expertise in the sense they felt ADL or SRI had. They were considered very poor in finance, fair to good in planning, and only fair in strategy.

Technological/engineering backgrounds were considered a strength by a few clients, but this was not of major importance. A comparable number of clients equated all of E's work to telephone surveys and consumer market research.

##### Study Scope and Value:

The value of an Econology study usually resided in its profile of the market, which can serve as a useful data base and qualitative reference on market factors for two to five years. More often than not, Econology's recommendations were considered obvious, although most did not complain or praise. Most took the data from E, in which they placed high confidence, and drew their own conclusions. However, several mentioned that some of E's recommendations had been followed in essentially their original form.

##### Paraphrased Interview Excerpts, Value Added from Econology Studies

Econology seems to be more concerned with how many calls they make than how much analysis they do. E falls down on putting it all together. .... does not ask Econology for strategic recommendations or problem structuring/definition.

.... usually contacts Econology with a specific problem rather than having contracts arise after a general question from E on whether they could help in any way. .... usually specifies the problem fairly well before they even call E. Econology provides an integrated information base more than recommendations. Often conclusions are obvious or too grey to be substantial; .... draws its own. They look to Econology for forecasts giving direction of trends but not magnitudes.

.... perceives E as able to develop engineering marketing information, particularly because they have staff with engineering undergraduate degrees but lacking industry knowledge.

.... considers Econology to be atrocious in finance, weak in planning and strategy, but excellent in market research and market structure analysis. They are more of a research firm than a consulting firm.

Econology provides data but these would not be so useful if it were not for E's expertise in making them credible. In essence they can be considered unbiased and with low variance even though the sample size is small and the sampling technique is informal. Econology does not try to do needlessly many interviews; even if it changes no recommendations, the data is useful. Some studies are still useful sources of information 2 to 3 years after the study was conducted.

## VI.E.6 Satisfaction With Econology's Services

### Staff Competence:

Clients were divided on describing the role of the principal. Most said they felt it was very important to have the principal involved in the project but felt he often only played a supervisory role. Of those who commented, half felt the principal contributed significant personal expertise (on the industry) to the study; the other half felt he mostly ensured quality control in the research. Many said they would follow the principal with part of their business if he left Econology.

Clients believe most of the work is done at the middle level by associates, who are generally average but developing in capability as consultants. Below that, the quality was felt to depreciate.

### Adequacy of Methodology:

Most said the amount of contact between Econology and themselves was adequate during the course of a study and the effort was properly allocated to interviews and analysis by Econology. A few complained of too many interviews and not enough analysis.

### Improvements or Changes Recommended:

The most common complaints were insufficient marketing and inefficient report or presentation formats. The marketing problem has already been described. All clients welcomed more awareness of Econology and more regular contact with principals. Some clients remarked that Econology was too rigid in its formats, from proposal writing to presentation; they felt this

might be indicative of inappropriate priorities attached to phases of the study.

Nearly all expect to continue using Econology at a level the same as in the past. All of the clients' comments on satisfaction with Econology's service are included in the following interview excerpts. These present an overly negative picture of E's image with the clients simply because most clients were much more loquacious in describing weaknesses than in praising strengths.

Paraphrased Interview Excerpts, Satisfaction with Econology's Services

.... vastly prefers the prose reports to flipchart format. The latter is too diffuse, too little information per page, physically inconvenient.

E's principal is building a capable staff but the tie is still quite strong to him; if he left Econology, they would follow him and stay with E as well.

Contact with E is sufficient during studies - enough to keep on the right track, and E is flexible enough to reverse its direction if it is missing the mark.

E's principal probably runs around after business and does not spend time on analysis; associate cleans up after him. In general Econology pays its people for landing business, not for their talent as a consultant. .... has been interviewed by E consultants for studies for other firms and found them frequently shallow and not able to get at key questions. This could be because they are using a pro forma questionnaire or are worried about getting their 4 interviews a day no matter what. .... would be very reluctant to give Econology a significant job, e.g., new venture, organizational analysis, or strategy evaluation. E does not have the quality of people or structure to handle it. In contrast, ADL and McKinsey have some brilliant people who can find the unique solution.

.... does not care how many calls Econology makes on clients, competitors, etc. Would be more impressed by more analysis than by 200 (v. 75) interviews. Question: Why should E try to make a transition to the size and status of McKinsey? Even if they were to develop the capabilities, many clients would probably not cross over to using them instead of the current

powers. If they do expand their strategy formulation capability, they should probably direct it toward smaller firms who cannot afford McKinsey and who do not currently have a standing relationship with a big firm. Barring a major top level reorganization at ....., its relationship with ADL is quite stable. .... likes prose reports more than the flip-chart format; prose is more useful 2 years later. Econology's justification for the flipchart tradition is that it is more to the client's advantage to have more interviews and less writing.

E's weakness with respect to .... is insufficient marketing. It appears E has not tapped its potential client base at ....; it could be calling on senior management, other divisions, etc. E's presentations are almost painful to sit through due to the enormous volume of numbers presented. Is this a "we have so many numbers we must be right" approach? Some firms provide summary books in prose form; E should do this at the multi-client studies especially and also in their proprietary reports.

Referrals work well and could serve Econology if they would make .... more aware of the range of capabilities they have.

Specifically, they should make it clear they have industry groups, what they are, who the key people are, etc.

E should make its range of capabilities more known to ....., especially regarding international studies. Has no complaints about the amount of contact with Econology during studies, report formats, etc. (although he reformats them personally for a prose summary to CEO). If E expanded its scope, .... would be interested; they are not locked in to their current relationship. E's senior people could contribute by spending more time helping .... think about its business instead of just responding to specific needs as they arise. Rate of technological change in its markets should mean high continued use of consultants.

Not having a New York City representative has hurt Econology with .... They like to be able to sit across the table from their consultants in a short notice. Having a New York office would also improve E's chances for the large, process/strategy projects. To get these, you must have exposure to the top brass usually through presentations or lunch discussions. Always refers good people with good firms to the executives but before he could do this for Econology, he would need more awareness of and confidence in the full range of consulting capabilities. Having proximity and an ongoing relationship .... is also critical to winning business on internal issues or business in which the consulting firm does the majority of problem definition work. If the relationship is not close, the internal advice is either very time consuming to develop and/or superficial. (In general, .... defines the problem for the consulting firm.)

If Econology were to offer implementation coaching or post-recommendation follow up services, it would be attractive but it would take several (maybe 3 or more) years to establish credibility. Most other consulting firms offer more involvement in plan development and follow-up than E does. This is especially true for the large projects which came from a senior executive directive.

Econology's flipchart reports are good for the talks but bad for later reference; prose would be much more useful.

Particular the multiclient studies' reports are too large and diffuse, vacuous with only one punchline per page. Would like to see better quality graphics including:

- consistency of notation, data structure uniformity (e.g. if E is going to use 3 years of history and 5 years of projections on one page, do so throughout the rest of the report)

- more powerful and appealing methods of data representation, with emphasis on the visual rather than the tabular.

E's principal was very knowledgeable with ability to handle himself well with and for clients. Below him the staff is hard-working with sufficient direction from Econology on what constitutes a good job to be effective. However the people at the middle level would not be able to take over projects without the E superstructure - are these people being hired to be workers or future managers? Staff competence depreciates rapidly in E as the responsibility level goes down the ladder.

Econology does not recognize or acknowledge its weaknesses - they have often tried to move from a discussion of Power Systems to the retail business as though they were still speaking from expertise when they are, in fact, naive in the retail side. They are also not sophisticated mathematically; they have a very naive statistical model (regression) for food services which is badly designed.

Econology overstates its own impression that it is offering strategic inputs; does not disseminate E reports up to executives (in fact he has avoided doing so because of the excessive posturing by E as strategists).

E tends to approach all problems alike with the basic seven steps (seen in every proposal) always included without any adjustment for the weights corresponding to the need for each step. This inflexibility is annoying. To improve, Econology could do two things to increase its value-added.

- The typical E proposal is very vague, just a recapitulation of the information which ... gave them in the RFP and phone conversation. Whether ... called with a specific or very loosely defined general one, the proposal would look the same. Part of



this is just expediency of production of proposals and the appearance is worse than the effect, but it probably also reflects at least in part the process. Proposals should be more specific and more substantive.

-At the final stages of a study, E feels obligated and qualified to judge what information ... would like to see and in what form. E should spend time talking to the client about the conclusions and recommendations before publishing reports and defining presentation formats to determine what information to bring out with what structure. Currently they present findings as if everything were of equal importance putting it all on slides for a boring, long, unfocused report in which the key issues are lost.

In trying to make one document serves as the presentation, report, and historical reference, the presentation suffers the most.

