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Business Models of Consulting Firms: What do their Leaders Need to Know?

Merlin Stone, Honorary Professor of Business Management, St. Mary's University, London & Brett Parnell, Senior Manager, MI-GSO | PCUBED, London

Abstract

Management consultants have found the business model concept to be a useful consulting tool. This article explores its application to management consultancy itself, identifies some business models used by consulting firms, and explores what information leaders of management consulting firms need in order to check whether their business models are right for their markets, and working appropriately.

Introduction

The concept of business model has become an important item in the menu of consulting companies, particularly for projects in areas such as strategy, marketing, digitalisation, or supply chain, while it may also be an important part of the context for other projects, such as in finance, human resources, and project management (Wirtz et al., 2015). Business model has many definitions, but as defined by Osterwalder (2004), one of its leading proponents, though not its first, bridges the gap between business strategy (mainly positioning, objectives, and goals of a company) and business processes (how a company delivers value, and particularly how it uses information to do so). Osterwalder's own work identifies a lack of agreement on the meaning of the term, but that does not negate its usefulness.

Some academic authors find it hard to distinguish business model from business strategy, but various attempts have been made to clarify the question (e.g. Casadeus-Masanell and Rocart, 2010). However, many business users have found it a liberating concept, enabling them to develop a shorthand for types of decisions which combine strategic and operational issues. A study nearly twenty years ago identified its benefits in terms of creating a transparent picture of the business, clarifying the business's relationships and dependencies, creating a commonly understood language to describe the business and its strategic options, and stimulating fundamental questions about the business (Osterwalder and Pigneur, 2004). In airlines, for example, the differentiation between low-cost, hub-and-spoke, and flag carrier models is well understood, as is the difference in retailing between clicks, bricks and omnichannel (Stott et al., 2016). More generally, the distinction between a physical product model and a services model (and how to combine the models) is a central issue in manufacturing companies. The concept of business model has also been applied to public service bodies such as public transport or cities, or even whole countries.

The Essence of Business Models

The essence of business model descriptions is that they are generalised, not attached to particular sectors or functions (though their terminology might be). For example, the direct insurance model introduced in the 1990s (Stone et al., 1997) is a direct-to-consumer model that challenged an intermediated model. In time it was extended to banking, public utilities, and a whole range of services, and eventually merchandise. The low-cost airline model was a variant of this same model, while the hub-and-spoke model (where passengers are flown into a hub e.g. in the Gulf, SE Asia, and thence to another destination), can be seen in other transport modes e.g. rail (typically through capital cities such as London and Paris), but also to other industries where lower cost for the customer can be achieved by bundling several services together to achieve economies of scale.

Who Uses the Business Model Concept

Many studies (e.g. Clauss, 2017) confirm a positive relationship between focus on business model innovation and organisational success. This correlation might well have been strengthened by the turbulence of the last decade, the causes of which range from the rise of the platform economy, to Covid-19 and the Ukraine war. One reason for this correlation may be the focus of new business models on customers who are poorly served by incumbents, or not served at all. However, incumbents may take the initiative by adding business models, whether or not in response to a business model challenge (Kim and Min, 2015). The additional model may operate in the same market, as was the case for HSBC with the model of First Direct (Markides and Charitou, 2004).

Mature users of the business model concept understand how adherence to a particular model may limit available strategies, while strategic choice includes the choice between models. These users also understand the intimate link between business model and competitive strategy (Bereznoi, 2015), particularly the need to defend against competitors using models that are more effective for part or all of the company's target market.

Combining the concept with project management disciplines can help to prevent the "Day 1" problem of strategic consulting, a reference to a lack of clarity about how to turn a strategy into reality, particularly when the recommendation is transformation to use a different business model or moving to multiple models, which brings with it additional problems of managing complexity (Snihur and Tarzijan, 2018).

