RESEARCH BRIEF

Killing Strategy: The Disruption Of Management Consulting

October 8, 2020

Disrupting / Unbundling

Since former BCG consultant Clayton Christensen first used the term "disruptive innovation" in 1995, nimble startups have challenged incumbents in every field from music to manufacturing. Now, a tectonic disruption is hitting management consulting just as it has hit many other industries.

The industries that have proven the most vulnerable to disruption have been those with:

- One or a few major players
- Relatively outdated business practices
- Slow technology adoption

Consulting Group (BCG), and Bain — are ultimately no more immune to the forces of disruption than any other industry.

> “[W]e’re still early in the story of consulting’s disruption… More likely than not, alarms won’t sound until it’s already too late in the game.” — Clayton Christensen

Management consulting is primarily human-driven. Hourly or per diem billing, rather than outcome or value-based pricing, is still the general rule (even as industries like law move away from billable hours). The increasing pace of technological change means that, more and more, consultants’ recommendations are out of date nearly as soon as they’re made.

Consulting, in other words, is inefficient, inflexible, and slow to adapt. Any of these weaknesses alone would suggest coming disruption — possessing all of them points to a major fight ahead.

McKinsey, Bain, and BCG have weathered existential crises before. These consultancies offer a highly brand-driven, prestigious, and hard-to-quantify product to Fortune 100 companies with plenty of cash to spend.

If you dig deeper into the specific types of services that these firms offer their clients today, however, it’s clear that a tectonic disruption is hitting management consulting just as it has hit many other industries before. It may be a slow and gradual change, and the big names may well endure — no matter how thinned their ranks — but a change is coming.

TABLE OF CONTENTS

The invention of strategy

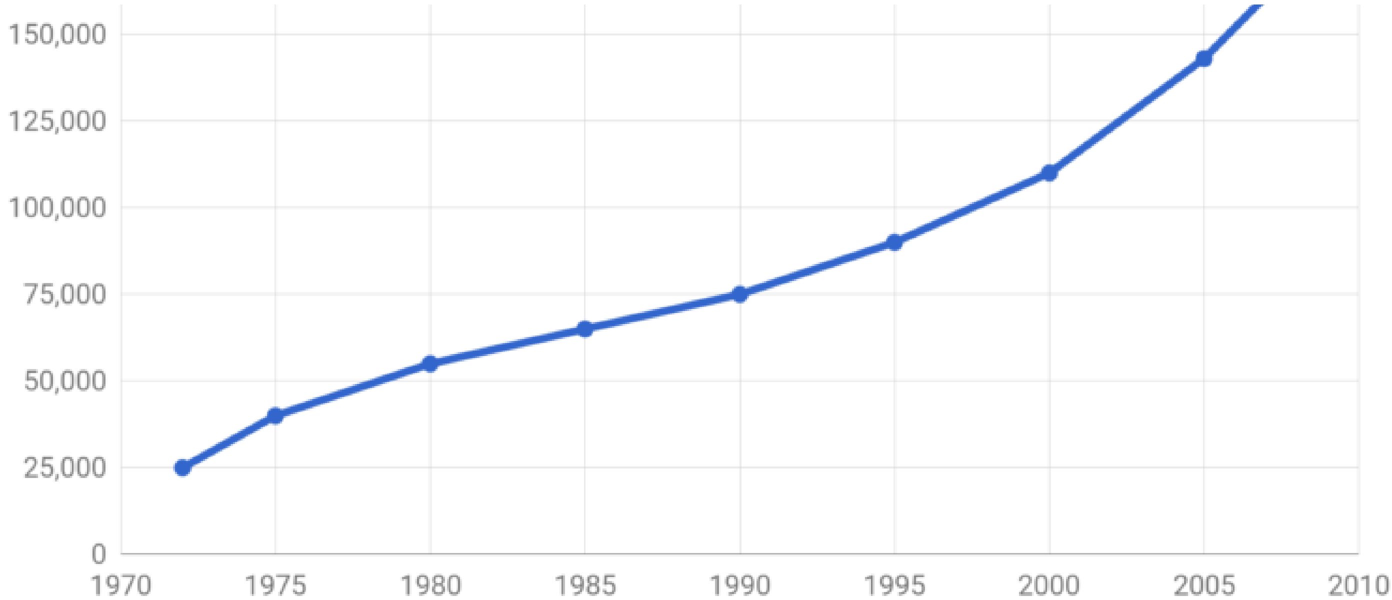
"What companies didn't have before the strategy revolution was a way of systematically putting together all the elements that determined their corporate fate… the pre-strategy worldview lacked a rigorous sense of the dynamics of competition." — Walter Kiechel

Before BCG, McKinsey, and Bain, those who owned and ran businesses in America generally dismissed "strategy" as something for generals and political campaigns.

The first management consultants changed that. As business became more complex and global in the 1960s and 1970s, consultancies brought cutting-edge methods of market research and data analysis — as well as access to academic and industry experts — to bear on the major challenges of business. They helped companies build more efficient supply chains, improve their product positioning, figure out which markets to exit and which to enter, and more.

Those consultancies pioneered many of the major tools and frameworks companies still use today to develop corporate strategy: the 2×2 matrix, the Experience Curve, SWOT (Strengths, Weaknesses, Opportunities, Threats) diagrams, Porter's Five Forces, and many more.

As they found success, BCG, McKinsey, and Bain began hiring the brightest, most technical business school students they could find. The MBA became, for the first time, a truly respectable career choice. Between 1970 and 1995, the number of MBAs granted per year rose from 25,000 to 90,000.



Source: US Department of Education

Today, nearly 200,000 students graduate with MBAs every year in the US. The value of strategy is now obvious to every company.

McKinsey made about $10B in 2018, BCG about $7.5B, and Bain about $4.5B. Each is still growing.

From one perspective, the position of management consulting as an industry has never seemed more secure. But just as their clients are always under threat from new players and technologies, consultants too are not immune to the forces of disruption.

The four functions of consulting

> "The underlying principles of strategy are enduring, regardless of technology or the pace of change." — Michael Porter

Since the early days of management consulting, firms have sought to differentiate themselves by doing more for their clients. In some cases, they've even embedded themselves as if they were part of the team.

and Bain expect — and get — a lot out of those relationships.

When the client-consultant relationship is functioning at its best, the consultant gives the client:

- **Information**: The data and analyses that take the client's world, industry, and market position and make sense of it.
- **Expertise**: An experienced operator's perspective on a problem and the different ways that it can be solved.
- **Insight**: The rigorous, analytical application of expertise to come up with insights that will help the company succeed.
- **Execution**: The roadmap to choosing and implementing the changes to be made.

In some cases, of course, management consultants are hired to give cover to unpopular decisions or even to send a message to one's workforce. In "The Firm," Duff McDonald argues that McKinsey in particular "might be the single greatest legitimizer of mass layoffs in history."

"If you were a CEO and felt you needed to cut 10% of costs but didn't feel you were getting buy-in from your employees," he writes, "the hiring of McKinsey generally got the point across quite clearly."

When client and consultant are working together as initially envisioned, however, those four values — information, expertise, insight, and execution — are the "package" that consultants offer, and each one of these values has been disrupted in ways big and small over the last several years.

Information about customers and competitors is more available than ever. Expertise has been disaggregated. Insight has been productized (and, in some cases, commoditized). And execution has, in many cases, been brought in-house or outsourced to freelancers.

RESEARCH

As Soren Kaplan has pointed out in Inc, there is a lot about how management consulting works that would lend it to being vulnerable to disruption:

- It's highly dependent on manual (computational) human labor — something that computers are doing more and more of.
- It traditionally has very high margins (and doesn't bill based on outcomes but time spent).
- The value is largely time-bound, in the sense that the advice often gets outdated quickly.
- The value is largely driven by information asymmetry (knowing things other consultants or companies don't), which is harder to maintain in the internet age.

Despite all of this, BCG, Bain, and McKinsey are still growing. If the big management consultants are about to fall, it doesn't necessarily feel like it.

On the other hand, when we look at each part of the consulting value chain with a critical eye, we can see vulnerabilities.

As the original prophet of disruption put it, "we're still early in the story of consulting's disruption."

Some of the threats to consulting have come from criticism of consultants' business practices. In the last few years, McKinsey has been accused of conflicts of interest, ties to corruption, and working for repressive governments around the world.

Amid a withering report from the Department of Justice about McKinsey's "lack of candor" and "insufficient disclosures" in dealing with clients, the firm agreed to pay a $15M settlement.

In 2019, these criticisms prompted the firm to respond publicly, promising employees it would increase transparency and be more thoughtful about the kinds of clients it works with.

1. Information

In management consulting's golden days, young associates would gather critical information about their clients' businesses by doing things like sitting in parking lots and counting the number of customers leaving a store with shopping bags.

The rise of market research firms and databases has made it possible for companies to collect valuable, actionable data themselves. The rise of business analytics tools has made it possible for them to collect information about the performance and operations of their companies — also on their own.