Econology does not approach .... too much; perhaps E is too low key. E should send out mailers to describe what they are doing, and should work on a more personal relation with client (All consultants are bad here, E actually promotes a negative relationship because the principal is condescending). E should follow up studies, but this could make more work for E if they are not careful. More of the process consultation is needed, more feedback. Econology and all consultant tend to delay sending a written report after final presentation (by 1 to 2 months). ...thinks this would improve if final payment was delayed until receipt of report.

Econology is handling the relationship correctly right now, no changes needed. They should stay in market survey area.

E is in a mature field with client's work. Can only spend so much time and money on consultants.

Thinks E's relationship with his firm is excellent. The E principal calls occasionally to find out what client is doing and let client know what he is doing.

Econology has good staff: MBA with technical background (does not have to be top school), not as polished as Booz Allen.

Like to know more about Econology. Would like a report in advance of final presentation so they could understand and ask more questions. Would then like these questions and some answers embodied in final report.

### VI.E.7 Summary

This set of client attitudes and perception of E is important to the extent that it gives E a more accurate or complete self-perception. Looking at the information in terms of positioning with respect to critical factors, the most salient comments relate to repeat business opportunities and price competition on the market attractiveness profile and to marketing and expertise in the business position side.

For the firm as a whole, the following are the clients' observations and the direction of the effect on critical factors:

<u>Market Attractiveness Issues</u>	<u>Direction of Marginal Effect</u>	<u>CMF</u>
.A high percentage of the client firms have a central office with influence on the use of consultants	+	repeat business opportunity
.Most of the problems solved by E and its competitors are point-in-time situations.	+	repeat business
.The clients want more information on E's services	+	repeat business
.Clients feel they hire the individual more than the entire firm	-	repeat business
.Price is more of a negotiable factor than a selection criterion	+	price competition
.Clients regard E as having no direct competition or as competing rarely against large firms	+	price competition
.There is high price elasticity of demand for consulting in the lower levels of client firms	-	price competition

<u>Business Position Issues</u>	<u>Direction of Marginal Effect</u>	<u>CSF</u>
.The problem is often fairly well specified by the client	-	sophistication of service
.E's price position is low to medium	+	pricing
.E's size is appropriate for being responsive to the client on its projects	+	number of professionals
.Most clients have little awareness of the majority of E's services	-	visibility marketing/sales effort
.E's marketing effort is insufficient; most clients need more information	-	marketing/sales effort
.Only a few clients hire E. largely due to their industry expertise (partly due to lack of awareness of E)	-	industry expertise
.Most clients regard E as being most capable of high quality, industrial market research	+	functional expertise
.E's skills in finance, planning, strategy analysis low	-	quality of analysis
.Middle and entry staff are fair to average quality	-	staff development and middle management competence
.Clients would be tempted to follow the principals if they left E	-	staff development and middle management competence
.Some complain of rigid or inefficient proposal, report and presentation formats	-	image and reputation

Based on our judgment of the fervor behind, praises and criticism, we believe the net effects on the profile of the whole firm are as follows. These are adjustments to the principals'

original CSF and CMF profiles:

<u>Market Attractiveness Factors</u>	<u>Direction of Effect</u>
repeat business	+
price competition	+
<u>Business Position Factors</u>	<u>Direction of Effect</u>
size of firm	+
marketing/sales effort	-
industry expertise	
Power systems	+
Textiles	+
Aeronautics	-
Petroleum	-
Railroads, shipping	-
functional expertise	+
staff competence	-
image and reputation	-
visibility	-

There are also comments suggesting that specific SBUs should be repositioned from where the principals' own perceptions might place them. Most notably, E was often (but not always) regarded as lacking industry expertise in the more engineering-based areas relative to firms like ADL and SRI. This was partly a result of the marketing of those firms plus their perceived reserves of highly technical and multifunctional resources. However, E was regarded as having excellent skills for doing industrial market research for these industries. The strongest and most consistent SBU specific comment was that E is nearly without competition in power systems, having few competitors and none who can match its quality. E has industry expertise in this area, but its dominance may result from the fact that they face few competitors, if another firm were to develop a consulting practice in power systems, there would be some interest in this among E's clients. In the textiles and automotive areas, E is variously described

as having industry or market research expertise, but they are always well-respected for quality and responsiveness.

VI.F. INFORMATION FROM COMPETITOR INTERVIEWSVI.F.1 Methodology

Competitor interviewing was not pursued to great depth, partly because of the difficulty in finding significant competition in one particular area (industrial marketing) and partly because no coherent picture of competition was derived from the client interviews. After three formal interviews it became apparent that the current competitors to E provide only a few constraints on E's growth unless some completely new direction is the goal.

One interviewee characterized the consulting industry as shown in the top five lines of Figure 16, to which we have added our own observations from interviews and personal experience. It is a crude heuristic to understanding the industry but is useful in demonstrating that there are differing CSFs (and CMFs) at different positions along the distribution. Thus, it may not be possible for a firm to move smoothly along the spectrum by making marginal adjustments to its style or strategy; rather major and/or discontinuous jumps may be necessary conditions for repositioning. The industry is a nice example of Michael Porter's "strategic groups" concept:<sup>30</sup> While in principle there are no production or oligopolistic rivalry barriers to entry or to movement to any positions, the firms within any small range in the industry have their own

30

Porter, Michael E., "The Structure Within Industries and Companies' Performance," Review of Economics and Statistics, March, 1978, pp. 214-227.

Contact in client firm	division function	division head or corporate VP	CEO	Board of Directors
Function provided by consultant	specialty	techno-economic	strategy	General
Expertise required	industry or function	all functions for an industry or issues (energy)	gimmicks	Handwaving
Price level	low	medium to high		High
Price elasticity	high			low
Scope, scale of studies	<ul style="list-style-type: none"> <li>• small studies (\$20,000-30,000)</li> <li>• well defined, point-in-time problems</li> </ul>			<ul style="list-style-type: none"> <li>• large studies (\$100,000-500,000)</li> <li>• unstructured, recurring questions</li> </ul>
Consulting Staff	General MBAs, moderate to high compensation	technical and MBA	Harvard, Stanford MBAs, very high compensation	
Representative Firms	→ Econology		→ Bain, BCG	→ McKinsey
			→ ADL, SRI, BOOZ ALLEN	

FIGURE 16  
SPECTRUM OF CRITICAL FACTORS THROUGHOUT THE CONSULTING INDUSTRY

ways of competing and segmenting the market, creating product differentiation and styles which segregate the groups. At the top are the strategy firms which set standards serving as an umbrella for the behavior of the rest of the industry, e.g. price, salaries for staff, etc. The perceptions of clients of the structure of the industry are probably the most important determinant of the inertia in that structure. If a new firm wants to enter the strategy business, there is little the current strategy firms can do to prevent the attempt, e.g. there can be little predatory pricing to keep the aspiring entrant from covering his fixed costs (which are very low anyway). Nonetheless if the prospective strategy clients perceive the market as being saturated by the existing strategy firms, the entrant may have great difficulty establishing visibility and reputation.

Our interviews were at most able to suggest how a few firms competing with E are structured to meet their CSFs. No formal analysis was conducted to determine what those CSFs were. The three firms most thoroughly interviewed were Industrial Marketing Associates (IMA), H. Pifer & Co., and Sigma Consultants, Inc. (SCI) (disguised names).

#### VI.F.2 Industrial Marketing Associates

IMA is interesting in showing the differences in resources firms may have relative to E and still be a competitor. The firm was founded in 1967 to conduct industrial market research. At present it has six professionals, most having only undergraduate business degrees. They have clients in several



industries but they do not have a formal structure based on industry - the staff rotates among the client industries.

The industrial markets they have served include:

Compressors and heat exchangers,  
Rigs and oil,  
Engines and turbines,  
Agricultural and chemical,  
Steel,  
Bank services, and  
Assisting firms to reorganize their market  
research departments.

The market research is conducted by telephone interviews (and are claimed by IMA to be effective); their product types match those of E, proprietary and multiclient studies. IMA was mentioned as a competitor to E by a client. In contrast to E, IMA does not consider growth, size of the firm, industry expertise, or face-to-face interviews to be CSFs. However IMA also does not aspire to become significantly broader or deeper in its skills and position in the consulting industry; its CSFs and strategy are appropriate for its goals, as is substantiated by its stable success record.

#### VI.F.3 H. Pifer & Co.

H. Pifer & Co. is much more similar to E; it is hard to imagine a better matched competitor. Pifer was founded in 1959, growing very slowly until the late 1960s (to about four professionals). Now they have 44 professionals selling about \$3.5 million of industrial market research annually to divisions and functional departments of Fortune 500 firms, although they also have clients smaller than their own firm. Their primary tool for studies is interviews in person or by phone conducted by staff with MBA degrees (25%) and/or industrial work experience.

