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Basic project-oriented models of consulting company activities

By **Dmitry Sadkov** and **Grigory Tsipes**
IBS, Moscow, Russia

Abstract

The first Russian consulting companies emerged in mid-1990s and grew out of IT companies, which had been spontaneously developing as project-oriented companies. Yet we had to make quite a long and complicated journey from realizing the usefulness of project management to applying it efficiently in the consulting business. All of our company's operations are carried out in projects - marketing, presale, commercial projects and investment. Various combinations and sequences of such projects make up the following three basic operational cycles of the company - the product cycle, the customer cycle, and the development cycle. The model based on these cycles combined with the time dimension gives a clear view of the business efficiency. Other important points of the paper are the flat organizational structure as one of the most convenient platforms for forming project teams and the three-level budget structure based on individual project budgets.

Keywords

Project-oriented company, product cycle, customer cycle, development cycle, flat organizational structure

1. Brief overview of the history of consulting business in Russia

The first Russian consulting companies emerged in mid-1990s and grew out of IT companies. IT companies are interested in the consulting market due to several main reasons. First, IT services are mainly ordered by top managers who are not ready to use only the language of IT solutions and prefer the language of business; and appropriate competencies are required in order to build efficient relationships with them. Second, any service company naturally wants to expand its competencies and provide a customer with a comprehensive range of professional services from business consulting to implementation of applications and hardware supplies. It is also worth bearing in mind what 'the best international practice' means. As Russian IT companies look at the practice and trends of their colleagues abroad, they see that players in the west provide a combined mix of IT and consulting services.

There is a good deal of major professional players, both western and Russian, already present in the Russian management consulting market. IT companies do not seek to gain a competitive edge over them; they just want to complement their portfolios with something that those portfolios lacked in order to maximize the efficiency of IT solutions. For example,

someone who is essentially clueless about financial management can implement an ERP system. It is also possible that it would even work although most likely its operation would neither last long nor be entirely correct. But an ERP system can be implemented so that it would really benefit the company's existing financial processes. These two entirely different approaches create entirely different solution values for the customer. Therefore it is not at all surprising that IT companies seek to apply a business-oriented approach to project implementation.

It is important to note that the Russian consulting market is still at a very early phase in its development. As more products appear and demand for professional services grows and gains more purchasing power, it is clear that consultants are expected to meet ever more stringent requirements and customers become ever more competent and already have a clear understanding of what they want to be done and often how this is to be done. Large-sized companies and now mid-sized ones too, are ready to pay for professional consulting services. Let us show how the market grows using IBS as an example - the consulting business has been growing at an annual pace of 40-50 per cent over the last several years. All of this poses quite stringent requirements as to the consulting business organization.

Russian IT companies had been spontaneously developing as project-oriented companies. Thus, consulting business in Russia has been taking shape as a project business from the outset. The staff drain from western consulting companies operating in Russia into fast-growing Russian companies brought along respective management technologies and spurred growing interest in project management.

Yet we had to make quite a long and complicated journey from realizing the usefulness of the technology to applying it efficiently in the consulting business.

2. Process model

2.1. Projects and operational cycles

IBS has been built as a project-oriented company. This means that all of the company's operations are carried out in projects.

All kinds of company' activities are realized thru four main types of projects (see Fig.1):

- Marketing projects - identifying consumer preferences, presenting company products to the market and attracting prospective customers.
- Presales projects - preparing offers for customers, preparing and entering into contracts with customers.
- Commercial projects - performance under contracts those have been entered into.
- Investment (Internal) projects - operational improvement and organizational development of the company, improving the existing commercial products and creating new ones by using own funds.