Today, a retailer can access imagery of their own parking lots from a satellite camera. They can use those images to analyze store traffic. Internally, because virtually every aspect of fulfillment, delivery, and purchasing is digitized, they can access a similarly detailed level of information on almost any aspect of the supply chain or the customer experience.

> "Organizations are now amalgams of software-enabled systems (at point-of-sales, managing inventory, tracking production) that dutifully log and store data." — MIT Sloan Management Review

The availability of this data does not mean that management consulting firms no longer play a role in the collection of information to solve client problems. There are cases where it is more convenient and easier for CEOs to hire a BCG or a Bain to come do this work. It does mean, however, that those cases exist in a more narrow context.

How consulting used to work

There was a time when companies would come to management consultancies with virtually all of their strategic problems, and the consultancies would hire the best and brightest out of college to sit at desks and manually collect the data that would be used to solve them. They would use every available resource to understand industries, markets, consumer sentiment, and companies' product lines. Then a senior partner would come in, make sense of the data, package it, and present it to the client.

At that time, clients' understanding of their own businesses was generally at a primitive level.

differentiation comes in with the depth of further analysis you're able to do with that data.

All the major consultancies today have teams built out to do data analysis for their clients. McKinsey hires experienced data engineers to work directly with clients, helping them build out more sophisticated data gathering and analysis workflows.

BCG runs a team called BCG Gamma specifically for data scientists and consultants to work together in analyzing data in areas from "marketing, risk assessment, and customer service to manufacturing, supply chain management, scenario simulation, and competitive intelligence."

WHAT IS THE IDEAL PROFILE FOR A BCG GAMMA DATA-SCIENTIST CONSULTANT?

We seek strong candidates with advanced analytics experience and academic backgrounds in a field linked to computer science, applied mathematics, statistics, machine learning, or other related fields. Excellent academic credentials are a necessary, but not sufficient, requirement. You should also demonstrate industry experience in areas related to predictive analytics, machine learning, optimization and operations, or risk.

Source: BCG

In other words, the big consulting firms hire people to work on the big questions that come along with the data.

If you're a hospital looking for a rigorous analysis of the best way to lower your treatment costs while keeping the level of patient care high, you might go with McKinsey. If you're a global logistics company looking to analyze your entire supply chain to predict places where costs might rise in the future, then you might go with Bain. Either way, the odds are low you have the right team to understand that problem yourself.

For example, Bain highlights a case study in which it worked with a major beverage manufacturer interested in taking advantage of digital channels. According to the case study,

> "…the pace of disruption — fueled by the rapid emergence of new technologies — can **make the digital world challenging to navigate**. When BeverageCo sought to take advantage of digital, they had many isolated initiatives (such as online advertising and a

structure.

This company had an online presence generating data, but lacked leadership or a vision around how that online presence should work or how that data could truly benefit its core business.

As a result, the company's web traffic and sales conversion rates were lower than its competitors' rates; its social media presence was limited; and its existing CRM tools failed to capture online insights to help the company better engage consumers.

OPPORTUNITY | APPROACH | RECOMMENDATIONS | RESULTS

The teams recommended a number of key actions to help BeverageCo meet the digital challenge and harness the requisite opportunities:

- Double the number of resources dedicated to digital, creating a Chief Digital Officer who reports directly to the CEO
- Develop new digital assets and tools to interact with consumers, including web sites, social networks and apps and identify KPIs to inform progress
- Create an integrated global CRM that helps build direct relationships with end consumers, generates consumer insights and promotes brand loyalty
- Develop a scalable e-commerce strategy with significant sales potential, including search engine optimization (SEO), e-commerce and social strategies informed by Bain's omnichannel expertise

Bain and BeverageCo developed a scalable e-commerce strategy for a leading product with significant sales potential

Source: Bain

Notably, the main recommendations from the Bain case study seem relatively standard: identifying KPIs, hiring a Chief Digital Officer, installing a CRM system.

While effective KPIs might be challenging to get right at scale, and a global CRM might be a complex challenge for the company's procurement team, these aren't groundshaking recommendations from a

Today, tools like Looker, Tableau, Microsoft Power BI, Qlik, SAS, and Domo allow companies to instantly generate reports and dashboards on phenomena like:

- Customer lifetime value across demographic and behavioral cohorts
- Conversion rates (site-to-item and item-to-cart) across an entire product line
- Efficiency of marketing spend and ad targeting

Various analytics tools on the market are useful for questions that are smaller in scope, as well as for incorporating data better into the day-to-day decision-making culture.

When your company has 100, 1,000, or 10,000+ people, building an internal analytics function means changing the culture, building a new team, and making big, lasting changes to how your company works.

That's a struggle that consulting firms can help address.

What's truly differentiating Bain's offering in this case (and the management consulting offering in cases more generally) is not so much what the consultant brings as what the client lacks.

The "BeverageCo" from the example above can't just start using Power BI to understand its business at a deeper level, because it doesn't even know where to start.

As technology progresses, however, it's likely that the bar may fall lower and lower. Startups working on business intelligence and analytics know they're fighting for a prize worth many billions of dollars, and dozens upon dozens have emerged to help Fortune 500 companies get the kinds of insights they might otherwise be getting from a Bain or a BCG.

But even if "big data" doesn't obviate the need for expert guidance completely, it can open up a space for more specialized consulting firms that deal specifically with applying the insights from analytics and market research.

Other relative newcomers are applying those insights to challenge the dominance of management consulting's old guard. Software company Palantir, which specializes in large-scale data analytics applications, is one such firm.

Founded in 2004 and drawing early investments from the CIA's investment arm, Palantir has grown to become one of the federal government's largest vendors. The company reportedly has $1.5B in contracts across numerous federal departments and agencies, including the Department of Defense and the Department of Homeland Security.

But Palantir's expertise extends far beyond its big data work for the federal government — and that expertise is putting legacy management consultants on the defensive.

What differentiates Palantir from virtually every other data analytics software provider is that it combines its software with bespoke consulting services into a single information product that it licenses to its clients. Palantir's filings with the Securities and Exchange Commission (SEC) indicate that the average value of its contracts was approximately $5.6M in 2019, highlighting the considerable revenue potential of the company's hybrid approach.

For governmental entities like the Department of Defense, Palantir's business model is highly unorthodox. The federal government typically pays its consultants separately from its software vendors, and Palantir is a rare exception to this rule. For many private companies, however, Palantir's hybrid model could offer a glimpse of what the future of management consulting may look like.

How management consulting is fighting back

Some big consultancies have understood well the threat that technology could pose to the fundamentals of their business model.

In 2015, McKinsey acquired QuantumBlack, a London-based advanced analytics firm with experience analyzing organizational performance data with Formula 1 teams across Europe and Asia.

QuantumBlack "combines data from disparate sources to produce meaningful data around human endeavor," indicating that McKinsey is taking seriously the need to level up its analytics abilities to compete with new self-service offerings available today.

Another important acquisition for McKinsey — its purchase of Carbon12 in 2016 — came as a part of the firm's McKinsey Digital initiative. The mission behind this new McKinsey division is to bring designers, coders, data engineers, and others into the kinds of projects which might have been run entirely by strategy-focused analysts in years past.

However, acquisitions alone are not enough for legacy management consultancies to remain relevant and competitive in light of the threat posed by Palantir and other competitors such as Tyler Technologies and Verint Systems.

To this end, many management consulting companies have developed their own digital platforms to complement the in-person consulting services that have been their bread and butter for decades.

Bain's Vector platform is one example. Vector is not a true software product or a platform; it's a digital framework through which Bain offers its consulting services to its clients. This means that it is not a software platform that Bain's clients can license and deploy.

BCG's Digital Ventures (DV) takes the notion of digital-first consulting a step further than Bain by offering large corporations the means by which they can launch new businesses quickly. DV is a wholly owned subsidiary of BCG that functions similarly to startup accelerators. DV's analysts help client companies explore potential ideas for new businesses and then begin analyzing current market conditions and future opportunities. DV then incubates nascent businesses and leverages its in-house specialists to grow those companies to a point at which they "graduate" from the program.

This approach is a win-win for DV and its clients. DV can leverage BCG's consulting expertise to showcase what it can offer large corporations seeking to launch smaller, more agile subsidiaries. Meanwhile, its clients can expand into new markets and capitalize on emerging opportunities without shouldering all of the effort — and risk — themselves.

