

Consulting: low cost or value for money?

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The emergence of low cost products is becoming widespread in a number of sectors and is forcing existing players to adapt their market positioning in order to remain competitive. While consulting is also caught up with this trend, tertiary sector activities have their own specific profile which must be weighed in the balance.

The low cost model

What do VoIP/Skype software, Lidl supermarkets, Formule 1 hotels and EasyJet passenger planes have in common? They are all either sold or operated by what is described as “low-cost” companies. These companies share two key principles in their business plan. The first involves doing their utmost to pair the cost structure down to a minimum; the second involves simplifying as much as possible the range of products sold in order to undercut prices and take market share from mainstream operators.

Low cost pricing runs contrary to the now out of date premise that “a quality product is necessarily expensive”. Indeed, a low cost company sells the simplest possible range of products (in terms of production and advertising) by factoring out all those features that competitors put in – but which the customer does not use and yet pays for – such as the brand name, built in options, gifts and loyalty bonuses.

Indeed, in order to switch from declining to driving growth engines or to find ways of differentiating themselves on saturated markets, “mainstream” players have gradually extended the functional scope of their product range in one of two equally risky ways: either they present these functional extras as options, which runs the risk of overcomplicating the product for the customer (as well as for the sales force...), or they automatically build these extras into the product, with the attendant risk of frustrating the customer, who has to pay for something he does not use. Consequently, low cost operators devise their product range by focussing solely on what the customer most values, by selling products at the lowest possible price and, despite their lower price, by strongly pitching their products on the same quality footing as more expensive items.

With regard to optimising cost structure, all departments can potentially contribute, from R&D (keeping it to a minimum) to customer service (automated). In addition, the narrow range of products, with limited or basic functional scope, provides extra leverage for reducing cost structure. Therefore, the success of these players, who are moving onto an already pegged out market, comes from their ability, right from the word go, to run the least costly operation in the long term; quite the contrary to the already established players, who are forced to amortise their cost model and who find it very difficult to improve their existing structures (inability to implement redundancy plans, to alter employment contracts, etc.).

Combining these two principles allow “low cost” operators to snare significant market share and sustain profitability:

- in Denmark, the virtual mobile telephone operator Telmore has acquired 10% of market share within three years and within ten months has prompted a 50% fall in prices through its minimal product range,
- in 2004, discount supermarkets (including LeaderPrice and Lidl, who together account for 62% of this segment) made up 13% of the French retailing industry,
- ten years after its launch in 1995, EasyJet today flies to 60 airports and carries 24.3 million passengers for a turnover, in 2004, in excess of €1 billion.
In Europe, low cost airlines have acquired 16% of market share from mainstream airlines.

T The low price model

“Low cost” products are not “low price” products. Indeed, these latter guarantee the consumer the same value-added as mainstream products, but at low prices. Companies which sell low price products espouse the cost reduction rationale, whilst not necessarily pairing down to an absolute minimum the breadth and depth of their product range. Generally, they rely on innovation to gain a competitive edge in terms of costs and consumer price sensitivity, compensating for tighter margins through a higher volume of sales: Free has tapped the widespread use of broadband in France both to sell Voice over IP (VoIP) software and to jostle for position among land-line operators. Similarly, Last Minute operates lower prices for a service otherwise identical to a standard service by its last minute selling of mainstream airlines’ unsold tickets. In the clothing industry, Zara’s supply chain enables the company to offer almost carbon copies of luxury brands at lower prices. And leading open source software (such as Linux and MySQL) have gradually moved up from “low cost” to “low price” with free resources worldwide extending their functional scope through Open Source development.

C Consulting opportunities

With the shrinking of the consulting market over the last few years and pressure from purchasing departments to cut day rates, consulting has not escaped the trend and low cost consulting firms have emerged. Several factors must be considered in order to evaluate the feasibility of low cost consulting.

First, consulting interfaces directly with the client. It is a front office activity rather than a back-up, back office operation, and quality of service is highly contingent upon the quality of the individual consultant. In practice, although many firms may promise wonderful methods (most limiting themselves to a paraphrased diagnosis – an action plan – and implementation, etc.), the key issue in choosing a consulting firm is its insight into both the problem at hand and the sector, its ability to devise a structured solution and to guarantee a result. The “low cost” consulting firm, on the other hand, would provide ready-made solutions – neatly packaged and mass produced – able to be duplicated at the least commercial expense and implemented by the first available consultant. However, this approach skates over the fact that, in most cases, what the client wants is complex, with the appropriate response involving original solutions (“My business is different from the rest...”) and requiring experienced consultants capable of finding or inventing such solutions. This makes the low cost model far from suitable.