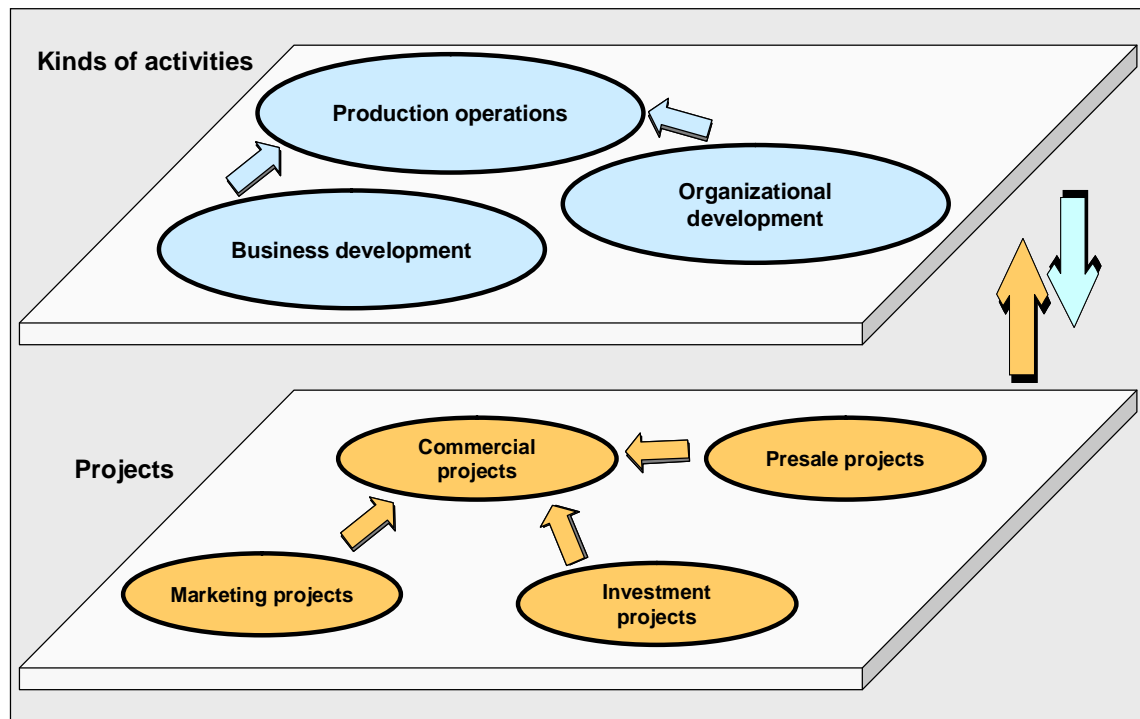


Fig.1. Projects in consulting company' practice

Various combinations and sequences of such projects make up the following three basic operational cycles of the company:

- The product cycle includes core production processes of development, market launch of the company's products and implementation of specific customer solutions based on the company's products.
- The customer cycle focuses on supporting customer relationship processes and sales processes in a broad sense.
- The development cycle includes processes of identifying requirements for internal changes to be made to the company, implementing those changes and assessing the consequences of changes.

2.2. Business development

A business develops through various ways of targeting prospective customers. A business can target specific customers or certain market segments (vertical markets) generally without singling out any individual customers or company products.

A full customer relationship cycle (the customer cycle) includes processes of developing customer relationships and processes of selling; implementing and supporting the solutions (see Fig.2):

- Prospective customers, their needs and preferences are identified at the stage of searching for customers and/or finding out their needs. Prospective customers are presented company products and services. As a rule, this is done both through advertising and PR events and through direct contacts with customers.
- At the stage of enquiries handling incoming enquiries are examined to determine whether they match a specific product or a mix of products of the company, and enquiries are prioritized and selected for further contacts. We understand enquiries to include instances of meaningful interest shown in company products and invitations to bid. This stage results in a decision on whether or not to proceed with an enquiry.
- At the stage of offer generation and contract signing a solution is configured based on a product or a mix of products, a technical and commercial offer or a bid is prepared, presentations are held for the prospective customer and the contract for the solution implementation is prepared. If successful, this stage results in the signed contract.
- The stage of solution development and implementation comprises performance under contract(s) within one or several commercial projects. This stage results in handover of the finished solution to the customer in accordance with the contract(s) terms.
- 'Exceptional' cases are dealt with as part of warranty and post-warranty support of solutions. This stage also includes customer relationship monitoring and settlement of conflicts.
- Customer retention involves review of financial return from each specific customer and making decisions on whether or not to continue the relationship with the customer (and possibly whether new terms would be appropriate if the relationship is to be continued).