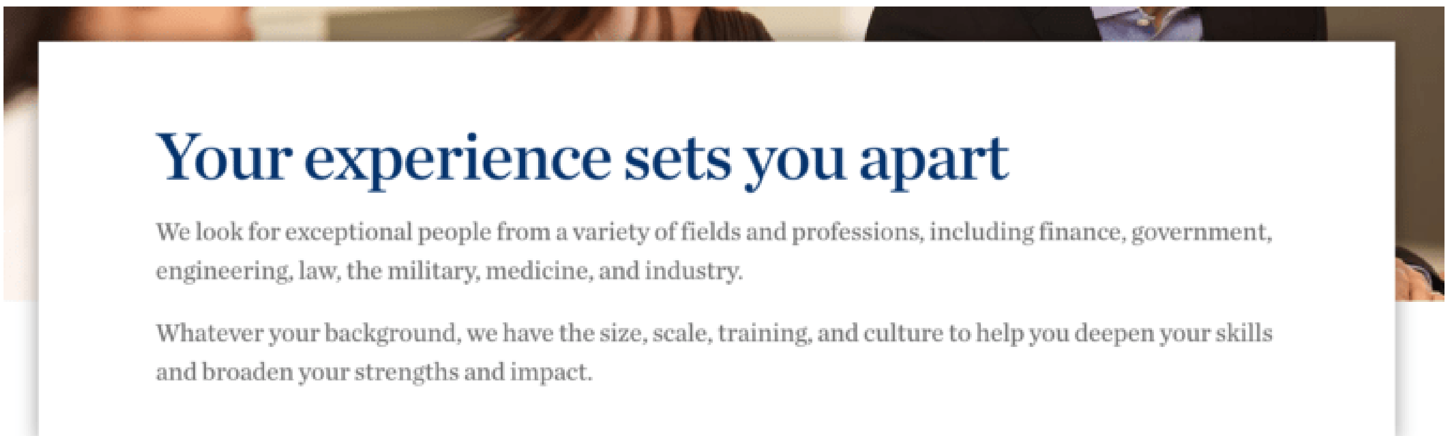
Palantir, in contrast, licenses its consulting expertise alongside bespoke software tailored to the needs of the client. This allows Palantir's clients to not only take advantage of the company's consulting expertise, but also to use Gotham or Foundry themselves.

The fact that most management consultancies are hiring talent in areas such as data analytics and machine learning is a strong indicator that they are directly responding to Palantir and other competitors, not just capitalizing on the strategic importance of these technologies to their clients.

Ultimately, legacy consultants may find themselves with little choice but to invest in the development of their own proprietary technology platforms that can compete with the hybrid model pioneered by Palantir and business intelligence companies such as Verint Systems.

One of the conventional criticisms of consultants is that they send generalists into companies to do an expert's job. Complex problems, the thinking goes, can only be solved by someone with relevant experience.

That's exactly why consulting firms have long cultivated people with special types of experience outside their walls. From academics and industry veterans to leaders in business and government, these experts can provide consultancies with an operator's perspective on many types of client problems.



Detail from McKinsey's recruiting page tailored specifically to "experienced professionals."

Having a wide network of experts helps consulting firms come up with better solutions for clients and build up their prestige. Employing the world's foremost experts in specific fields — say, CPG supply chain management — can even give them defensible advantages in those areas.

Until fairly recently, consulting firms were the only places aggregating expertise from all those different avenues. Today, it's much easier to get access to "experts." You don't need to work with a Bain or a BCG to talk to someone with in-depth knowledge about supply chain management.

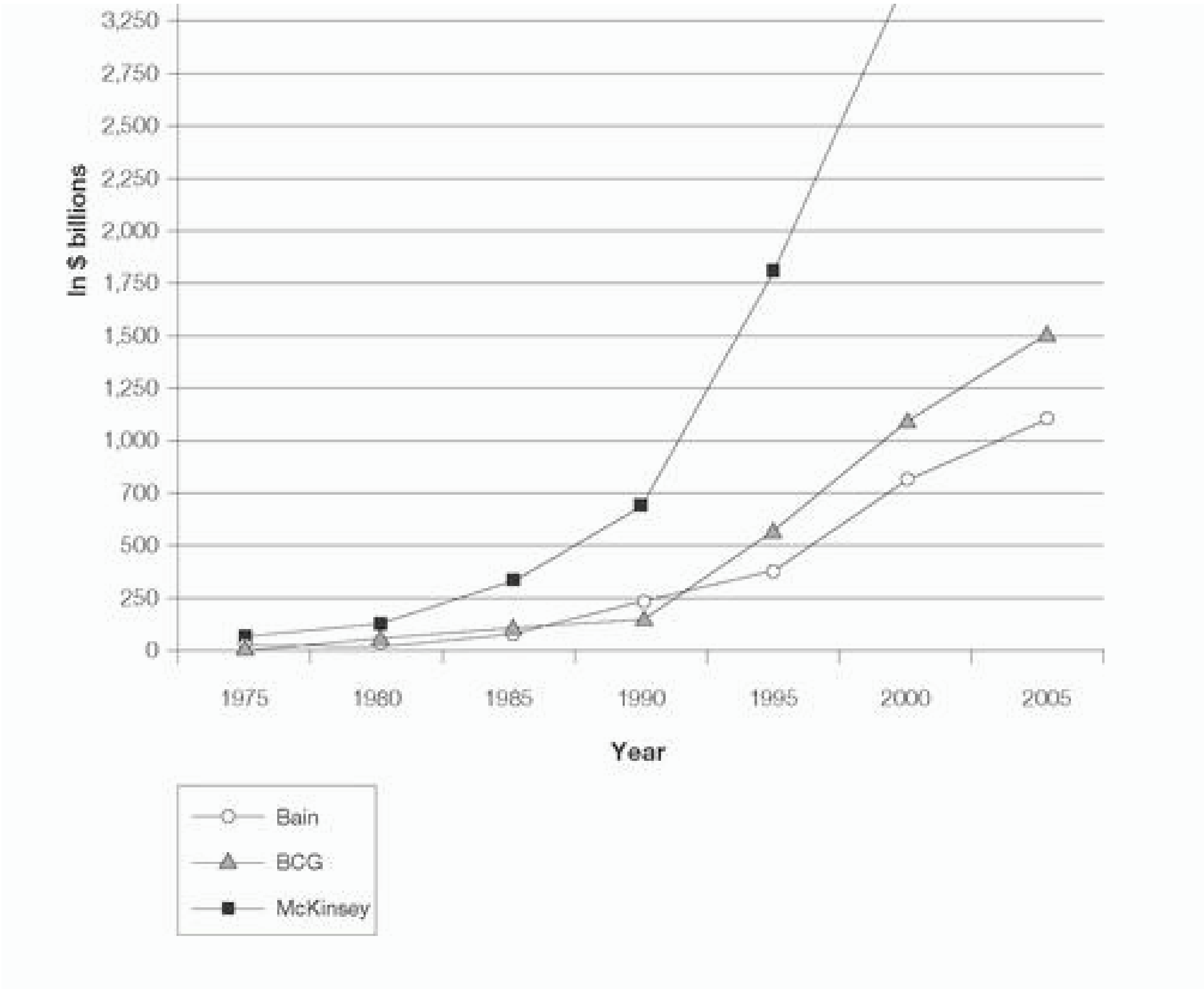
But the specialization of the management consultancies' knowledge bases — a trend that began during the 1980s — means that even today, much of the world's operating experience in pillar topics like supply chain management *is* bound up at firms like McKinsey. While experts may be easier to find, management consultancies have gained hard-fought advantages in solving certain kinds of problems.

How consulting used to work

"strategy buffs" (as Gluck deemed them) were analytical, always looking to improve their art, and highly empirical.

McKinsey had always practiced the situational, "it depends" style of management consulting. Gluck wanted to change that and build a culture of expertise inside the firm.

To do that, he organized internal training on strategic techniques and tools, while also building relationships across academia, think tanks, successful companies, and other institutions. The goal was to use all available resources to turn McKinsey into the world's leading strategy firm. By 1980, Gluck was responsible for "virtually all McKinsey's endeavors to systematically build expertise in particular subjects and industries."



Revenues of the big three management consulting strategy firms. McKinsey's adoption of strategy coincided with its ascendance as a top revenue-generating firm.

In the wake of McKinsey's success with building out its core knowledge base, gaining expertise in important fields of industry study became a primary concern for other big management consultancies.

Each naturally developed a different focus, depending on the clients they served and how they wanted to differentiate themselves from the others.

Bain, whose co-founders would go on to start Bain Capital, had a particular expertise in finance from the beginning. Over time, it's taken on a larger proportion of PE clients and has worked on more

Many of McKinsey's earliest partners and client relationships focused on management, operations, and logistics. Over time, McKinsey developed a particular expertise on topics like governance (both corporate and political), development, and healthcare.

Consulting today

A decade after Gluck took over the mission of making McKinsey a "knowledge-centered" company, the McKinsey Global Institute (MGI) was born. The Soviet Union had just collapsed, China was beginning to open, and US firms needed international expertise — something McKinsey stepped in to offer with MGI, which combined macroeconomics with on-the-ground analysis from trained consultants.

Today, the same types of experts that big consultancies have hired for decades can be consulted independently, without needing to pay for the rest of the management consulting package, thanks to so-called "learning networks."

