



RESEARCHING FOR ANSWERS

Choosing a Supply Chain Consultant

Size up the market for the right fit

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SUPPLY CHAIN MANAGEMENT HAS BECOME a vital business practice, and more firms are relying on external support from consultants to upgrade their supply chain strategies, processes, and practices. Supply chain managers have to decide which consultants are the best fit for these projects and which ones are likely to deliver the most value.

To make such a call, managers need to understand the consulting market and the position of consultants within it. A study carried out by the Swiss Federal Institute of Technology in Zurich, Switzerland, and the WHU-Otto Beisheim School of Management in Vallendar, Germany, sheds light on the dynamics of supply chain management consulting and the characteristics that managers should be aware of when hiring these outside experts.

Profit Variants

Two key characteristics define supply chain management consulting approaches: their geographical reach and the type of support provided at each stage of the project cycle. Individual projects will typically cover only part of the full cycle, which is described later.

The profitability of these services varies with the type of business involved. Strategic consulting is profitable because it involves small teams that generate high revenues per consultant. Implementation consulting and outsourcing is also profitable. In this model, companies employ large teams that generate high revenues over longer periods of time and at relatively lower costs per consultant.

A low-profit zone exists at the intersection of strategic and operational consulting—for example, in the blueprinting phase (see table). Here, team size is limited and clients are less willing to pay the fees that the strategists command.

[Key Takeaways]

- » Supply chain's ascent as a strategic discipline has created a demand for consulting support.
- » Managers need to be aware of the particular dynamics of the supply chain management consulting market before choosing the firms they want to work with and do an objective analysis of consultants' capabilities.

Not surprisingly, most firms opt to focus on the profitable ends of the business, and some have attempted to bridge the strategy-implementation divide by providing both outsourcing and strategic services.

National Focus

The analysis of the supply chain management (SCM) consulting space focused on Germany, one of the world's most mature consulting markets. Many of Germany's leading consulting firms have established supply chain practices or have operations management units in this area. Since the German consulting market has a reputation for high professionalism due to the dominance of large international players, it can be considered representative of other mature markets in Western Europe or North America.

The research concentrated on pure-play consulting firms, including strategy-, process-, and IT-based consultants. Firms that consider this type of consulting as an add-on to their core businesses—auditing firms' consulting units, for instance—were not included in the analysis.

The analysis covers nine well-known international consulting companies, each one employing a distinctive approach. Data were collected from 10 in-depth expert interviews, an evaluation of publicly available company information, and additional literature research. The representatives interviewed were managers or partners of their firms.

Structuring SCM Consulting Approaches

To map the different approaches and identify trends in supply chain management consulting, an activity and coverage matrix was created. The matrix or framework provides an end-to-end view of every supply chain-related activity in a consulting project, from the development of a strategy to the performance of each operational process. The following four steps determine the positioning of individual firms in the matrix:

1. *Map the SCM project cycle:* Although approaches vary from company to company, in general the complete cycle for comprehensive SCM projects encompass the steps

Choosing a Supply Chain Consultant (continued)

depicted in the table, with the exception of the last step, outsourcing. When executed on a global level, the whole process from development to rollout can take up to five years (see graph);

2. Derive the profitability of each project phase: In SCM projects, manpower requirements drive both costs and revenues from the consulting firm's perspective. The high fees paid for strategic consulting allow this segment to support large support teams. The systems implementation segment derives its revenue from the number of consultants on a project and can increase profitability through economies of scale. In the middle segment, clients are less willing to pay high-end fees and there are not the same opportunities to take advantage of economies of scale;

3. Incorporate major market trends: Two trends are important: the increasing complexity of consulting firms' production and distribution networks due to globalization and the growth in the outsourcing of individual processes or entire functions.

Supply chains are no longer just delivery networks; they combine sourcing, production, and delivery capabilities on a global scale. This increase in complexity is mirrored in the consulting world. Firms are either opening offices to extend their geographical reach or concentrating their efforts in a single continent or cluster of countries. In addition, consultants are generating more revenue by offering outsourcing services that take them a step beyond implementation. Outsourcing tends to be offered by firms engaged in the latter part of the project cycle, since they have an intimate knowledge of the operational processes involved; and

4. Position sample consulting firms in the matrix: In the fourth step of the framework, the selected consulting firms were positioned in the market by mapping them on two dimensions: where they fall in the supply chain management project cycle and their global coverage.

Market Segments and Dynamics

Having mapped the different approaches to SCM consulting using the four-step framework, we segmented the market and analyzed its dynamics.

The research identified three categories of SCM consultants:

1. Niche players have deep industry expertise but do not have the leverage of a global company. They have a strong focus on the supply chain space, particularly in the strategic and conceptual parts of the project cycle. They can offer

global services through international teams and a presence in key countries, notably India and China;

2. Strategy focus consultants are involved in only the first sections of the SCM consulting cycle but offer broad expertise and global coverage by virtue of their size. They usually confine themselves to the first part of the SCM project cycle; and

3. Implementation focus players generally employ lots of consultants. They are active in the blueprint, rollout, and outsourcing phases of projects. Their business model is scalable with a focus on standardization, and they offer highly competitive prices for blueprint and implementation work to secure recurring revenues later on.