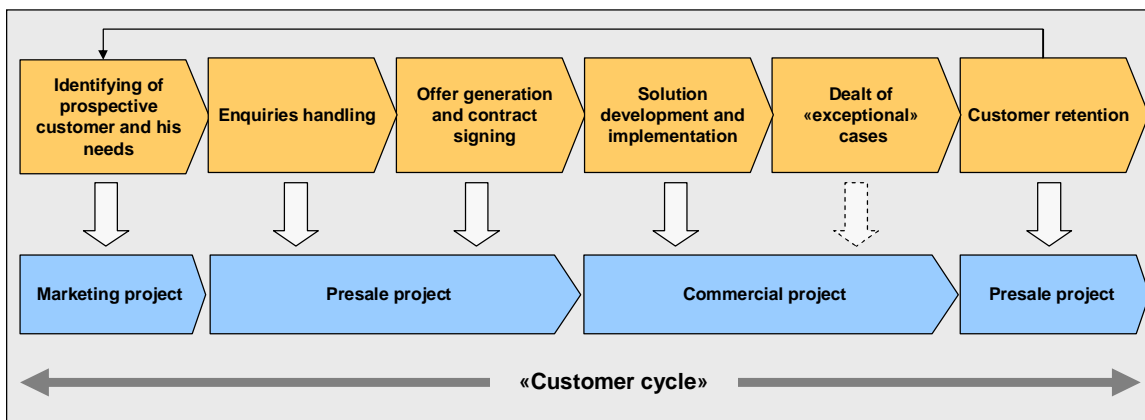


Fig.2. Business development projects

2.3. Production operations

Production operations include product research and development, marketing that targets the market as a whole, and production operations per se (i.e. solution development and implementation for a specific customer).

A full product lifecycle (the product cycle) includes processes of development, promotion and sales of the product and implementation of product-based solutions for customers (see Fig.3):

- The stage of identifying requirements for new products includes monitoring and review of market conditions, identifying new trends of the market and the competition and finding out new customer needs. Marketing studies result in ideas to upgrade old products and develop new ones.
- The stage of product development or upgrade involves efforts to improve the competitive edge of the company's products. Auxiliary work is carried out including training of technical staff, entering into agreements with partners, preparation of training and advertising materials.
- At the promotion stage a product is presented to prospective customers. Promotion involves advertising, PR events and informative publications targeting the market as a whole. This stage results in a flow of enquiries for specific products.
- The subsequent stages, i.e. enquiries handling, offer generation, contract signing, solution development and implementation, have the same scope of work as in the customer cycle.

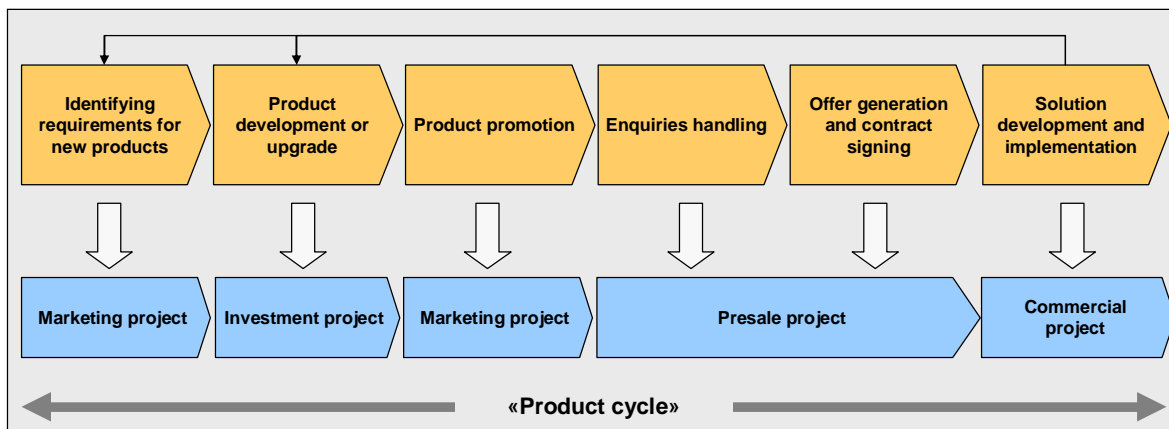


Fig.3. Production operations projects

2.4. Organizational development

The organizational development lifecycle (the development cycle) includes processes of identifying requirements for changes, implementation and assessment of the consequences of those changes.