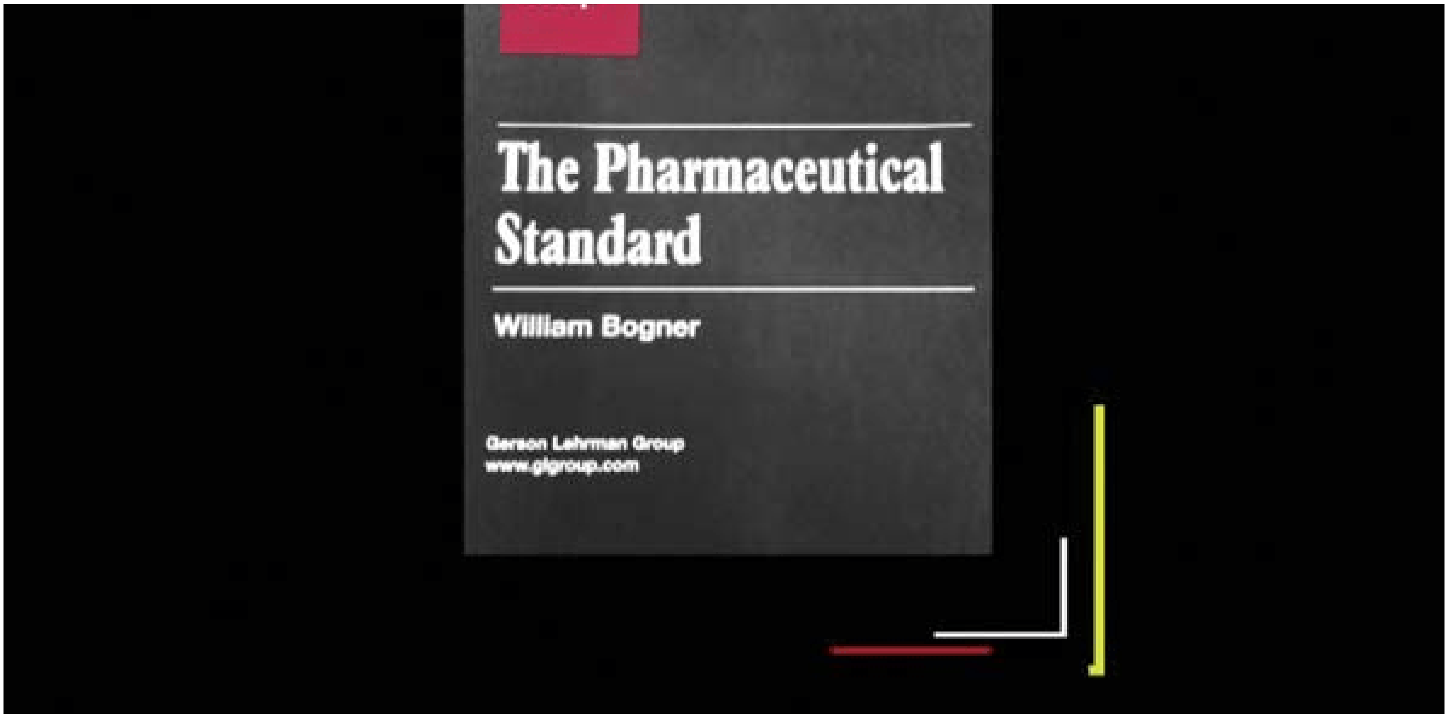
Companies doing this in Europe include Third Bridge and AlphaSights, while in the US, the standout is Gerson Lehrman Group (GLG). GLG and others like it vet experts similar to how a consultancy like McKinsey would, then hires them out to answer companies' questions on an on-demand basis.

Whether you're an investor who needs to understand the future of US coal production or a technology executive looking for an expert on AI, you can work with companies like GLG to find the right source, then pay by the hour for a confidential, informal chat (or series of chats) on whatever topics you choose.

How the disruption works

While GLG describes itself today as "a learning membership connecting business people trying to solve problems to experts that can solve them," the company was started as a publishing business.

The idea was to get experts to help write guidebooks that could help investors at hedge funds and other firms understand the investments they were making in particular industries.



An early guidebook on the pharmaceutical industry from GLG.

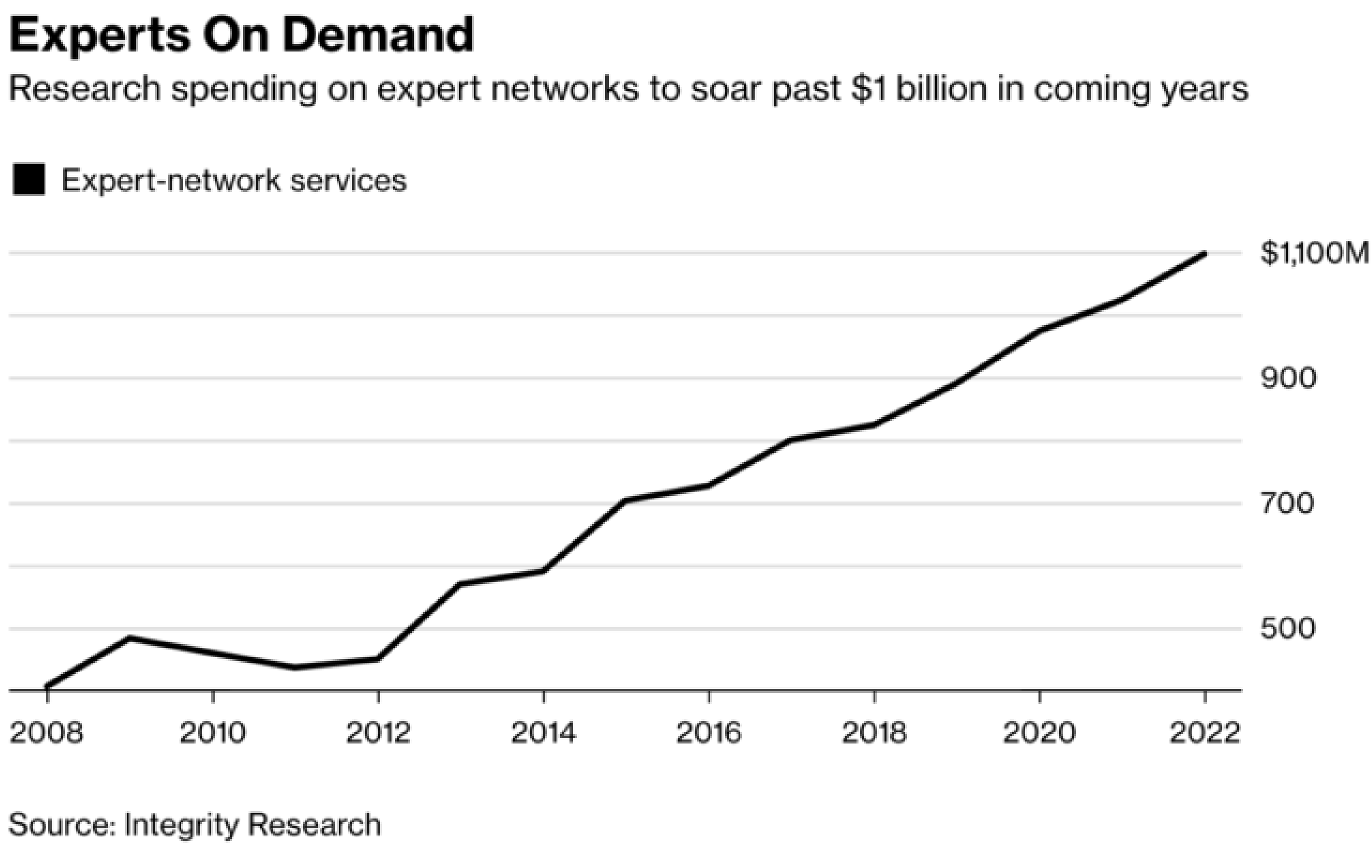
Over time, GLG found that its investor clients were much more interested in having casual, one-off chats with its experts than in reading its reports. The fund managers GLG talked to, according to the New York Times, said “many of their best insights came through casual conversations, not from formal reports.”

GLG retooled the company to focus on connecting experts with people who needed them. Ironically, with this new business model, the company found that management consulting firms — often hungry for very specific, niche expertise — were some of its best customers.

GLG network experts can get paid up to $1,000 an hour for a phone call, if not more. Today, GLG’s experts include former ambassador to China Jon Huntsman Jr., former Obama campaign manager David Plouffe, and former Under Secretary of Defense for Intelligence Michael G. Vickers, among other high-profile names in government, finance, and business. Clients can even use GLG to have a conversation with people like Pamela Thomas-Graham, a former executive at Credit Suisse and partner at McKinsey.

“You could call what we do consulting, but it isn’t, really,” GLG president and CEO Alexander Saint-Amand told Recode. “We’ve done millions of projects. Our members have answered almost 100M questions on our various sites. But the primary experience is a one-to-one phone call or meeting.”

were accurate.