Studies are of three types:

- 1/2 proprietary market/product planning studies on problems defined by the client, requiring from one man-week to several manmonths of effort.
- 1/3 multiclient studies requiring around two to four staff members each putting in nine months to a year of effort. These cost about \$150,000 to \$200,000 to produce and are sold to clients for \$5,000 to \$25,000 each. Sales promised before the study is conducted rarely cover the expenses, but subsequent sales (promoted by brochures and price list catalogues) make these projects profitable.
- 1/6 consumer analysis surveys. Each of several consumer product areas are analyzed every three years, detailing the structure and trends of all the products and markets served by the major producers in an industry. Clients for the studies have subscriptions for the report.

Organizationally, Pifer has six levels corresponding quite closely to E's hierarchy. They are recently reorganized into five groups around client product lines which are essentially industry lines:

- specialty chemicals (overlaps several industries)
- commodity and fine chemicals
- plastics and minerals
- petroleum products
- end user products (includes textiles, the consumer analysis studies, etc.)

Each group operates as a profit center. All studies are taken as fixed price contracts (salaries + 200% overhead + expenses). The founder owns 90% of the firm, but they are going to an employee stock ownership plan (ESOP). Pifer has a wholly owned European subsidiary conducting studies in the same manner as the domestic office (including phone interviews). It is a fairly self-sufficient office

They list the same competitors as E. They counted E

among them but commented that E formerly was a regular competitor and now seems to have redirected itself towards the generator industry. They also cite the internal staff of their clients as a competitor, particularly in Europe where industrial firms often have large market research departments. Pifer relies on seminars and brochures to create market visibility and differentiation for itself, using many handsome publications to describe its capabilities and past work.

Pifer differs from E in a few interesting ways: They use some phone interviews for the same kind of research, they have more marketing brochures, the staff is only 25% MBAs, and they do not stay strictly within one industry until relatively senior in their careers with Pifer. These suggest E may also not need to feel strongly constrained by its method or structure, i.e. it is possible to do effective and similar industrial market research with other modes of operation. Pifer's position obviously has implications for three SBUs at E, Petroleum, Textiles, and International. As Pifer's greatest capability is in Petroleum, this profile is probably most significant to that SBU in E.

#### VI.F.4 Sigma Consultants, Inc.

Moving along the distribution to an E competitor offering more services than E, we interviewed the head of the Resources Section at SCI. The Resource Section has 19 professionals working in the areas of construction (materials and energy conservation) and the rare and commodities metals industries. This is one of 30 sections at SCI, 1/2 of which are

engineering and research oriented, 1/4 markets oriented (e.g. the Resource Section) and 1/4 function or technique oriented (e.g. strategic planning, OR). SCI tries to provide the full range of management services under one roof; all the industry sections are multifunctional and in addition draw on the technical resources of the entire firm by creating project teams specific to each contract.

The Resource Section is a poor analogue to E even when looking specifically at the construction divisions of both. As advertised, this division of SCI does very diverse, multifunctional work. The range of services include:

- counseling or representing multinational corporations in negotiations with foreign governments
- antitrust and regulatory advice
- acquisition identification and implementation
- marketing audits and marketing strategies (including distribution, pricing, and promotion)
- cost control, financial feasibility analysis, etc.

The clients include all factors affected by the industry, such as trade associations, regulators, investment bankers, and manufacturers.

The Resource Section attributes its good competitive position to these critical success factors:

- having a wealth of important contacts within the industry and market, mostly relationships with executives developed over many years
- the prestige of the entire firm and the capability of tailoring a multidisciplinary consulting team from all of SCI for each contract. SCI receives about 20% of its business as unsolicited inquiries to the chief executive asking who in SCI can perform a study for the caller..
- having an enormous data base on the industry
- having senior staff who are highly regarded as industry experts. In effect, the position is self-reinforcing, as developing staff members quickly become regarded as industry experts due to their association with their seniors and because of the large variety of business

opportunities generated by those superiors  
-having a multifunctional, highly talented staff

The Resource Section generally avoids taking problems as specific as these handled by Econology. They have been able to only take those contracts they find most interesting and have not been concerned with growth as an objective. They hinted that acquisitions have worked out poorly, preferring internal development. The control system is very unconstraining as long as staff members remain billable; there is very little top management direction of the firm or its units. Compensation is largely salary, with the bonus being so uncontrollable that it is not motivating. Synergies and sharing or swapping of staff to make project teams come about through the personal interests of the individuals, not because the reward system puts a premium on such work. The compensation system does recognize indirect contributions to the firm, such as professional publication. There is no ownership option.

It is probable that the technical and multifunctional capabilities of firms like SCI are an attractive feature to technological firms seeking a consulting firm to do marketing studies. If so, E's chemical, electronics, and energy and environmental practices may be constrained by the strategies of SCI, ADL, SRI, Battelle, etc.

The most enviable features of the SCI consulting practice would be difficult for E to emulate. It took many years even for the SCI Resource Section head to develop close relations with the most important managers in an industry, and he was significantly aided by the prestige and reputation of the

whole firm. However, SCI does have one attribute of relevance to E: When staff members become senior (after age 55) they may elect to work a reduced hours work week in which they take less responsibility as active consultants and more as advisors and mentors or management staff within SCI. This is regarded as a nice way to taper down one's career as a consultant. Of course, the size of the firm facilitates this practice, but it may be modifiable to help E's principals achieve their goals of retirement security.

#### VI.F.5 Other Potential Competitors

More casual interviews and personal experience with other consulting firms revealed a different set of CSFs for strategy firms and still another set for microeconomic analysis firms. The former are well known for their staff recruiting policies of only hiring from the most prestigious business schools and offering enormous salaries. They often deliberately avoid any industry orientation (partly to avoid conflict of interest possible if working on strategic planning for competitors) not only by structure but by use of their staff, i.e. rotating consultants quickly through unrelated industries to gain expertise in their strategic planning methods. It may be important to have a model (or some feel a gimmick) associated with the firm to be successful in this class; BCG and its spinoffs are the classic examples of this. Microeconomic analysis firms place a premium on functional expertise, so they are also concerned about the prestige of their staff's academic backgrounds. Unlike the strategy firms,

these firms do tend to have industry orientations because of the need to be familiar with the structure of markets and the underlying production technologies. Both strategy and economic consulting firms try to convince their clients they are providing expertise the client cannot duplicate.

There was little to be gained from additional formal competitor interviews. First, there appear to be few organizations which compete as entire firms with the entire firm of Econology. Second, when the similarities are not very close between the firms as wholes, comparison of those practices which do overlap is difficult and not very insightful, as in the case of SCI and E. Basically the competitor interviews substantiate the suggestion that there are mobility barriers between the groups of consulting firms at different positions in the industry. If E chose to confront the large multifunctional firms, the strategy firms, or microeconomic analysis firms it would face significant difficulties in penetrating these markets.

#### VI.F.6 Summary

In summary, the major implications of competitor interview findings on the positions of E's SBUs reveal little about SBU positions with respect to critical factors, rather they alter the weights, or importance, attached to the factors. Interviews with potential competitors revealed CSFs felt essential for success in their consulting fields. In addition, certain organizational issues general to all the consulting fields were identified. These findings are listed below

in three groups.

Competitor Information:

1. Industry expertise is subordinated to functional expertise, at least at the lower organizational levels. The ease by which IMA and Pifer rotate staff through industries suggest that E could also do so. In the process, E would want to consider its SBUs more in functional (market research and planning) terms than in industry terms.
2. Textiles, International, and especially Petroleum SBUs at E face direct competition from Pifer SBUs.
3. Econology differentiates its methodology from its competitors by stressing face to face interviews; IMA and Pifer use more telephone and survey techniques. It is important the client also perceive this difference.
4. A client internal staff is widely recognized by consultants to be serious competition.

Potential Competitor Information:

1. Significant competition exists in the industry general management and strategic planning consulting fields. E SBUs in high technology industries moving toward general management consulting may face competition from multifunctional, multitechnological firms like SCI, SRI, and APL. This could be a difficult barrier to overcome as it resides in the product differentiation and firm prestige as perceived by the clients. E can adopt certain strategic approaches helping to circumvent this competition, as outlined in the strategic options identification section.
2. CSFs in general management industry consulting (e.g. SCI) were identified as:
  - a. many intimate and important client contacts with top executives
  - b. overall prestige of consulting firm
  - c. understanding the industry, including the underlying production technology
  - d. being regarded as an industry expert
  - e. having a bright, reliable staff with multifunction skills
3. CSFs in strategy consulting were identified as:
  - a. extremely creative staff from prestigious business schools
  - b. expertise in strategic planning models and organizational diagnosis



- c. many intimate and important client contacts with top executives
- d. prestige of the consulting firm

Organizational Information:

1. None of the competitors identified growth or size of consulting firm as critical success factors.
2. Ownership distributed among staff did not appear necessary for competitive success.
3. SCI has integrated an interesting system of gradual retirement, by giving top management the option to reduce workloads after a certain point in their careers. This policy may also stimulate staff development and improve middle management competence.
4. Acquisitions have worked out poorly for SCI, in many ways due to organizational and political reasons.