At Fig.4 the stages shown are clarified with the example of human resources development, which is a specific instance of the development cycle:

- The stage of identifying requirements for changes involves review of the current situation, making the decision on whether and how to implement the changes and determining the required budget.
- The stage of implementing changes includes making appropriate decisions and documents, implementation of new information systems and training staff to work in the new environment.
- At the stage of assessing the consequences of changes the new situation is reviewed and plans of further changes are modified as necessary.

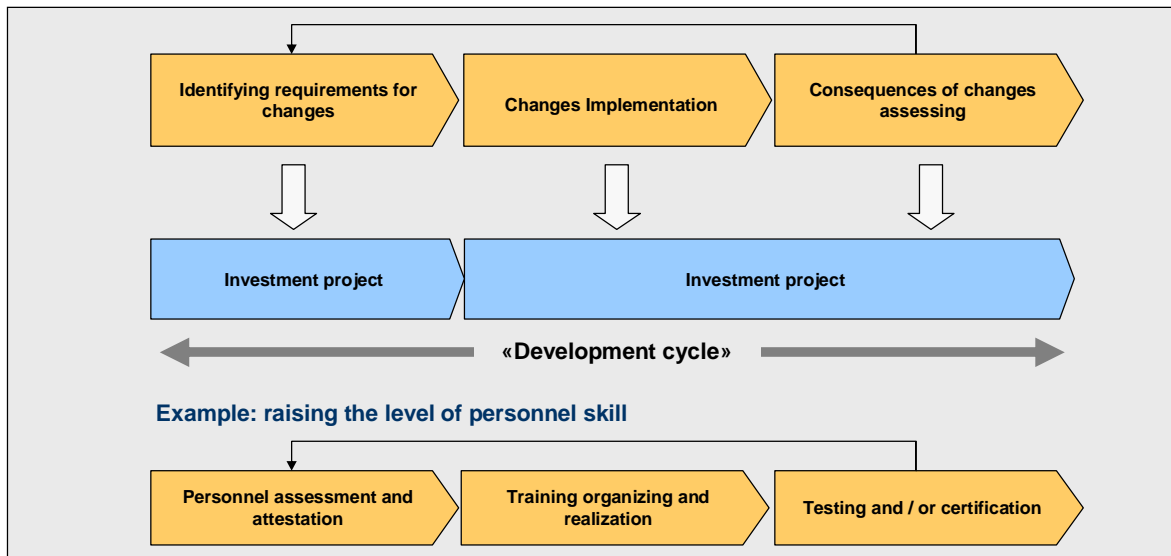


Fig.4. Development cycle structure

3. Organization model

Now virtually any Russian consulting company has the traditional matrix structure. Vertical components of that matrix are technology divisions with expertise in various areas of consulting (strategic consulting, financial consulting, operational consulting, HR consulting, IT consulting, etc.). Project teams made up of employees of different departments are formed for implementation of projects, which are most commonly cross-functional.

We consider the flat organizational structure as one of the most convenient platforms for forming project teams. That structure proved to be especially efficient for organizing operation of small consulting divisions (20-30 consultants). Such structures may still be efficient as the headcount of such divisions grows to 100-120, but in such cases special managerial staff (see Fig.5) and management tools have to be used (timesheet records, balancing motivation, etc.).

Formally employees are divided in two categories in the flat structure - project managers and consultants. But actually we have no fixed division of competencies into those categories, which enables us to use free resources more efficiently.