Furthermore, consulting is a service where a result generally emerges thanks to consultant and client working side by side. Hence, trust between the consulting firm and the client company is not only necessary, it is the very cornerstone of their working relationship. It is no surprise that low cost models experience huge difficulty in entering the banking sector, where a significant share of the value-added lies in the close links between client and consultant, where the consultant understands the client and can offer such products as are best suited to his needs. The high price of the service comes from its tailored approach, something which companies grind out by depersonalising as much as possible the client-consultant relationship and by going to such extremes as running tender offers, setting up market places and even the lowest bid system of reversed auctions. Despite these new systems, the client’s choice will still remain largely informed by the “mutual feeling” that is established upon an initial direct contact with a consultant or by having met him previously.

A “mainstream” consulting firm therefore finds itself today in an environment where adopting a low cost market position is untenable in the long term. This is due to its high fixed cost structure (consultant salaries), its operations which afford minimal scope for reuse – given the specific context of each client – and its strategic assets that are essentially derived from people, not from technology or tangible assets. Lastly, a consulting firm’s profitability model is ground on two key factors: the margin per resource relative to employee salaries and the employee rate of activity per programme. Whereas most temping agencies apply a ratio of between 1.8 and 2 relative to gross salary (for exceptional employee profiles), consulting firms have to apply a higher ratio in order to tackle two risks that are absent from the temping business: first, programmes are (for the most part) invoiced on a pre-established fee-for-service footing and not on a cost plus basis; second, the cost structure is fixed, unlike in temping agencies; temping agencies remunerate employees only for invoiced labour, and so have, by definition, variable costs.

Consequently, there is potential scope for low cost consulting via a highly specific type of service: services rendered according to a highly standardised format, applicable to a large number of companies, where the degree of evaluation of the client’s specific context is low and where the value of the service depends more on the method than on the intrinsic value of the consultant (free-lancers and not indentured employees). Consulting for securing the client a quality label, for auditing, for running the same generic solution and for certain types of training programmes can therefore provide opportunities for a low cost service provider. However, it must be said that strategic consultancy does appear very ill-suited to such a model...

Value for money” consulting

Without going to the extremes of a low cost model, there is scope for more inexpensive consulting firms able to offer the same value-added as strongly-branded firms. Although Hemeria is not a low cost consulting firm, it does seek to maximise value-added by bringing prices and costs down to a minimum. This rationale is grounded upon a three-fold principle:

- we do not invoice clients a brand name fee (which can be as much as an additional 30%), even though we employ project leaders and programme directors who have been trained in these strongly-branded firms and have become seasoned consultants via their operational experience. Similarly, we set up partnerships with foreign firms without incurring the additional costs of an international structure providing no value-added. Lastly, the size of our back office operations has been very carefully calibrated to limit costs, while unburdening consultants of lower value-added tasks;
- furthermore, as soon as we can we link part of our fees to the achievement of tangible results for our clients, in order to provide a reassuring guarantee for both the value of our input and our commitment to the client’s needs;
- lastly, in strategic programmes, we assess operational feasibility from the very outset in order to keep theoretical analysis to a strict minimum and to avoid investigating points which, while providing beautifully presented acetates, bring no value-added either to decision-making or implementation.

As the useful saying currently in vogue in purchasing department goes, it is better – particularly in the consulting profession – to think “overall cost and ROI” rather than simply “purchase price and cost cutting”.

Therefore, before selecting a consulting firm for strategic, operational optimisation or customer-focus programmes, ask yourself two main questions:

- does this programme require a strongly-branded consulting firm: is this for the shareholders sake or for supporting a conclusion you have already reached...?
- does the programme require a bulldozer approach or does it need a specifically tailored consultant-client collaboration that factors in the human dimension and draws on a wide range of skills to find original solutions? Do you need to achieve your goals by whatever means possible, or are the means and the involvement of internal resources themselves one of the programme’s goals?