## VII. GAP ANALYSIS AND OPTION IDENTIFICATION

### VII.A. Projecting The Portfolio

The corporate portfolio depicted in Figure 11 places SBUs according to their present status. This status is determined by the SBUs' current position with respect to its CSFs and CMFs. Over time, an SBU will become more or less favorably situated along its critical factors, or those factors may change; correspondingly the SBU's status and portfolio position change. A meaningful corporate planning horizon is established by recognizing the future time period required for critical factors to change significantly.

The five year planning horizon typical to manufacturing firms does not readily apply to professional service organization (PSO). Constraints to change for a PSO usually have shorter lead times, perhaps of two to three years. These constraints can be roughly gauged by staff turnover, the firm's willingness to lay off people, ability to increase fixed assets like office space, and time required to internally develop skills. In manufacturing, flexibility is largely determined by technological obsolescence and equipment deterioration, lead times in installing new production capacity, and so on, measures more exact and tangible than those in a PSO, leading to more precise determination of the proper planning horizon.

Expected CSF and CMF modifications over a two to

three year planning horizon were assessed from principal, client, and competitor interviews. These are indicated on the following chart, Figures 17 and 18. The modifications were assessed assuming E follows its current strategy, i.e., no major changes in the status quo. Hence, they reflect external changes in the market or industry affecting E's position. Arrows are used to denote the direction of the change for each factor for each SBU; size of the arrows roughly correspond to the impact of the factor change. For both charts, the column at the far right summarizes the cumulative critical factor change on the SBU position.

SBU position shifts from these factor changes are displayed on a competitive business position/market attractiveness matrix, Figure 19. Movements are indicated by arrows, again the length of the arrow corresponding to the expected SBU shift over the two-to-three year planning horizon. We have not projected any changes in the size of the bubbles, since SBU size will depend strongly on the efforts of the individuals whose aspirations were not appraised. To summarize the projected movements, the portfolio is radially expanding from the center, with SBUs moving toward the extreme positions of high or low market attractiveness and good or bad business position.

#### VII.B. Organizational and Individual Goals

Before we can prudently suggest strategies which respond to this profile, we must consider the explicit and

Critical Success Factor	Market Share	SBU Growth	Buffering of Cyclicalities	Sensitivity to Client's Market Trends	Pricing	Number of Professionals (Size of Firm)	Proprietary Accounts	Economies of Scale and Experience Curves	Sophistication of Service	Industry Experience/Expertise	Functional Experience/Expertise	Marketing/Sales Effort	Quality of Analysis	Image and Reputation	Visibility	Top Management Effort	Staff Development/Middle Management Competence	Composite Position
Power Systems							←			←								←
Textiles							←			←								←
Automotive							←				←							←
Petroleum				←													→	→
Aeronautics				←														→
Railroads, Shipping	↓			←								→						→
International				←			←				←							←
Financial Services																		?

FIGURE 17  
BUSINESS POSITION PROJECTIONS

Critical Market Factor	Volume	Real Growth	Cyclicality	Rate of Change of Client's Market	Rate of Change of Client's Technology	Price Competition	Client Industry Concentration	Service Uniformity	Repeat Business Opportunity	Composite Attractiveness
SBU		↔								↔
Power Systems		↔								↔
Textiles		↔								↔
Automotive		↔								↔
Petroleum		↔		↔						↔
Aeronautics		↔			↔					↔
Railroads, Shipping		↔		↔						↔
International		↔		↔						↔
Financial Services				↔	↔					↔

FIGURE 18  
MARKET ATTRACTIVENESS PROJECTIONS

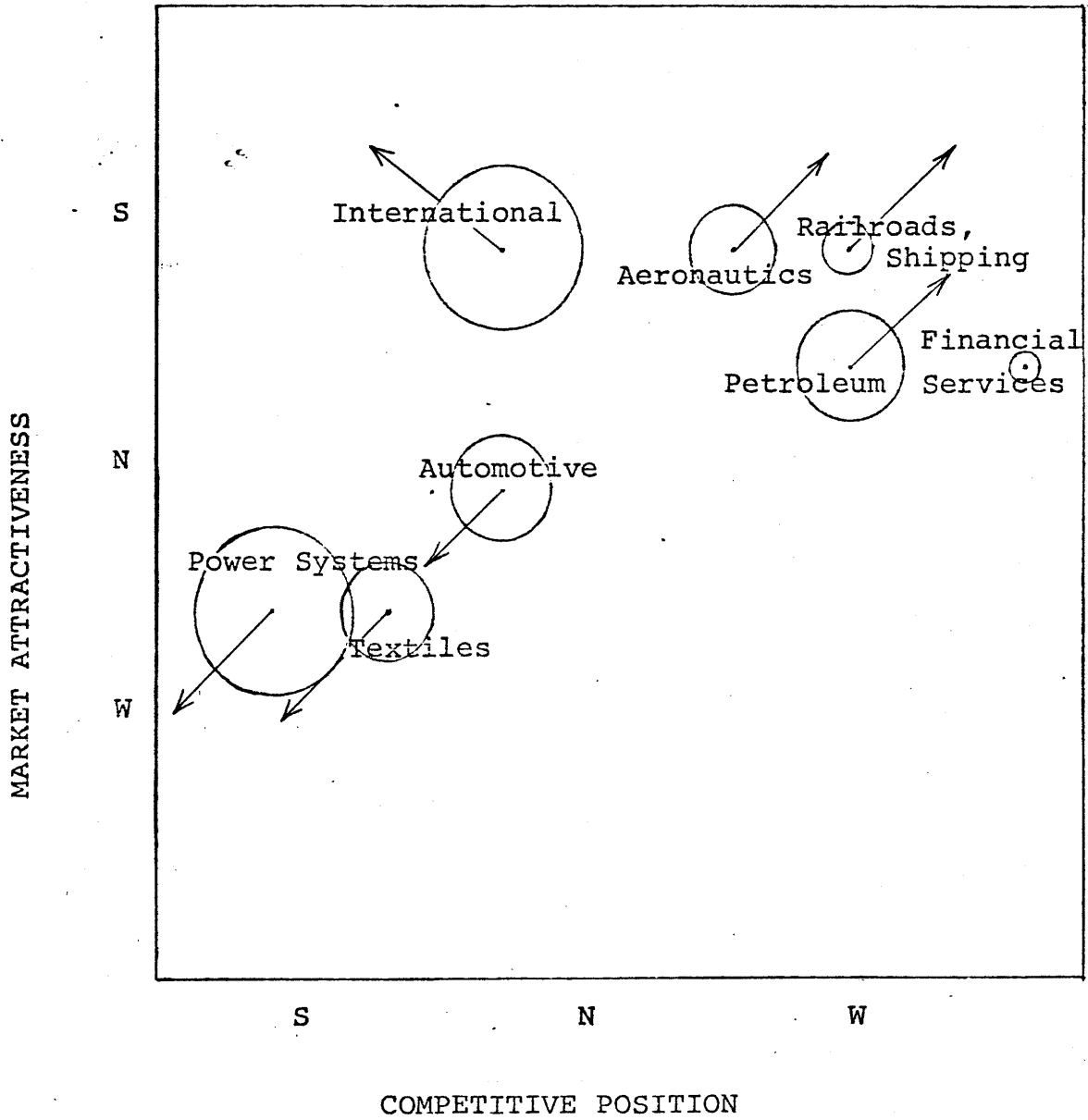


FIGURE 19

SBU POSITION SHIFTS OVER PLANNING HORIZON

implicit goals of the the organization and its members. Any strategy is meaningful only in terms of how readily it leads to the realization of goals and objectives. In general, top management's goals can serve to set objectives for the corporation, but these must be tempered by the goals of the lower staff, or those will act as major constraints.

While we did not conduct a formal survey of the personal goals of Econology's staff, we inferred from our interviews with principals that the following are important:

- growth in the revenues and size of the firm by 20-30% annually
- increased prestige and visibility for the firm
- larger and more stable incomes
- an easier lifestyle in the senior positions, particularly in terms of travel requirements
- retirement security

Other goals held by different subgroups of the principals include:

- broader scope of consulting activities
- more emphasis on strategic planning
- more focus for the organization as a whole
- avoidance of a market research image

Clearly, some of these goals are mutually exclusive.