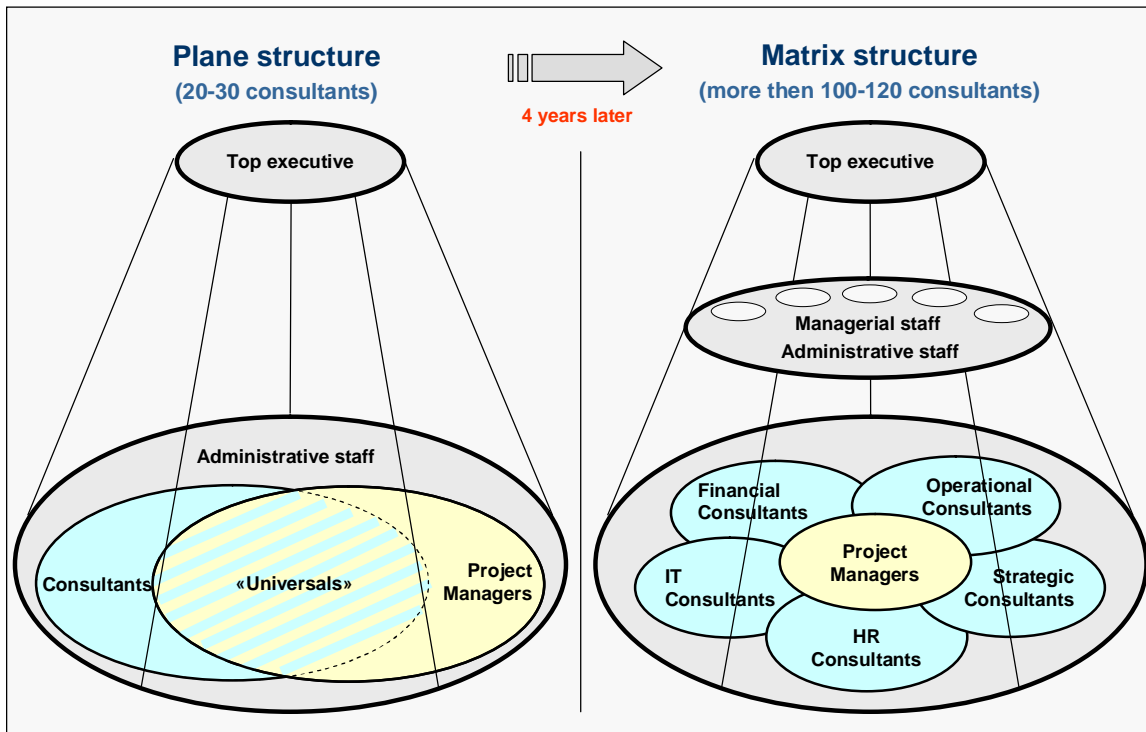


Fig.5. From plane organizational structure to matrix

4. Economic models

4.1. Consulting business model (the 3D model)

During designing business model the model of our business we distinguished three core dimensions - products, customers, and time.

The product dimension corresponds to the production structure and describes the company's products and product lines. The customer dimension corresponds to the sales structure and describes vertical markets and key accounts. The products/customers plane locates specific projects (solutions) implemented by the company for its customers.

The time dimension is used for analyzing the progress of customer relationships. A network of inter-related implemented and planned projects on the customers/time plane corresponds to the target program being implemented for the customer.

This model gives a clear view of the business efficiency (see Fig.6). Ongoing sales of all products and long-term customer relationships result in a high density of projects filling the 3D space and thus make up the "right" business configuration. Different projections of this model allows to obtain formalized profiles of "right" customer, "right" product and "right" business plan.