One difference between business-to-business and business-to-consumer models is that the former are (and sometimes have to be) more apparent to customers, although in the age of the web, this is less true than it was, due to the accessibility of information to consumers about providers. However, in both cases, marketing plays an important role in ensuring that whatever aspects of the business model need to be understood by customers are understood in practice.

Consulting Firm Models

But what about consulting firms? What are their business models? There are many suggestions concerning models available to consulting firms (e.g. Brandon-Jones et al., 2016; de Man et al, 2016; Kruger and Teuteberg, 2018; Tavoletti et al., 2022), but some refer just to differences in style or in elements of activity e.g. the extent to which the consultancy firm diagnoses problems or is involved in creating or implementing solutions, the relative roles of consultancy firms and clients in different elements or stages of a project. The same applies to focus on different functions (marketing, finance etc.) stages of the value chain e.g. finance, marketing, purchasing, logistics, or even specialised topics such as regulatory compliance or governance. These are not, in our view, full business models.

Below are our suggestions of management consulting business models. Models may be and often are combined. No list of models can be definitive (ours is certainly not!), as the very essence of competitive business model development is to find an approach

that will defeat competitors' models. It is the process of thinking about and implementing models and keeping them under review that is important.

The thought leadership/knowledge ownership model

Thought leadership is important in senior management decision making. Presentation and distribution of content is critical, as is the deep engagement of consultants with senior managers' decision-making and strategies. The consultancy firm needs the credibility and brand to persuade clients that engagements based on thought leadership will be productive. In some cases, this model is based on possession of specialised knowledge not available elsewhere in the market, usually derived from deep experience of dealing with particular problems or sectors. For example, in project management, a very specialised approach is required for projects in high reliability organisations (e.g. nuclear power, defence), where a much higher level than normal is required in areas such as consultant expertise and project management data. Sometimes, this model is based on research or database development. This approach may also involve the development of partnerships with other specialised providers of complementary services. It may also be combined with or lead to a focus on projects which are innovative for the client.

The generalised management excellence model

This includes realism in project management, clear and regular communication, accurate timekeeping, timely reporting, strong quality assurance, effective collaboration, strong process quality, information technology optimised for rapid and high quality project delivery, ability to supply work at any school no matter how short the notice, recruitment and retention of top talent, and focus on combining customer service and satisfaction with financial control and utilisation, with avoidance of negatives, such as poor visibility, scope-creep, and weak information. Usually, an essential element of the route to profitability here is leverage of (usually) young, lower paid staff to create high value, through processes, etc.

The standardised solution(s) model

These firms focus on assignments where one or more standardised solutions that they provide can be used. Re-using the model allows it to be sharpened and made more effective, and perhaps partly or even fully automated (and thus cheaper).

The (networked) body shop

This is a model for providing manpower to carry out (usually pre-defined) roles in a company, often associated with change management. This is usually associated with smaller consultancy firms, even single practitioners, perhaps working together in networks, but may be used by larger firms. This approach may be combined with a 'pay as you go' payment model.

The diagnostic system/data-based/virtual model

This is the provision of systems and/or data to allow a client to diagnose its own problems and design and implement its own solutions, with consultants coaching clients in their use, perhaps virtually. The latter tends to have been relatively weak, but in an age of AI, the full automation of recommendations, even when applied to detailed processes, no longer seems a dream. Elements of this model include:

- Focus on acquisition and development of new knowledge and digital assets through talent scouting, mergers, and acquisitions
- Development of an ecosystem and development
- Use of relevant platforms

The differentiated positioning model

This requires strong subject matter expertise combined with a record of successful projects in target markets. Specialisation may be by type of project, industry, geography, culture, or some combination of these. This cannot be the sole definition, as many firms specialise in this way. There must be some differentiation from other firms. The classical specialisation of technology, strategy and operations is also not enough to differentiate, though it may be a start point. A good example would be the rise of consultancies which handle end-to-end marketing communications, from systems through to campaign design, delivery, and execution. The relationship between degree of specialisation and expertise is a complex one. Some work has been carried out to identify the different degrees of specialisation required for success. However, this is likely to vary by market focus.