At present, no mechanism exists for airing these goals and integrating them into a set of corporate goals and objectives which are consistent while being as harmonious as possible with personal goals of the staff. We believe that a serious analysis of personal and corporate goals would be very beneficial to E. Indeed it is necessary to understand and revise goals in the light of strategic alternatives in order to choose among

them; the processes of goal definition and strategy formulation should be conducted iteratively.

### VII.C. Strategic Alternatives

#### VII.C.1. Framework

To identify strategic alternatives for Econology, it is useful to consider the possibilities from a very general framework to avoid considering only marginal changes in strategy. The most basic framework is that used to define SBUs as autonomously manageable clusters of (customer) x (function) x (technology) modules. Fundamentally, any strategic option consists either of repositioning a current SBU by changing its level and manner of attack on its market or of redefining businesses by extending or contracting along one or more of these dimensions for one or more SBUs in such a way as to optimize the total corporate performance. Each of these three dimensions have multiple subdimensions which may be manipulated. Moreover, changes in one dimension may well not be independent of those required or possible in another. Associated with any set of changes may be new or revised functional requirements and organizational structure of the firm. We will have four strategic options, the first based on a repositioning of current SBUs and the other three based on refining businesses.

#### VII.C.2. Status Quo

The first strategic option is basically enhancement of the status quo, i.e., a reallocation of corporate resources



into the current SBUs to selectively improve their business positions. As explained in Chapter II, the classical strategy models characterize certain SBU movements and portfolio patterns as more desirable than others. Within limits, the firm has control over its competitive position factors, while market attractiveness is primarily determined by exogenous variables. The textbook strategy is for firms to strive to improve the business positions of the SBUs in the attractive markets while de-emphasizing efforts in SBUs with low market attractiveness. Only a few of the SBUs with weak business position should be developed, since the firm's resources should not be diluted on questionable ventures; the most poorly positioned SBUs should be abandoned.

If we were to take this strategy model literally and apply it to E's portfolio, it would imply that E has a fairly attractive portfolio. There are no dogs, one or two stars and cash cows, and several question marks to serve as the next generation of stars. What is slightly bothersome is that the question marks may be diverging away from the desired northeast quadrant if no strategic plan is affected. To avert this possibility, we would recommend that those principals with "question mark" SBUs appraise the position of the sub-industries comprising those businesses. Some of these may be more or less well-positioned than the weighted average position shown in the portfolio matrix given here. The principals could direct more effort into the healthier sub-businesses. This is

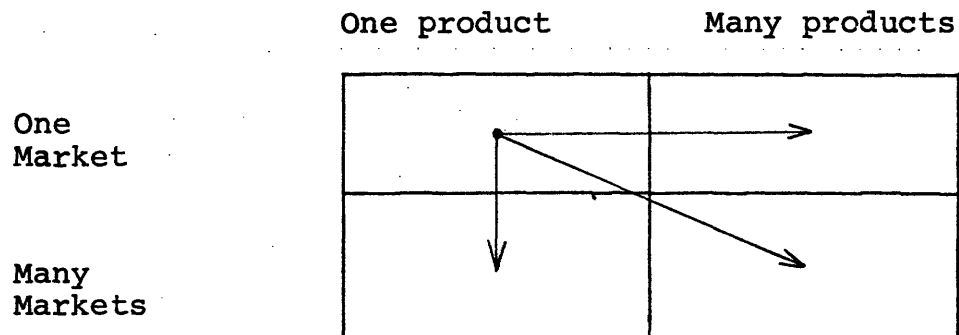
probably being done implicitly at present, but a formal analysis could clarify the best way to do so.

The second implication of a classical (BCG) model is that corporate resources should be allocated from large, mature SBUs to the best opportunity question mark SBUs. In this case, it makes little sense to direct surplus cash from Power Systems to Aeronautics. However, it may make some sense to redirect the firm's more basic resource, people, to question marks from cash cows. For instance, the principal of the textiles industry expressed a concern that his market is levelling out. This will constrain his own profits and the development of his staff; perhaps they could be more profitably directed into the aeronautics group as that SBU wrestles for business position in its attractive market. Of course, there are numerous obstacles to such a utilization. First there is the question of how to compensate the principal of the cash cow for surrendering his resources; the current system does not support such behavior. Second, there is the question of transferability of skills of staff moving from one SBU to another. Based on the client comments that E's value-added comes as much or more from functional expertise as from industry knowledge, this may be a more superficial than real problem.

In general, the practical problems of applying classical strategy to a professional service organization (PSO) cannot be overemphasized. Foremost is the fact that SBUs do not represent relatively impersonal manufacturing businesses but the personal interests and skills of individuals. Profit maximization is very likely not to be a sufficient reason for a PSO's SBU to be willing or able to reposition. Professional goals must be assessed to make the right strategic decisions.

### VII.C.3. Three Alternative Strategic Options

While this strategy of enhancing the status quo may be an effective one, there are many unresolved questions on how to go about realizing it. Moreover, we suspect it leaves E with a lack of focus; a more central direction or philosophy might be beneficial. It is not uncommon for firms to evolve at middle age into a collection of businesses operating without regard for a common mission for the firm. Often a business which successfully started by serving one product in one market experiments with many products in many markets.



This is bad if it means that the firm loses focus or has no detailed structure for exploiting its distinctive competences. The loss of focus in a professional service organization can be especially damaging because it can lessen the consultant's understanding of his product, already difficult to conceptualize due to its subjective and ephemeral nature. This explanation may help account for the recent trend toward specialization in management consulting. As competition heightened consultants found it necessary to specialize not only to enable them to probe deeper into a field of growing complexity but also to focus and thus relate their skills in a more coherent form to the client. Thus, we recommend E consider a set of three "pure" alternatives which involve redefinition of the firm's businesses, but create greater cohesiveness than the status quo.

Redefinition involves addressing the three SBU dimensions dealt with in section II.B.2, customer, function and technology. In addition, these strategies can involve only one SBU, a number of SBUs or all SBUs. For our analysis, we look at the corporate level strategy of the whole firm. Individual business level strategies for each SBU will be quite similar because of the common characteristics they share. To differentiate them to the extent that E is able to distinguish between its locomotive and light bulb businesses would require detailed information about the SBUs beyond the scope of this report. In fact, before implementing

any one or a hybrid of the recommended strategies, more detail may be required and should be obtained by having each principal thoroughly study his own SBU.

We perceive Econology as having three basic strategies available to it; it may be possible for individual SBUs to separately pursue these to varying degrees, creating hybrid combinations of the three. We have called these three approaches 1) market planning/research (MPR), 2) industry consulting (IC), 3) strategic planning (SP). Their basic descriptions are:

Market planning/research: primary skill is industrial market research and planning, which is provided to all industries.

Industry consulting: primary skill is industry expertise, with an awareness and understanding of the entire culture and setting of an industry. Consulting is provided on all functions to each of certain industries.

Strategic planning: primary skill is strategy formulation; strategic planning is offered to all industries.

Note that since each of these entails a redefinition of the business in which E participates, its current corporate portfolio SBU bubble chart gives an inappropriate profile of where the company stands. The first option represents the least redefinition, the latter the most. In moving from the first to third option, we believe E's SBU business positions become worse, i.e., the bubbles are shifted more to the right.

However, the market attractiveness of the industry and strategy consulting businesses may be slightly higher than for market planning/research. A simple check of CMFs, as identified in the principal interviews, helps substantiate this assessment. (The table below is filled according to our perceptions formed from interviews).

CMF	Strategy		
	<u>MPR</u>	<u>IC</u>	<u>SP</u>
Volume	0	0	0
Real growth	0	0	++
Rate of change of client's market and technology	0	0	0
Price and competition	0	+	++
Repeat business opportunity	0	+	+

The relative market attractiveness of these alternatives is debatable, and our resources do not leave us opportunity to pursue that question in detail. The following discussion concentrates on E's CSF position if it pursues a particular strategy. The critical success factors accompanying a strategy are drawn from the results of the competitor interviews section.

#### VII.C.3.a. Market Planning/Research

Based upon our interviews with clients and competitors of E, we believe the market planning/research strategy is the one most consistent with the resources of the firm and the way it is perceived in the marketplace. It is also the one under which E has the strongest portfolio starting position, recommending it as perhaps the most viable

option. It is a new strategy as opposed to being the status quo because the firm is currently composed of many SBUs individually perceiving and presenting themselves variously as market researchers, industry experts, and/or strategists, with varying degrees of corresponding perception of their roles by clients.