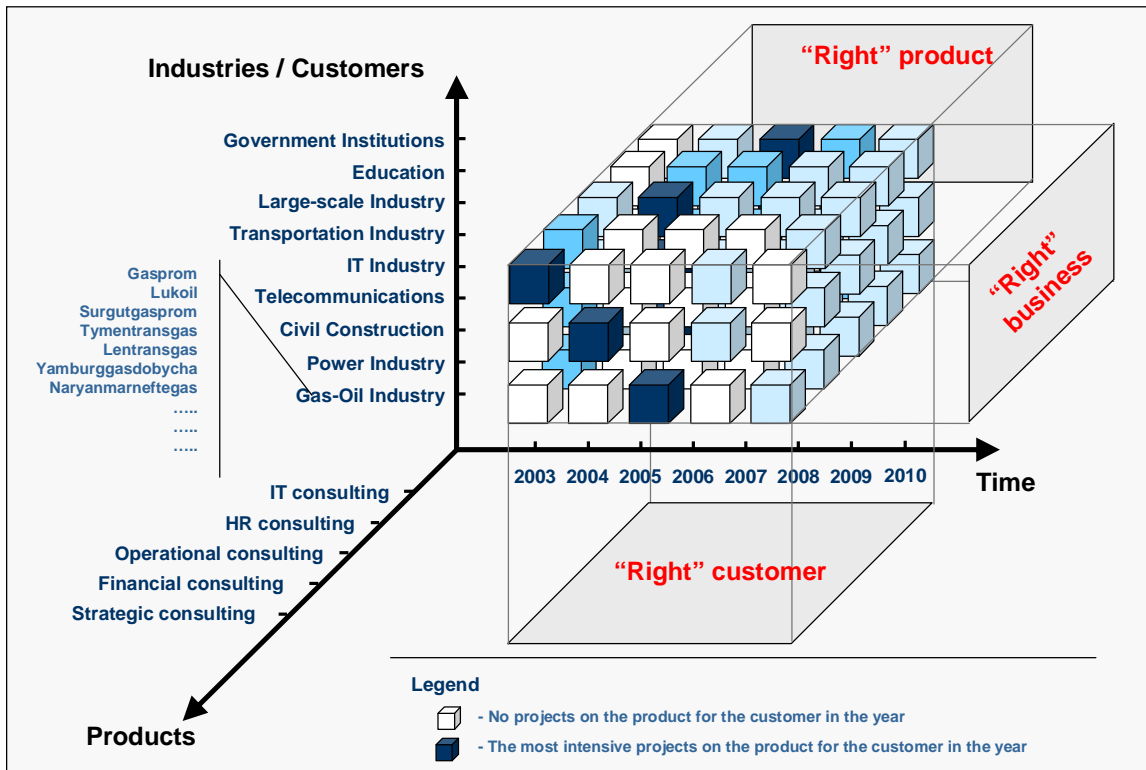


Fig.6. "Right" products – "Right" customers – "Right" business

Customer profile is forming in product and time dimensions. We consider customer to be "right" if our program for it compliance to logic of step-by-step management system perfection. A standard schema of program is illustrated in the Fig.7:

- Strategy developing projects dominate in the first year but there are not only strategic consulting projects.
- Business-process reengineering and other projects of operational consulting are the main content of the next step.
- And IT projects come after that.

Logic of step-by-step management system perfection spreads axial time dimension. And for each time interval the set of projects is formed especially by the products corresponded to just that period of company reorganization.