GLG is, of course, far from the only expert network company benefiting from the growth in this space.

London-based AlphaSights was named one of the fastest-growing companies in Europe by Financial Times in 2017. Third Bridge was similarly listed among the 100 companies with the fastest-growing profits in Britain in 2019.

How management consulting is fighting back

Whether the rise of on-demand expertise will challenge the position held by big management consultancies remains to be seen.

Today, if you're the CEO of a Fortune 100 company, some specific types of problems still might call for consulting firms.

If you are considering a leveraged buyout, confronting an industry upstart, or working on problems of regional governance in Southeast Asia, for instance, certain consulting firms may be able to add

A GLG expert also isn't going to have the same commitment to execution as a large management consulting firm, as these firms typically come into the business and help to enact the needed changes.

At the same time, with the growth of these expert networks, it's not hard to imagine the range of situations that truly call for the help of management consultancies being narrowed. Ten years ago, it would have been justifiable to work with McKinsey solely because the world's experts in a particular topic are there. Today, it's highly likely that that very same expert (or a comparable one) is reachable for either an on-demand conference call or a longer, freelance engagement.

Ultimately, however, expertise is not what the consultancies imagine they are selling anyway, as Bain's early motto makes clear:

> "We don't sell advice by the hour; we sell profits at a discount."

3. Insight

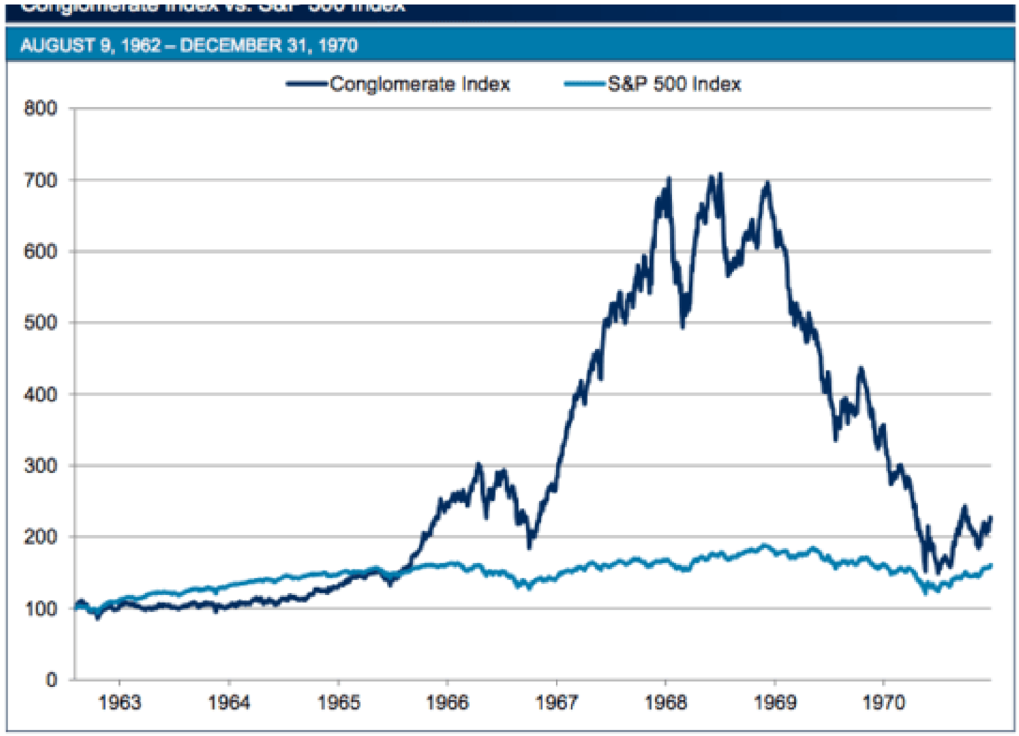
Inherent in Bain's idea of "profits at a discount" is the promise that consulting is more than just someone coming up with a plan for your company.

At one point, it had more or less sufficed for a consultant to "come up with a strategy." In the 1960s, however, consulting became a function that was actually supposed to get results.

BCG led the way. With its famous "$1M framework" — otherwise known as the growth-share matrix — BCG didn't just change how people thought about their businesses; its insights altered how people built businesses too.

At the time, the predominant pressure in American business culture was to diversify. High tax rates on corporate gains meant that the best way to spend profits was to make acquisitions. At the same time, powerful antitrust laws (like the 1950 Antimerger Act) made it difficult for companies to acquire other companies in their own industries.

Buying companies exclusively in other industries, however, had the effect of turning formerly focused corporations into overextended conglomerates — many of which would begin to fail over the next decade.



Source: Chicago Booth Center for Research in Security Prices, JHL research.

The late 1960s' enthusiasm over conglomerates quickly waned as the bust phase of the cycle kicked in toward the end of the decade. The new conglomerates were unfocused, overextended, and inefficient. Source: JHL

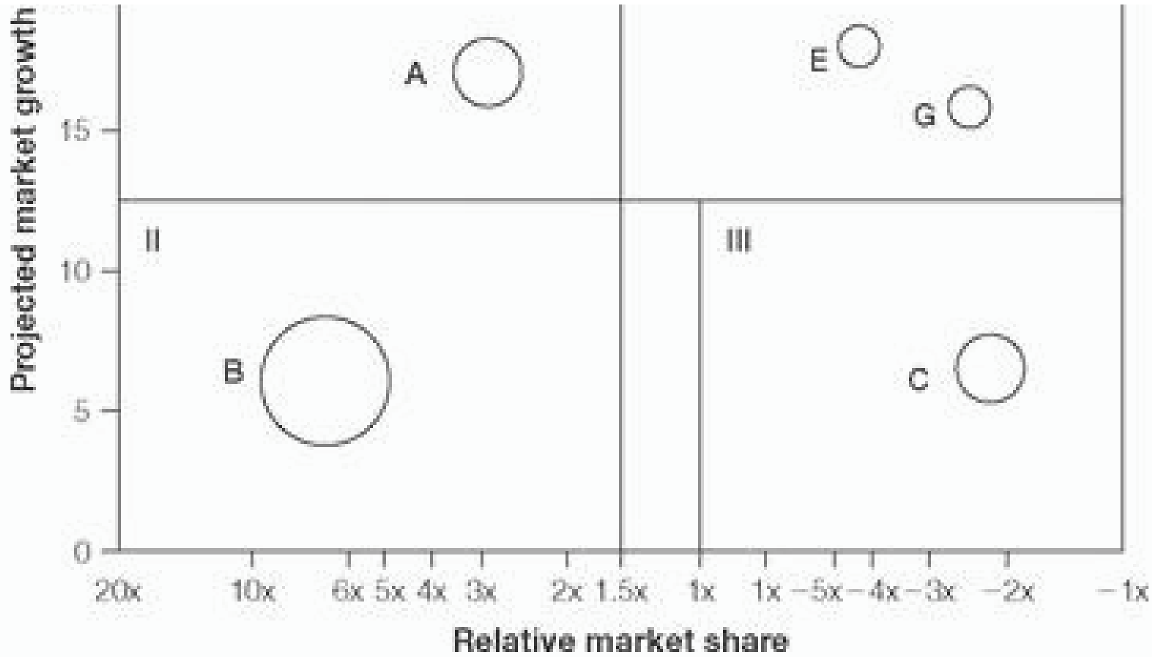
How consulting used to work

Helping companies focus was the aim of BCG's growth-share matrix — called the "$1M framework" because its application alone could merit BCG $1M in client fees.

The point of the growth-share matrix was to help a company understand which of its (often many) businesses should be nurtured, which should be ended, and which needed further study.

The matrix was one larger box, separated it into four smaller boxes, measured along two axes: relative market share (x) and market growth (y). Each line of business was plotted within this matrix with a bubble proportional to the size of that business.

Consultants would plot out all of a company's businesses, revealing which dominated markets, which were growing quickly, and so on.



The real power of the matrix emerged when companies also plotted *competitors*. By plotting 3-4 different competing conglomerates, the errors that individual companies were making in the lines of business they chose to nurture became much more apparent.