In the pure form of this strategy, all of E would acknowledge its primary role (and skill) to be industrial marketing research, with industry expertise and planning skills as necessary but secondary attributes. The intent would be to abandon the constraints placed on developing new business by E's belief that it must have industrial expertise to be credible; functional expertise would be the firm's focal theme for differentiating and establishing itself. All experience that E had accrued in all industries would be levered as the demonstration of functional expertise rather than having many smaller, industry-specific records of experience to demonstrate industry expertise. As many clients stated, they see industrial market research skills (and not industry expertise or strategic planning) as E's source of value-added, and since there appear to be few competitors in industrial market research, E might potentially enjoy a very dominant, premiere position in this business.

Consulting Services, Description and Methods:

The production requirements of this strategy have much continuity with the current work at E. Projects would

remain in the same size range, with field interviews the primary tool. It would be desirable to broaden and deepen the staff's skill in data analysis and schematic representation methods, including statistics and graphical means of portraying and summarizing data, plus any new methods of industrial market research being developed by academia (e.g., innovation diffusion models, etc.). It would be important to be developing new products and tools regularly. New products might include market analysis training seminars, industry market trend news letters, marketing audits, etc. New tools would be data bases, statistical and data analysis via computer support, etc.

Client Market:

These services would be provided as at present to functional units of Fortune 500 industrial firms, but more broadly than to just those in the current industry areas. Brochures with an emphasis on the market research product and general capabilities of the firm would be the primary marketing tool. It might be possible to tie the international and domestic capabilities more tightly together. The current industry focus of the senior staff would be retained for some marketing purposes, but it would be less important, except in so far as products were tied to specific industries. Client relationships would be comparable to those maintained at present, i.e., rather distant. This market should have moderate growth comparable to or better than E has



experienced in the past, as it appears that E's self-characterization as industry or strategy experts has generally not helped its image. It may be a relatively price-competitive branch of consulting, but E's potential premiere position should offset this risk.

Organization:

Organizationally, this strategy would involve the loosening of the current industry orientation. Particularly at the lower levels of the hierarchy, staff would be encouraged to rotate among several principals to develop an understanding and expertise in using industrial market research techniques to analyze diverse markets. Staff members could be drawn from the same business school base as at present. As staff members matured and developed personal preferences for certain industries, they could specialize in these (some of which might be new areas for the firm). It is also possible that the organization might be better structured around products which apply across industries if there are enough of those. Most of this development would occur internally without acquisitions, avoiding that historically difficult process. Horizontal expansion would be easy and desirable (in the future) to facilitate (or respond to) staff development. This growth in firm size would be accompanied by a relatively formal and multilayered hierarchical structure with line responsibilities at several levels; broadening and deepening the organization in this manner would support the aspirations of

current senior staff to gradually work less in the field and to be able to retire securely. This would also entail more senior staff emphasis on promotion, administration, and training. Of course, the control system would have to be somewhat redesigned to encourage new sales and staff development.

Summary:

To summarize, this strategy:

- does not drastically alter E's current image in the market.
- matches the expressed needs of clients. First, they want functional expertise. Second, they want industry knowledge.
- directly uses E's current client contacts. In fact, through promotion these contacts could be levered up to add to growth.
- does not require a dramatic change in consulting style. Although internal organization rotates lower level staff, the client-consultant relationship is basically the same as at present.
- allows E to grow from its current dominant position in the market.
- does not have the same work content or glamour as strategic planning or general management consulting.

VII.C.3.b. Industry Consulting

The second pure strategy is to become industry consultants, experts in all aspects of the business environment for particular industries with the capability to give advice individually or as a team from the firm on all functional areas. Econology has a certain amount of this orientation in

its present strategy, especially in industries where E is a dominant marketing consulting firm and marketing is the dominant function with the industry, e.g., power systems. Under this strategy, each SBU would fashion itself after a corresponding (real or hypothetical) SBU in SRI or ADL. While this approach involves a poorer starting position than the market research strategy and is probably more risky, it may be closer to the personal goals of several senior staff.

Consulting Services, Description and Method:

By analogy to ADL, etc., the projects in this line of business would be larger and more varied than those E currently conducts; this increase in the scale of projects is attractive, although it does not imply that principals could quadruple the revenues they manage. These projects would cover the gamut of micro- and microeconomic issues affecting an industry; studies would be sufficiently distinct from each other that more management time would be required to assure quality. It is quite likely that the \$500,000 - \$1,000,000 range for annual revenues is an upper limit on the amount of business a principal can manage no matter what the nature of the consulting. (This is true for firms as diverse as McKinsey, Braxton, Putnam Hayes & Bartlett, and Technomic). Methodologies and research designs would be drawn from all functions, obviously requiring a very multifunctional staff. Interviews and data analysis would still be important, but only as preliminary steps to a technical analysis of what to do

in response to the situation depicted by the data. It might be important or useful to work for the government in contracts on regulatory policy to establish credibility as experts in the workings of the affected industries. In order to provide counseling in functions where E currently has no in-house capability, it might be possible to subcontract parts of projects to university faculty or small independent consulting operations.

Client Market:

The client group for these kinds of studies is the line management of divisions or corporations in the Fortune 500; E would have to move its contact point up the ladder in its current client firms. Proximity to the client plus frequent casual and friendly visits may be CSFs for this. This is a risky undertaking, as it can take years to establish a reputation at senior levels, and it is not clear that the client firms feel a need for more firms like ADL. That is, even if E could build broad competence in some industries, the clients in those industries may not have any incentive to use E instead of ADL. These multifunctional, multi-technical giants are strongly entrenched competition; E should avoid pursuing this strategy in those industries already dominated by ADL or SRI, like steel or autos. This strategy moves E to a moderate growth market which is less price competitive than market research since it is a less tangible product offered to more senior people in the client

firm. A key marketing element is demonstrating technical capabilities. Publications in professional journals are one way of achieving this.

Organization:

To obtain staff capable of doing this work, the firm must bring in talent in other functional areas and integrate it into the firm's current operations. This talent can be brought from three directions, and perhaps all should be employed. First, MBAs with functional skills can be hired. However, it is likely an inexperienced and young employee will get absorbed into other routine marketing operations or will not be self-sufficient in his skills (and require further training while on the job to develop his talents to a state where they can be applied). Second, seasoned experts can be hired to either train other staff or act as internal staff to other SBUs. Any training of principals or staff will require a sacrifice of current sales, because they will have to exchange billing time for study time. The political, as well as monetary, consequences of losing sales may hinder participation in a training program. A professional hired as internal staff would probably remain politically subordinated to the other principals because of his lack of direct personal sales. A person academically self-sufficient (e.g. a PhD) and not too concerned with managerial ascent would best fit this position. Third, expertise can quickly be integrated into the

firm through acquisition. The politics of this tactic are thorny, as the new staff would be very important due to their expertise giving them a lot of power in the organization. This is likely to be unsettling to current senior staff. SCI commented that they have found acquisitions difficult, and Econology's history shows mixed success with acquisitions.

With or without acquisitions, it would be necessary to shift the staff recruiting to the most prestigious business schools and experienced consultants since this is a credibility factor for providing this kind of expert consulting. New staff could rotate between functions but would specialize in particular industries fairly soon; some might remain in a pool of functional or technical experts for general assignment when depth was needed. This would require a flatter and more democratic organization than E now has, as there would be greater reliance and dependence on the individual judgment and expertise of junior staff. Also, a more sophisticated and multifaceted control system would have to be developed to recognize the differences in costs and profitability of different kinds of studies. Temple, Barker & Sloane offer multifunctional consulting, and their control system accounts for the significant differences in the production functions for different kinds of projects.<sup>30</sup> The compensation system would also need to reward the prolonged efforts to develop business at higher, more multifunctional levels in the client firms.

<sup>30</sup> Interview with TBS staff member

Summary:

This strategy is fairly risky but might yield more interesting and varied work. It would be pursued on a piecemeal basis to test the waters, with the strongest industry principals loosening their hold on their current client base to court the line executives of those firms. It is doubtful whether this will be tried without a change in the compensation system.

In summary, this strategy

- has E compete with large, entrenched, and well-known consulting firms, e.g. SRI, ADL. In comparison E's image concerning industrial expertise is weak, other than for the Power Systems and Textiles SBUs.
- requires that E be capable in many functions (e.g., finance, operations, marketing). Although E is skilled in marketing, new talent in other areas must be acquired; this may be quite expensive and/or organizationally difficult.
- requires to cultivate new clients either in small to medium sized firms or higher up the corporate hierarchy than current clients. Client interviews revealed that shifting contacts vertically in an organization is more difficult than shifting horizontally.
- requires a more complex compensation and control system to match more varied client studies and the integration of new talent into the firm.
- requires a flatter organization and one limited in growth until its reputation spread.
- requires a more relaxed and intimate client-consultant relationship than presently exists.