The co-evolution/long-term partnership model

This is a well-established model, often visible within sectors. It can be expressed as “we go where you need us to go or where we think you (the client(s)) ought to go”. It can have special features, like close relationships with industry associations and exchange of staff. One way in which new business models are developed is in response to developments in clients. We have researched this under the title of ‘reciprocating business models’ (Stone et al., 2021). New client requirements may lead to new ways of supplying services to them or the provision of new services, while new consulting services may stimulate clients to develop new models of generating value. These may include anything from how they work with their suppliers and networks through to how they deliver value to their own customers.

Information Requirements for Leaders

One of our research foci is information and knowledge management. A topic of particular interest to us is what consultancy firm leaders need to know to identify whether their business models are right for their markets, or even if they are working at all. Our work in this area has focused both on this issue, researched in relation to a range of businesses in media and communications, financial services, travel, information technology, higher education, and retail (Parnell et al., 2018), and on the

role of consultants and analysts in providing relevant information (Parnell et al., 2017). Our research had several implications for consultancy companies, such as:

1. The importance of board-level focus on the business model question, from questioning its definition, to identifying how it is or could be applied to the firm.
2. The need for those working on market or business insight to include a focus on business models.
3. The need for hard evidence, typically from customers, suppliers, and business partners, as well as from the company's own financial and other sources, about how well its model(s) are working, partly to avoid what can be a self-congratulatory approach to interpretation of business model success.
4. The need for prioritisation and speed in responding to challenges based upon models. In one company researched, the business model question was the subject of formal annual review as part of the planning process.
5. The need to focus on the capabilities needed for any change to business models, e.g. in human resources, systems, and partnerships.

Specific Insight Needs

Classic insight for consultancy firms would normally include items such as financial performance, utilisation, customer satisfaction and loyalty and perhaps specific project quality measures e.g. proportion completed on time/budget. However, insight that is model-specific might include the items shown in Table 1.

Table 1: Insight needs for different business models (Source: The authors)

Model	Examples of specific insight needs. These should always include: • Actual performance • Client perceptions of their importance • Client perceptions of the performance of the consulting firm in each area, relative to competitors • Existence/status of improvement plans
Thought leadership/knowledge ownership	• Innovativeness/harnessing trends • Identification of whether ideas are being produced that challenge conventional thinking • Benchmarking of thought leadership production against competitors • Listings of areas of knowledge advantage
Generalised management excellence	• Detailed performance parameters • Application of industry best practice
Standardised solution(s)	• Frequency of use of solution(s) in contracts • Use of hybrid working models to improve speed/effectiveness of deployment of solutions • Value for money provided by solution(s)
(Networked) body shop	• Size and quality of network

	• Success of deployment/knowledge transfer • Value for money provided
Diagnostic system/data-based/virtual	• Listing of characteristics of systems/data, advantage derived from them • Benchmarking of achievement against competitors
Differentiated positioning	• Identification of differentiation areas • Extent of value-focused consulting based on proprietary assets
Co-evolution/long-term partnership	• Identification of partnerships • Extent of enhancement of own and client human capital

Conclusion

The idea of a business model has been a great addition to the consulting armoury, not just for firms involved in strategic consulting and transformations, but to all those working at the interface between strategy, processes, and operations. The benefit of the idea is that it provides a framework for developing new value-focused ways of doing business, to gain market share, fend off competition, and so forth. To achieve these benefits, consulting firm leaders need to consider which models can be used (and developed) by their business and how they might create value advantage for customers and/or competitive advantage to the firm. For this to happen, business leaders need information that interprets market and business developments in terms of business models. They need to use this in regular, detailed reviews about the model options available to them and how they can be achieved.

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