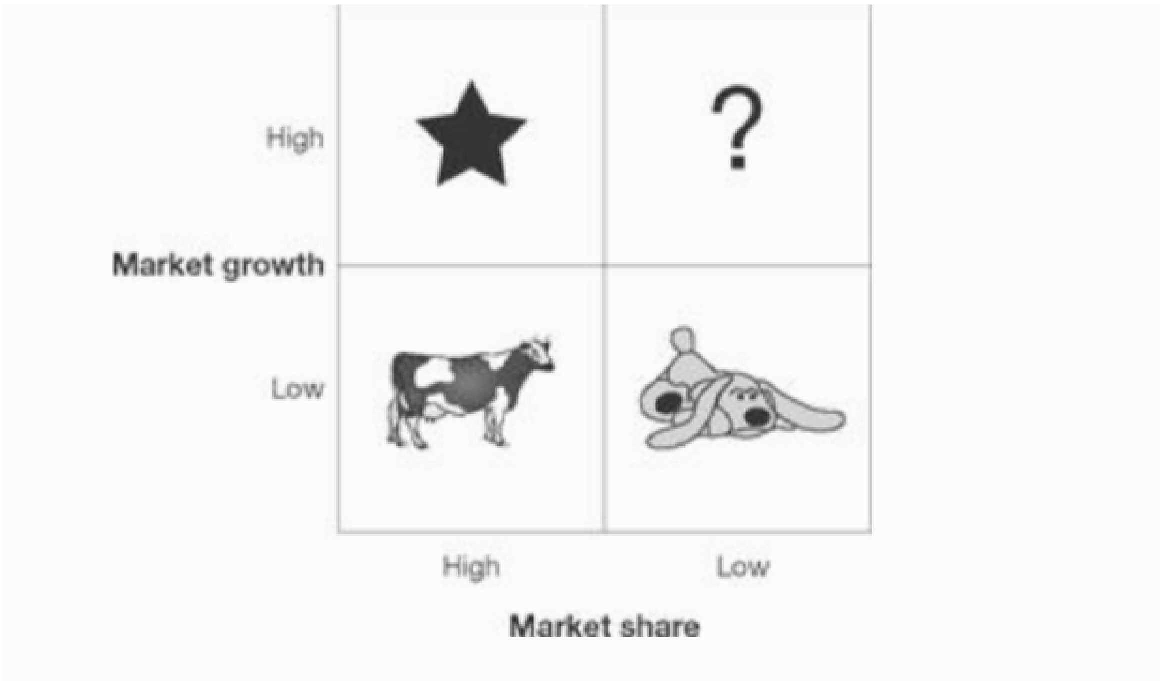
American Standard was a lighthouse case study for this process for BCG.

Like many other big corporations of the time, American Standard was involved in dozens of different businesses, and it was impossible for any executive to maintain a complete understanding of each one. Virtually all of its available investment capital, however, was going into just one specific line of business: small air conditioners.

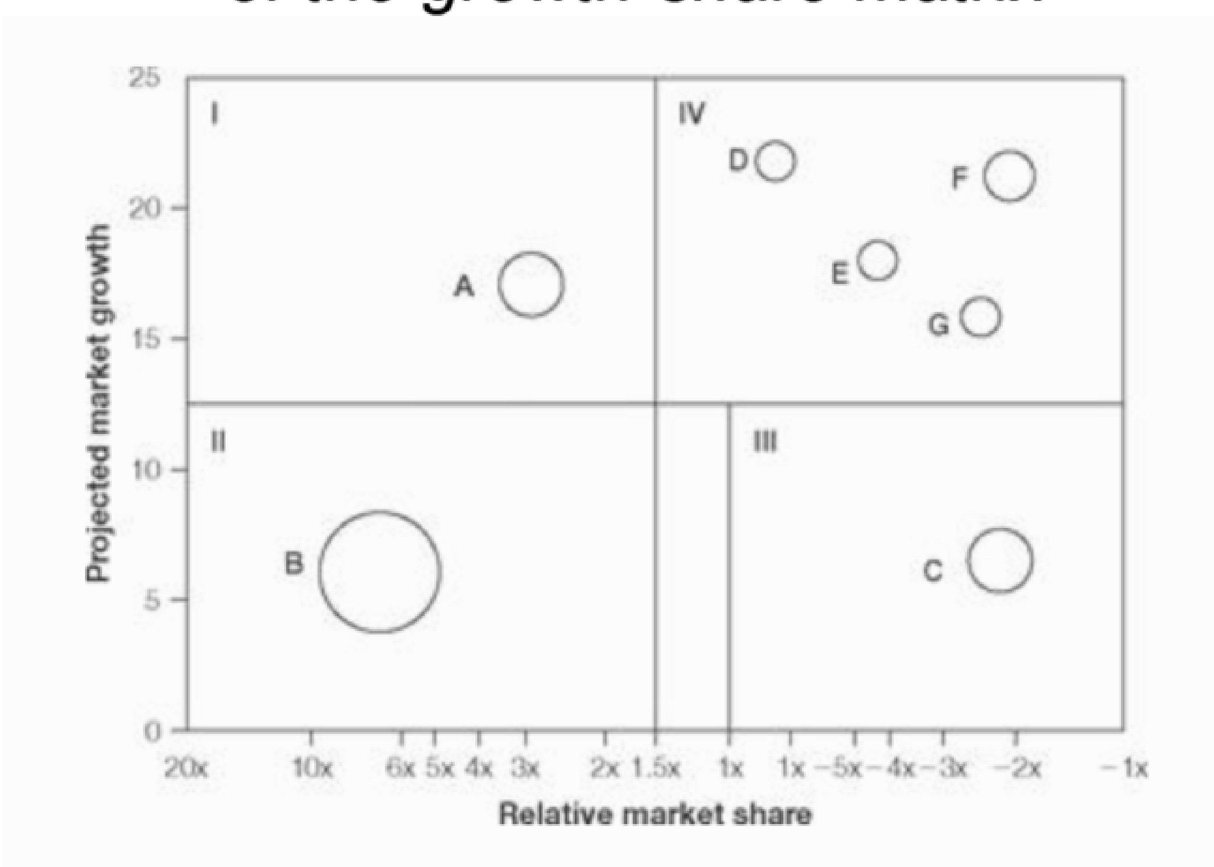
Plotting American Standard on the growth-share matrix revealed that while its small air conditioner business was in a market that was growing quickly, its share of that market was a magnitude smaller than that of air conditioning giant Carrier.

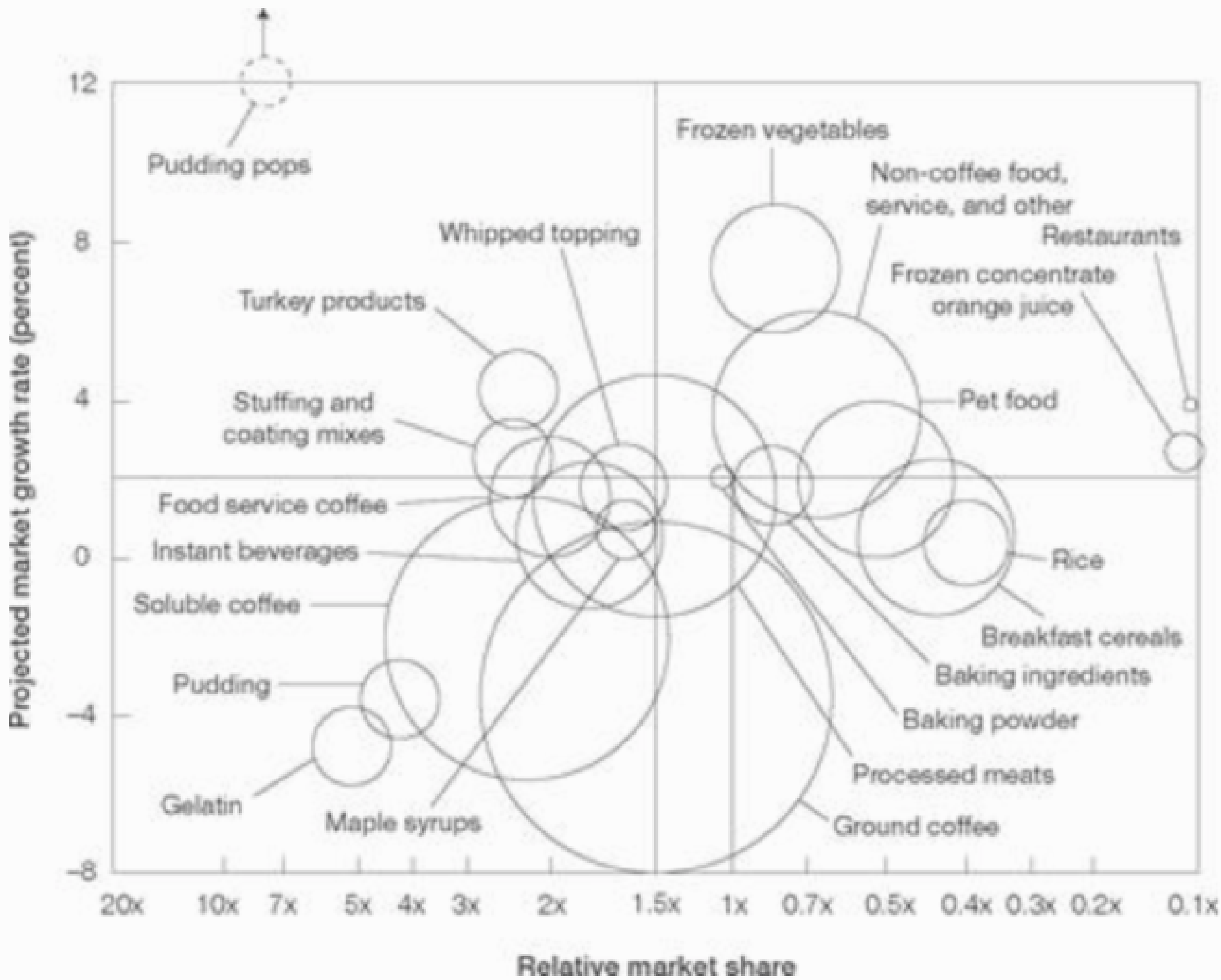
American Standard's small air conditioner business was, in other words, what BCG came to call a "question mark business" — a business with high growth but low market share. Question mark businesses were possibly worth investing in further, but they weren't sure bets.