### VII.C.3.c. Strategic Planning

The third pure strategy is to enter the strategic planning market. At present, this is a fairly attractive market with high growth, little price competition, very large and expensive projects. However, it is unattractive in having many firms, some very well established, attacking the market. There may also be a life cycle curve for this service which could peak out in the near future, although this is speculative. In any event, Econology is probably very poorly positioned for competing in this business. First, it is generally not perceived as capable of strategic analysis by its current clients; beyond them it is an unknown firm. The staff are unfamiliar or inexperienced with strategic planning. While these skills are not difficult to acquire - several in-house seminars might be sufficient academic training - it is a risky long shot which would take a long time to realize. However, this option may be appropriate if it is consistent with the goals of the firm and its staff. There does appear to be an attraction to this practice for several E principals .

#### Consulting Services, Description and Methods:

To become capable of strategy analysis, E should seek to develop or awaken skills in organizational diagnosis and the use of strategic planning methods. Several approaches may be taken to this end. It might be possible to develop a symbiotic relationship with an existing strategic planning



firm like BCG to do the market opportunity analysis part of a BCG contract. In the process of linking this analysis to BCG's internal analysis and portfolio optimization, much could be learned and E could build an image of association with a major strategy firm. Then to strengthen these new strategy muscles, E could try offering full scale strategy consulting to medium-sized firms, perhaps those of \$100 - \$500 million revenues. These firms are not the served market for the major strategy firms. It may even be a sufficiently dynamic market to serve as a permanent and primary client base for E's strategy services; if not, it can serve as further training and reputation building.

Alternative approaches to acquiring strategic talent include those talent-acquiring alternatives discussed under the industrial consulting strategy section. However, here the question also arises whether or not it would be wise to acquire a strategist to carry on his own independent practice within E with the understanding that he would include E senior staff on his contracts to help train them and tap their marketing expertise. We suspect it would be very difficult to get anyone of significant reputation to try this; even if he would, the internal politics may be very unstable, because of current principals feeling subordinated or fearing loss of clients to E's strategy group. If the group is set up to handle all of E's strategy projects, i.e. not to train other principals, then the value of the group to other SBUs is minimized and its strategic value and importance drops proportionately.

Client Market:

Even if the requisite skills are developed, E must have very close relations with the client at a very senior level in order to get in the door for a strategy study. Several clients commented on how it is pointless (or at least inefficient) to have a strategy consultant who is not intimately familiar with the firm. To develop this, E's principals would have to spend much time and effort trying to form close contact with senior executives. Once some credibility has been established, it is standard practice to compete for jobs by giving seminars to individual corporations' executive staffs on the consulting firm's skills and services in strategic planning. It might even work for E to make cold calls offering to do this; it would be helpful to have a differentiating style or gimmick (model) to serve as bait in these presentations.

Organization:

Organizationally, the strategy firm should be fairly flat and democratic (like the industry consulting firm) as each member of the staff is expected to be a high-powered expert. There would be no industry structure - everyone would work on any kind of project. There may be diseconomies of scale for this kind of firm, so that E would probably not be effective at as large a firm size as under the previous alternatives.

Summary:

The major risk in this approach stems from whether there

are untapped markets for strategic planning services and, if so, what does it take to establish a firm in that niche of the market. If there are few unserved markets, or those that are unserved are nonetheless oriented toward the major strategy firms, this could be a very difficult track. We believe it would take many years for E to become a competitor to Bain, BCG, SPA, etc. if it is possible at all.

In summary, this strategy

- has E either compete in a market against well-known competitors (e.g. BCG) or enter a market of unknown size, strategy consulting to medium sized firms.
- requires E to recruit talent, which will be an expensive and organizationally difficult process
- requires E to cultivate new clients either in medium sized firms or higher up the corporate hierarchy than current clients
- requires E to switch to a flat, democratic organizational structure, and probably remain a small firm until it establishes a reputation.
- requires a more relaxed and intimate client-consultant relationship than presently exists.

#### VII.D. Specific Strategic Recommendations

We have given an analysis of E's current position plus four strategies presented in order of increasing difficulty, risk, and time to realization. The last two alternatives involve rather large organizational redesign as well. To recommend a single strategy, we believe the second, becoming an industrial market planning/research firm, is the best. It should help those SBUs competing against strong industry expert consulting firms and cannot hurt the others. It would also focus the divergent interests of the SBUs to create more synergy, recasting all experience as a common base for all. Finally, there is a strong chance of becoming a major factor in that consulting market.

However, the other alternatives are not necessarily inferior strategies. In a sense, each strategy is simply a trading off competitive business position for market attractiveness. Market planning/research has the strongest business position and only a moderate market attractiveness; for strategy consulting the scales are switched. To determine the proper tradeoff would require combining the two dimensions of attractiveness and position into a universal single dimension of firm utility; this subjective transformation is best left to the decision-makers. Another group of factors not to be ignored are the goals of the equity owners and professional staff. The strategy that most closely fits these goals (or at least lies within their feasible region), concerning work content, working

conditions, retirement plans, challenges, income, etc., should be chosen.

It may be possible to satisfy objectives with an eclectic strategy in which E first builds on its strength as an industrial market research firm but develops options to pursue the industry or strategy consulting in the future. At the entry level, this approach would look like the pure industrial marketing option: the primary responsibility of new consultants would be to become good market researchers, rotating among industries. As they become more senior, they would be more and more involved in the relation of marketing to other functions at the client firms, and they would specialize in a particular industry. As senior associates and principals they would be able to orchestrate a market study which was well integrated with the client's full range of needs; their role would be much more proactive than reactive in helping the client. Over time, the staff may become regarded as industry experts. To preserve the strategy option, market studies could be taken in support of strategic planning firms. If this proved a way to establish a reputation as strategists, the firm could move in that direction, perhaps with smaller firms as clients.

The problem with this hybrid strategy is that it requires extra effort to remain focused, making it difficult to promote the firm in a manner which clearly differentiates it. It is also difficult to control and compensate performance in this approach, as there are even less well-defined yardsticks for

evaluating results than under the pure strategies.

The selection of a strategy ultimately rests on the preferences and risk aversion of the key players at Econology. This study can only suggest alternatives relative to a small sample of observations on the firm and its environment. Probably the best advice we can give is for E to use this report as a template for self-assessment, studying those aspects with which it agrees and disagrees. This self-assessment should include a more aggressive effort at strategy formulation and much attention to business strategies: our study has only addressed the corporate portfolio issues. Operational changes which could support this process and enhance the effectiveness and efficiency of the firm follow.

## VII.E. General Recommendations

There are certain organizational and marketing recommendations which apply to all of the aforementioned strategic options.

### VII.E.1 Organizational Suggestions

The first organizational suggestions include those discussed in the previous section concerning staff development. First, internal promotion should be emphasized. This will encourage staff development and create a more competent middle management. Second, provide a place and person for consultants to go to safely complain and freely air their grievances without fear of retribution. Adopting the employees' suggestions is another matter, but the process of discussing the issue to an open-minded official is fruitful nonetheless. Third, whether or not rotation of consultants through different SBUs is a regular practice, a certain amount of employee homogeneity is desired to facilitate occasional staff exchanges during business slumps and peaks. The price for this flexibility is a common standard of employment for all SBUs, so the employees have skills corresponding to work requirements throughout the organization. Fourth, more management effort is necessary in the areas of corporate and SBU planning, business promotion, and staff development. Depending on the strategy chosen, it may be convenient to allow the officers of the "cash cow" SBUs to assume more of the managerial duties since the corporate de-emphasis in their area may permit them to devote time to extra-SBU activities.

The incentives to motivate adherence to these suggestions are created through the corporate atmosphere, attitude, and, not least important, the compensation system. Recommendations for the compensation package concern the profit sharing (or bonus) aspects and follow from a previous section which describes the current salary system.

#### VII.E.2 Compensation System

##### VII.E.2.a Current System

The current compensation scheme's first order effect on employee behavior appears to be aggressive selling. Historically, Econology has fared very well under this form of profit sharing. The firm has grown rapidly and now enjoys a major role in the market place. The attributes which made profit sharing (or bonuses) successful in the past are still present: 1) the firm is relatively small, so individual efforts are not diluted by those of a multitude of other employees. In this way variations in individual work can have a large influence on profits. Adding to the impact of individual impact on profits is the nature of professional work, where high revenues are based on each employee-client contact; 2) the work effort is difficult and costly to monitor. Meaningful measures of performance analogous to piece rate production in manufacturing do not exist for professional services work. Sophisticated attempts to monitor creative work can be frustrating and costly without complete employee cooperation. Certainly this cooperation is greater under some form of profit sharing, when the employee has incentive to monitor himself.



The issue presently is the form of profit sharing. Principals now have greater managerial responsibilities for staff development, product development, and promotion than they did in the formative years of the firm. Less bonus emphasis on sales and more on management is necessary, even though this shifts the bonus into a subjective area. Management efforts in many areas, besides sales, must be assessed to allocate the bonus.