In addition to the different levels of profitability that correspond with strategic, implementation, and other types of SCM consulting, the research found that the value of regionally focused implementation consulting is relatively low. These local firms are unable to offer wide geographic coverage, and their level of expertise tends to be limited. They often generate revenue through commissions.

Phases in the Supply Chain Management Project Cycle

(1) Formulation of supply chain management strategy

A supply chain has to support the company's competitive strategy. This strategic fit is essential to making the new supply chain a success.

(2) Functional conception

In the functional conception phase, the supply chain is planned on a level of moderate detail. Strategic targets emerge in a first outline.

(3) Blueprinting

The blueprint is a very detailed plan of the new supply chain. It includes all information that is necessary to realize the system.

(4) Development of business cases

Rollouts are no longer possible without detailed calculations upfront. A good business case includes an in-depth value-at-risk analysis and accounts for flexibility and upside potential.

(5) Piloting

Implementation is usually tested at a single region.

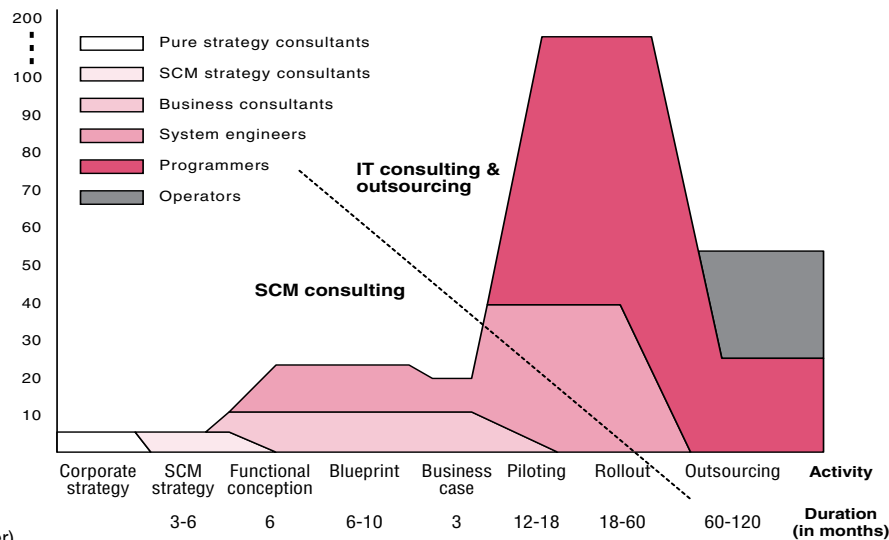
(6) Implementation/rollout

Implementation of a new supply chain requires coordinated efforts of a number of departments and regions.

(7) Outsourcing

Several consulting firms offer to take over noncore functions in the client's company and compete for the business on the basis of their intimate knowledge of the processes involved.

Staffing and Timing of SCM Projects Along the Project Cycle



(Source: Wagner, Breiter)

Future Dynamics

The research identified the following long-term trends that are shaping the SCM consulting market:

- Due to their cost structure, there is little incentive for strategy consulting firms to venture into the middle part of the SCM consulting cycle. On the other hand, implementation consultants with the right expertise can find midlevel work attractive;

- Implementation consultants are building a base in strategy consulting by offering more competitive pricing and could become a credible threat to strategy players;

- Some companies have attempted to bridge the profitability gap by becoming both strategy- and implementation-focused. Accenture, for example, gathers experience in the lower and middle strategy segment by taking over projects in an earlier phase than typical implementation consultants do. IBM Business Services merged with PwC Consulting and thus gained access to knowledge in the conceptual and supply chain strategy phases; and

- Implementation-focused players can penetrate the strategy market through acquisitions as well as organic growth. Strategy consultants seem to depend on mergers or strategic alliances when they expand into the implementation sector. However, Booz & Co. showed that a strategy-focused player can grow organically across the profitability gap by building a business unit in the implementation segment. In contrast, ATKearney shows that being a pure strategy consultant can distinguish a company from its competitors. In 2005, a management buyout re-established ATKearney as an independent strategy consulting company.

Practical Advice

The SCM consulting market is extremely dynamic, and hiring the wrong type of consultant can be costly. Here is some advice that might help you to make the right choice:

- Don't be swayed by your personal relationships with consultants; conduct a thorough analysis of the consulting market for the topics you need to address;

- Supply chain management consultants are reconfiguring their offerings, particularly in terms of geographic coverage and specialties. But it takes time to reposition a consulting practice, so beware of firms that are relatively new to the space;

- For plant-level supply chain projects, local players might be a suitable choice, but when it comes to supply chain networks, sourcing optimization, or international distribution, choose consultants with a global coverage and diversity of experience; and

- For high-level, strategic projects, choose firms with a strategy focus because they not only offer the right expertise, but also the appropriate level of resources such as market research.

By understanding where the various players are positioned in the market, supply chain managers are more likely to pick compatible consulting partners and achieve success. ♦

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