Even worse investments were low-growth businesses. With high market share, they were tempting to maintain, but would often suck profits indiscriminately without much return. BCG deemed these "cow" businesses.



The primitive form of the growth-share matrix





A major CPG chain's products categorized on a growth-share matrix.

Using the growth-share matrix, American Standard realized that its pet project was completely unsustainable and had to be sold. Fortunately for the company, because small air conditioners was a high-growth industry, it was easy to find a buyer willing to pay a premium.

In the end, BCG gave American Standard not just a good *strategy*, but the right tactical advice — and taking that advice resulted in a huge long-term victory for the company.

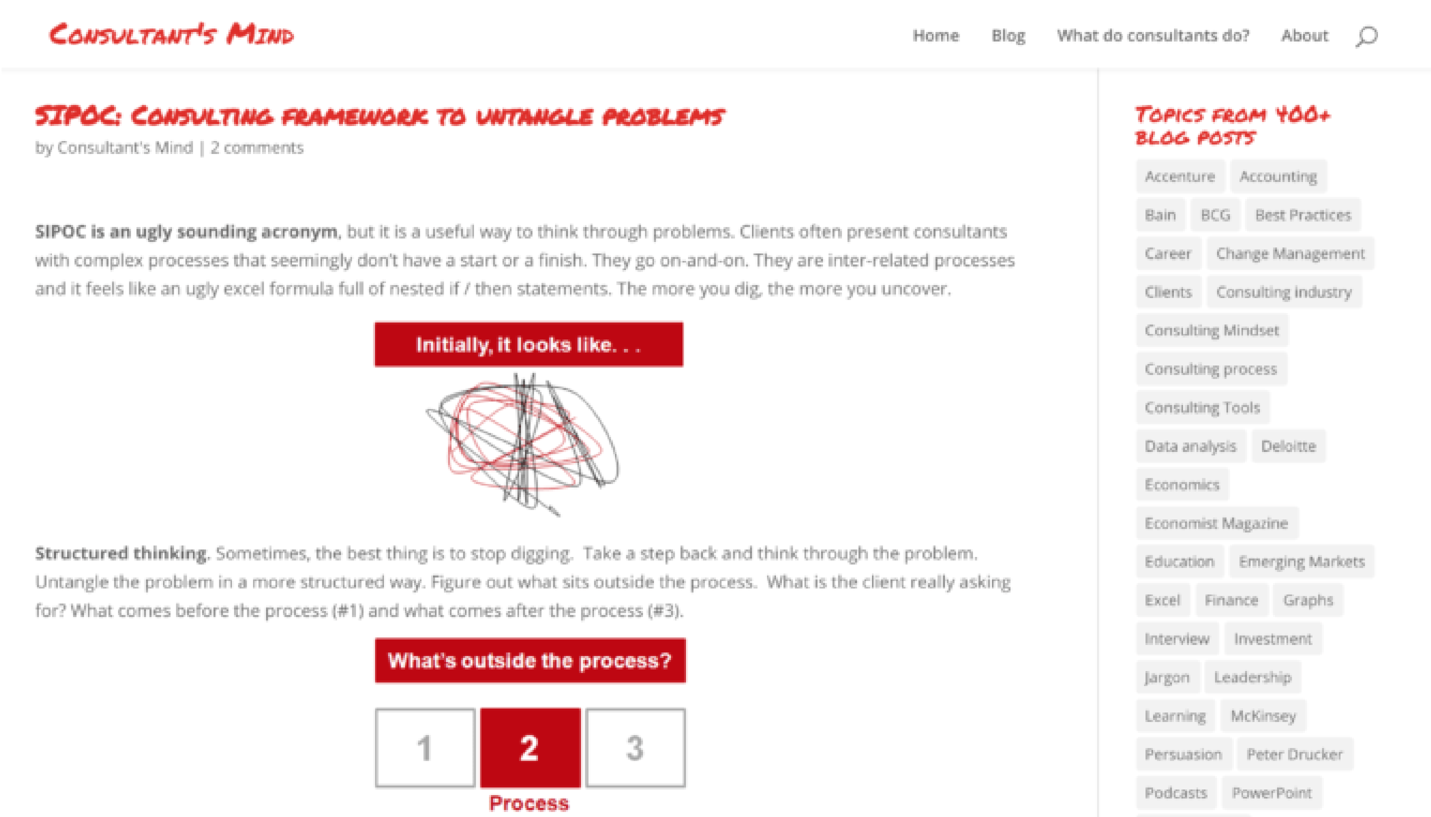
Consulting today

Today, the kind of information that once existed as closely guarded trade secrets of the big management consultancies has become virtually commodified by the internet.

Bain would create its own "insight product" in 2003 with the Net Promoter Score. Today, however, there are many other tests, diagnostics, scores, and tools companies can use to measure customer satisfaction.

In fact, virtually every framework to come out of the management consultancies (including the growth-share matrix) has been explained in books, MBA courses, essays, workshops, seminars, and blogs run by ex-BCG, ex-McKinsey, and ex-Bain consultants.

The lion's share of these frameworks have been picked apart so thoroughly that anyone could attempt (some) implementation of any of them.



The publication of these frameworks does pose a threat to the value proposition of management consulting firms.

company's prior experience with that firm and consultants in general.

Their ability to judge whether the solution was effective after the fact isn't great, either: outcomes are often expected 6-12 (or more) months after the fact, and those outcomes are often contingent on many other business and industry factors. When there's no direct, lower-level output metric to measure, it can be highly difficult to assess whether a consultant's recommendation "worked."

Criticisms about opaque business practices have been leveled at many management consultancies and technology companies alike. But Palantir, in particular, has faced enduring questions about precisely how its software gathers and analyzes data and how its clients — most notably the federal government — act on that data.

Still, Palantir's reluctance to divulge sensitive information does not appear to have harmed its business or growth prospects. The company experienced revenue growth of 49% year-over-year in the first half of 2020, and although Palantir has fewer than 130 customers, the average customer lifetime for its top 20 customers is nearly 7 years.

However, Palantir's reticence to share specifics about its Gotham and Foundry products has raised troublesome questions — especially surrounding its IPO in late September 2020. Investors expect to see demonstrated proof of the likelihood of future growth — a problem compounded by the fact that, for Palantir, proving the value of its services while preserving its closely guarded secrets remains difficult.

This is complicated further by the highly sensitive nature of the work performed by the military and intelligence agencies that represent a significant portion of Palantir's overall revenues.

As the company continues to make moves into the commercial arena, questions about how its products work and the true value of its consulting services could become increasingly problematic.

How the disruption works

When the "tools of the trade" are publicized — when holes are poked into the black box — clients are empowered to ask more questions, expect more rigorous performance benchmarks, and have more of a say in negotiating what they feel is a fair deal. By demystifying the management consulting process, books, classes, and blog posts bring more transparency to the marketplace of ideas.

Over the years, we've seen companies move from hiring consultants to building out entire strategy functions inside their businesses — teams, staffed by ex-consultants and others, that can perform the role of a management consultant internally.

> "We know that many companies have hired small armies of former consultants for internal strategy groups and management functions, which contributes to the companies' increasing sophistication about consulting services… Typically these people are, not surprisingly, demanding taskmasters who reduce the scope (and cost) of work they outsource to consultancies and adopt a more activist role in selecting and managing the resources assigned to their projects."

How management consulting is fighting back

It might seem that if companies are hiring ex-consultants to do their strategy in-house, and are working less with the big consulting firms, it would be trouble for the big management consultants.

The space has seen only 2% annual growth over the last 5 years. However, it is indeed still growing — and the key to understanding why may lie in the fact that approximately a quarter of all management consulting spend concerns technology.

It's not difficult to imagine a need for technology consulting amid some of the biggest credit card and personal information thefts in history. After technology, the next fastest-growing sector of consulting was risk and regulatory consulting. It's not hard to understand that either, given the impact of Brexit and GDPR on corporate planning.

With Britain's departure from the European Union causing significant economic turmoil, many companies have turned to management consultants to navigate the uncertainty. As a result, the UK management consulting sector has grown much faster than Britain's economy in general, expanding more than 8% in 2019.