VII.E.2.b Measuring The Efforts of Consultants:<sup>31</sup>

Identifying and measuring the efforts of knowledge employees is not a simple task, but it can be done. After the goals of the firm are established and promulgated throughout the organization, employee-manager interviews (or for the principals, discussions held with officers) are conducted. Here, answers to two very tough questions must be obtained:

1. What results are you being paid to achieve?
2. How will you be able to demonstrate to your supervisor that you are doing a good job?

Answers to the first question comprise the "key result areas". Strive for a complete list of results or outputs for each job; where necessary break down key result areas into major components. An example is shown below.

Improve E's Visibility

- Publications in professional journals
- Newsletters
- Seminars
- Public relations efforts

<sup>31</sup>Much of this section is drawn from a paper by David Mollenoff, "How to Measure Work by Professionals," Management Review, November 1977, pp. 39-43.

Answers to the second question become "performance indicators". Develop at least one indicator for each key result component. The ideal indicator includes four measurable factors - quantity, quality, time, and cost - but this ideal is seldom found. Nonetheless, many possibilities abound, such as raw numbers (e.g., 12 newsletters), ratios (50% completion rate), rating scales (4 on a 5 point scale), or just qualitative directions (good, average, bad). If measures cannot be formulated now, agree to establish them as you go.

The standard you are striving for should be one that a competent and diligent employee could reach on average with reasonable effort. Manager-employee consensus should be reached, but in those rare cases where this is impossible an understanding will suffice.

This is extremely difficult work which may not be completed at one sitting. In fact, initiating the program may require many months of effort, but the rewards are significant to an organization too complex to use a single criterion compensation package.

#### VII.E.2.c Bonus Pool:

A further suggestion, beyond basing bonus allocation on management (as well as sales) effort, is to not restrict the bonus pool by the size of current profits. Efforts by principals in staff development may increase the value of the firm through dramatic increases in future revenues, but at the sacrifice of this year's sales. Why should these non-owners be penalized

today for this wise long-run investment, when many not be around for the distribution of future profits? Some firms solve this problem by tying bonuses to their stock prices (a measure of firm value which capitalizes future earnings). In E's case the stock is not publically traded, so the bonuses must rely heavily on the subjective assessment of top management and equity owners to decide on financial rewards based on shifts in firm value, independent of this year's profits. This is the optimal approach for E to adopt. The priority to ascribe to these recommendations must be made clear. First, alter the bonus system for senior and middle management to properly weight their managerial efforts. Second, expand and contract the bonus pool according to the value added to the firm over the year, which may be quite different from the expansion or contraction in profits accrued over the same year. This means that the retained earnings as a percentage of professional effort will not be a constant figure.

### VII.E.3 Marketing Suggestions

The marketing suggestions are primarily derived from the client and competitor analysis. Although these recommendations apply "across the board" to all of the proposed strategies, some are more significant under different scenarios. For example, all evidence indicates Econology should increase prices, but a shift into strategic planning allows a much more liberal application of this suggestion. The same holds true for client-firm relations. A more relaxed and warm association would improve business; clients would feel less hustled and would

believe the consultant had a genuine understanding of their organization. However, the degree of "old boy" association depends on the strategy - strategic planning requires closer association than industrial market research. With this caveat, the other marketing suggestions are described.

Principals should promote for the whole firm, not just for themselves. Surprisingly, many clients were unaware of what Econology did outside of work done by their principal contact. These same clients distributed much of their information about consultants to other divisions of their firm, either directly or through a central corporate office set up for this specific function. E's business could be expanded within its current client base by simply having principals present the capabilities of the entire firm. This could be done just in discussion or through brochures describing past marketing experience and calendars or datebooks including descriptions of E's staff and experience. It would be especially beneficial to stress this type of promotion at client firms which have centralized consultant referral and evaluation departments, several clients have such departments.

Finally, E could improve its presentation and report style. The visual appeal and clarity of reports could be improved through the use of more prose summaries and more elegant graphs. Presentations should adopt top-down priorities with corporate-wide issues initially addressed followed by a logical extension to narrower issues. Perhaps the best advice here is for principals to carefully observe and continually

attempt to improve and evolve the reports and presentations. The documents and style of presentation vary considerably with the chosen strategy. The extreme case is again strategic planning, where often no final report is delivered to the client and the audio-visual presentation (utilizing many gimmicks and state-of-the-art graphical techniques) is greatly emphasized.

#### VII.E.4 Suggestions for Further Strategic Planning

A third area of recommendations concerns strategic planning for Econology. Although this report documented an entire planning cycle, many additional iterations will be necessary to arrive at a refined and mutually agreeable (among top management) strategic plan. Our analysis, which was primarily limited to the corporate level, should be extended to more granular SBU (and sub-SBU) levels. These iterations should involve each principal examining his SBU (or proposed SBU) in greater detail and challenging our prognosis and conclusions, but the process in each iteration should be basically the same as this one. With the corporate objectives and professional goals in mind, tentative SBU objectives should be set. These objectives should be translated into feasible strategies and analyzed with respect to SBU resources, market threats and opportunities. A projected SBU position should be developed and inserted into the corporate portfolio of SBUs to assess whether Econology's corporate objectives are satisfied; if not the iteration continues.

Before a meaningful planning procedure can be performed, the proper corporate climate must be fostered. Planning

must be elevated to a level of considerable importance and priority in the minds of the senior executives in order for managerial planning effort to be rewarded and the results to be taken seriously. Until then, strategic planning, however sophisticated, will simply be an exercise.

### VIII. CRITIQUE AND CONCLUSIONS

The most important caveat on interpreting and applying this study is that it is based on a small information set. We have felt somewhat like tailors being given a thread from a piece of a man's clothing and then being asked to describe the man's outfit and recommend a new wardrobe! Unfortunately, time constraints prevented us from developing a large data base.

The obvious consequence of this data inadequacy is that the profiles of Econology's resources, client opinions, or competitor positions are not necessarily reliable estimates of the true distributions. We believe they are still quite informative, but recognizing this limitation, we have included interview excerpts which reflect the range of opinions more than the mean and variance. We have also concentrated our research and analysis on Econology's weaknesses slightly more than on strengths, partly due to the interviewees' tendency to discuss problems more than aspects with which they were satisfied. The result is perhaps an overly negative picture of Econology, which should be qualified. It is quite clear that Econology has many bright people offering a very useful service which is highly valued in the marketplace.

It is clearly useful to have consultants offer a third-party perspective on opportunities or inconsistencies which the

client may not recognize. However, consultants have an equally important role in making the implicit into the explicit, taking the client's operating procedures, market assumptions, client relations, etc. and laying them on the table for inspection. This is the most significant potential contribution of this study. We recommend Econology use the analysis for:

- .goal formulation, with an awareness of the tradeoffs between opportunity and risk in the associated strategic alternatives
- .continued corporate strategy formulation, with strong attempts made to match specific strengths and weaknesses with specific opportunities and risks. This entails continued collection of a strategic intelligence data base to extend or modify the information in this case, and to develop a more reliable and balanced profile of strengths and opportunities

The case research gave us many insights into the strengths and weaknesses of the theoretical models of strategy formulation. The problems of conducting a rigorous market attractiveness/business position analysis were discussed in Chapter II. The primary benefits from rigorous, systematic analysis are the completeness and consistency of data and methodologies. Our experience revealed one drawback to rigor. The MA/BP method is so qualitative that attempting to be extremely rigorous can actually be constraining to strategic analysis. It is possible to spend so much time worrying about marginal shades of grey in the accuracy or meaning of data that the distinctions become artificial and the black and white are missed. This is especially critical when time is a major constraint. Like any problem in economics, the marginal benefits



and costs of rigor should be equated in the strategic planning process.

None of the strategic planning methods discussed in this thesis are sufficient bases by themselves for prudent corporate planning; they should be complemented and qualified by the ideas of organizational behaviour, finance, and microeconomics. Organizational diagnosis is particularly important in planning for professional service organizations like Economy, where each member of the staff is almost a complete business, performing the full gamut of functions for the firm: marketing, production, and client relations. Any decisions on goals, quality control, resource allocations, etc. should reflect the needs of the individuals and the norms of the organizations operation. Finance theory provides the discipline of insisting that the corporate portfolio concept only has merit when true synergies exist between SBUs. It also provides a method for setting appropriate, quantitative objectives for the performance of SBUs and the firm as a whole. Microeconomics is a source of factors to be used in analyzing markets. In general this list is much richer than most established strategic planning models use. Moreover, the concepts of microeconomics should always be applied to test the assumptions about firms and markets implied by the tools to be used for strategic planning.

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