Similarly, the economic impact of the Covid-19 pandemic may result in increased spending on management consulting as corporate entities seek to solidify their position in an increasingly tentative global economy.

Even as management consulting frameworks become public knowledge, and as more and more of the consultants who implemented those insights may be on the job market every year, this does not

As it happens, many companies went on to follow BCG's advice, either directly or indirectly — the most famous among them being General Electric.

In 1981, Jack Welch became CEO of GE and began pulling the company out of a bureaucracy-caused tailspin. Welch instituted a new rule that GE would only be involved in an industry if it could be the #1 or #2 player in the industry. He sold off 408 underperforming businesses, laying off 100,000 people in the process.

BCG praised GE as the perfect example of a "premium conglomerate" — a company that stayed focused despite its diversification. Even more impressive, however, was the level of execution on that focus. The public didn't see GE as a threatened or weak company, and share prices were fine.

When Welch decided major layoffs were strategically important, it was a tough pill for many of GE's defenders to swallow. And yet, that ability to execute is what changed GE from "fine" into the most valuable company in America for 6 of the 9 years between 1996 and 2005.

But there are limits to the insights that even the most visionary management consultants can offer. The increasing demands of modern business have prompted many consulting firms to leverage technology to enhance their offerings.

For example, Accenture's approach blends traditional consulting with technology products and is arguably the closest competitor currently on the market to Palantir's hybrid model. Its AIP+ service, for instance, is a collection of Accenture's pre-integrated artificial intelligence (AI) technologies, aimed at data-driven businesses seeking to scale their operations.

Like Palantir's offerings, Accenture's modular AIP+ solutions are designed to integrate with businesses' existing IT infrastructures. AIP+ is a cloud-based platform through which Accenture's clients can install AI tools and applications from a network of partner vendors.

For consultancies seeking to compete with the proprietary offerings of companies like Palantir and Verint Systems, Accenture's model could provide a blueprint on how to do so. By partnering with technology vendors, Accenture can benefit from being able to offer "AI as a service" without having to invest in the engineering resources to develop those technologies in-house. Similarly, Accenture's technology partners gain access to new clients and markets without having to sell their services themselves.

4. Execution

Coming up with a strategy and actually helping a client implement that strategy are two completely different things.

Consulting firms have been aware of this for a long time. Contrary to the narrative that consultants just tell companies what to do, without helping them do it, the strategy side of consulting has always existed alongside a dedicated execution side.

From the 1960s through much of the 21st century so far, however, the strategy side has been the dominant force inside most management consultancies.

Selling pure strategy is almost always a higher-margin activity, especially when you can package up your strategy into certain, repeatable templates.

Today, the wide availability of tools that help companies collect and analyze huge amounts of data, on-demand domain experts, and previously "black-boxed" consulting resources and ex-consultants have taken a chunk out of the strategic value proposition of the big management consultancies.

Strategy on its own has become more commodified, forcing a reconfiguration. Big consultancies, more and more, are having to double down on execution in order to stay relevant and useful.

How consulting used to work

By the mid-1970s, every consulting firm knew the average client company needed help executing on their recommendations. The strategies they were prescribing had gotten complex, the result of an intellectual-industrial arms race started by the "strategy buffs" at BCG. Each consulting firm dealt with this pressure differently, but one firm emerged as a standout: Bain.

Bain had always prioritized intimate client relationships where it could drive greater value, preferring a few high-value engagements to having more numerous but less valuable relationships. The company

To maintain confidentiality, "Bainies" did not carry business cards (no one at Bain did for the first 7 years of the firm) and would only refer to clients by codenames. The depth and secrecy of these long, intimate relationships led to Bain's reputation as the "KGB of management consulting."

Bain's habit of embedding itself as part of the team made it a darling consultant of the 1980s. Wall Street enshrined "shareholder value" as the ultimate good, and Bain made shareholder value its North Star metric.

This would occasionally get Bain into trouble.

For example, Bain was working with Guinness when it was uncovered that 4 men — the so-called "Guinness four" — had been manipulating the stock market in order to inflate Guinness' share price.

At the time, Bain had 35 consultants working at Guinness headquarters and was bringing in $20M a year. One of those consultants, Olivier Roux, was "on loan" as a controller, financial director, and member of the board. This link prompted concerns of a conflict of interest for Bain.

At the same time, that embedded team of Bainies helped Guinness sell 150 companies from its portfolio and make a powerful expansion move into hard liquor with a few strategic acquisitions. Profits for Guinness grew six-fold after these changes, and Bain was never officially accused of any wrongdoing.

Consulting today

Today, Bain — like every major management consulting firm — is focused on the rise in need for digital and technological consulting.

As more and more companies face their inevitable "digital transformation," BCG, Bain, and McKinsey are helping them understand exactly what they should do. Most importantly, they're helping them execute.

In the 1960s and 1970s, a corporation would have gone to BCG for help understanding which lines of business to cut and which to invest more money in. BCG's recommendation would have been to cut this business, take the money from this one and give it to this one, and so on. The execution of that recommendation is something any CEO could handle.

But today, there's often a much wider gap between idea and execution. "Build a multi-platform analytics stack so you can predict how your users' demand will change dynamically in the future" isn't the kind of plan that you can simply execute without expertise.

Among the forces disrupting management consulting forces on the execution front are independent freelancer networks like Eden McCallum and Business Talent Group (BTG).

Eden McCallum and BTG bring ex-consultants and other strategically trained, experienced operators together to form lean teams for client projects, and contract them out without the overhead of working with a conventional management consulting firm.

There are billions of dollars a year in massive, business-rethinking kinds of projects that CEOs can only justify to their board if they hire a big name like Bain or BCG. But McCallum and BTG aren't necessarily angling to take on the entire consulting market today. They don't need to overcome the branding of those firms to beat them, because they can chip away from the small end. They can build a client base among companies looking for more niche help and more routine projects with better defined parameters and clearer expectations.

"In consulting, as in every other industry, the unlocked entryway is in the basement of the established firms," Christensen says. "While consulting's core apparatus is focused on bigger and bigger client engagements, small customers are unguarded."

A new CPG brand, for instance, trying to figure out how to price its products has a fairly routinized problem on its hands. That's not a problem that necessitates a McKinsey-level of involvement — and the company can probably get similar results by working with a pricing expert sourced through a network like BTG.

How management consulting is fighting back

This new focus on execution is why Bain, in 2019, launched NPS Prism in collaboration with the software-as-a-service (SaaS) business Qualtrics. The point of NPS Prism is to take the idea of Net Promoter Score (NPS), which Bain itself invented, and help companies better understand how to improve the customer experience.

Companies can use NPS Prism to compare internal divisional NPS to the NPS of other teams, as well as to other companies in their industry. Most crucially, they can do all of this independently with a SaaS dashboard, without waiting for a team of analysts from Bain to deliver the results.

This is also why McKinsey launched McKinsey Solutions, a suite of analytics software products that are sold to and embedded within a client's systems. Solutions is a proprietary analytics tool that lets companies access certain insights on their own, with McKinsey there as an outlet for actually putting those learnings into practice. This effectively flips the conventional consulting model on its head.

threat.

In this way, with Solutions and NPS Prism, respectively, McKinsey and Bain are both using their expertise to offer companies better tools instead of selling their expertise directly and charging by the hour.

Disrupting the disruptors

One model for the disruption of management consulting could be the “inside counsel” revolution that began sweeping the legal world in the 1970s.

Corporate legal departments were once regarded as backwaters for lawyers. The real clout, and money, lay in outside corporate law firms.

Over time, as outside law firm fees rose higher and higher, companies started to look for alternatives. Globalization was driving new transnational legal issues, and this increased complexity made it beneficial for business leaders to have legal support close and on-call at any time.

Moreover, with an explosion in the general amount of litigation and activism across the world, corporations realized they needed to “make” expertise “inside the organization,” as attorney Ben Heineman puts it, rather than “buy” it outside the organization.

Forty years later, it is usually the corporate GC (general counsel) who most closely advises a company’s CEO on legal matters — not some senior partner at a corporate law firm. While corporate law firms have their purpose, corporations now mostly prefer to keep their legal work in-house.

Similarly, consulting and strategy teams could be increasingly brought in-house, rather than hired externally.

As Clayton Christensen points out, the inside counsel model is made possible by the fact that general counsels and their staff today have access to powerful legal workflow and on-demand staffing tools like Axiom. They can get customized support from networks like AdvanceLaw. And they can outsource more basic tasks like document and data review to firms like LeClairRyan, which run leaner and cheaper than a conventional law firm.

A lot of the value that traditional management consultants have offered their clients has been similarly disrupted by technology. But as we’ve seen, consulting firms are nimble. It may help that they themselves invented the concept of “disruption.”

This report was created with data from CB Insights' emerging technology insights platform, which offers clarity into emerging tech and new business strategies through tools like:

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