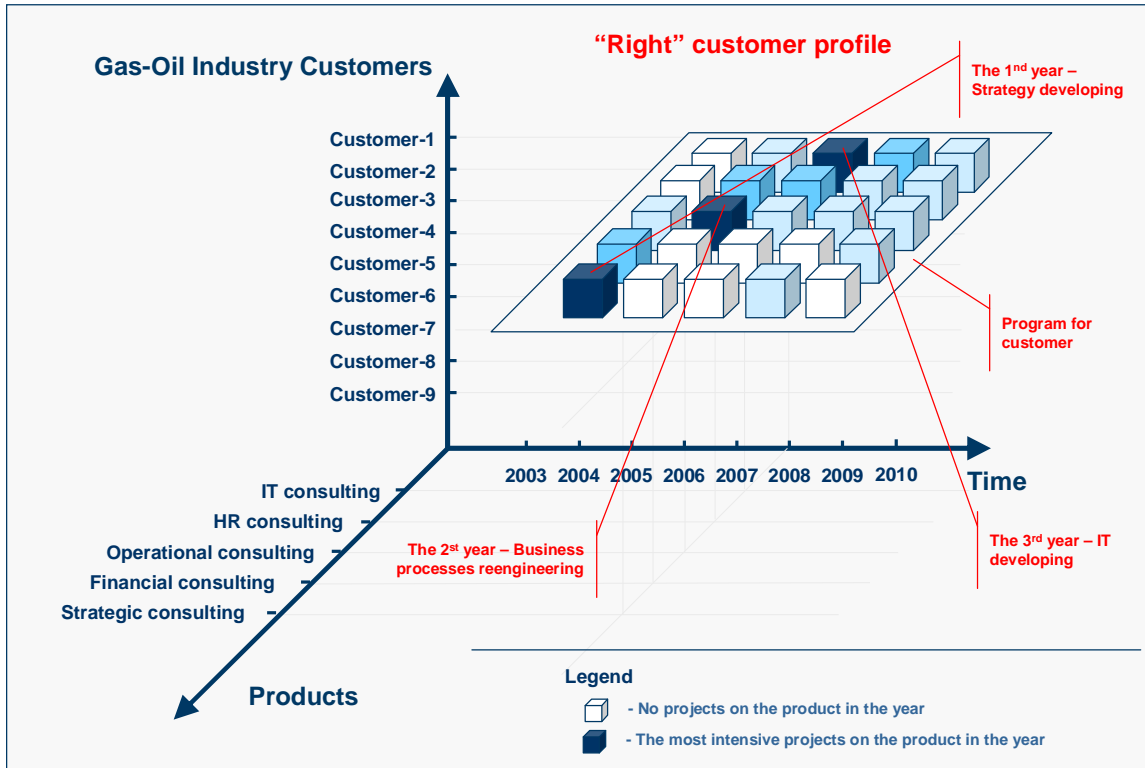


Fig.7. 3D-model - customers dimension

Product profile is also analyzed from two points of view. Time dimension shows customer point of view. At the Fig.8 it's demonstrated with an example of product line in IT consulting. Sequence of IT projects for one customer should compliance IT strategy that we have suggested for this customer at the very beginning of our IT program for him.

Customer dimension shows our own point of view. It's connected first of all with our company ability to provide all IT projects portfolio with qualified resources – project managers, system architects and consultants. We have permanently to solve two interconnected tasks – how to minimize time of staying idle and how to avoid risks of insufficient resources at the same time. Our experience says that horizon of recourse planning large-sized consulting company can permit itself to avoid resource gaps should be no more then two weeks.

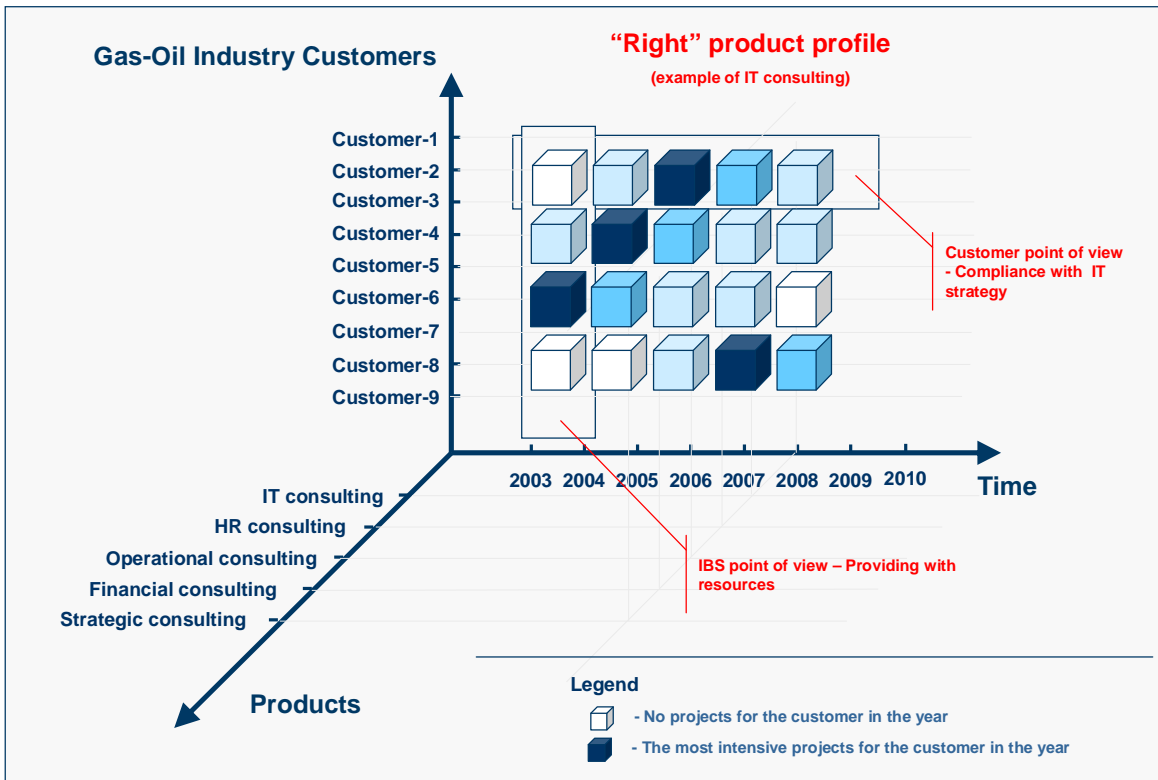


Fig.8. 3D-model - product dimension

The third projection of 3D-model allows forming “right” **business plan profile**. This profile takes into account revenue prognosis per clients and per products (see Fig.9). Quality of project set included into business plan is actually depended on real customer and product profiles and degree of their compliance with ideal profiles.

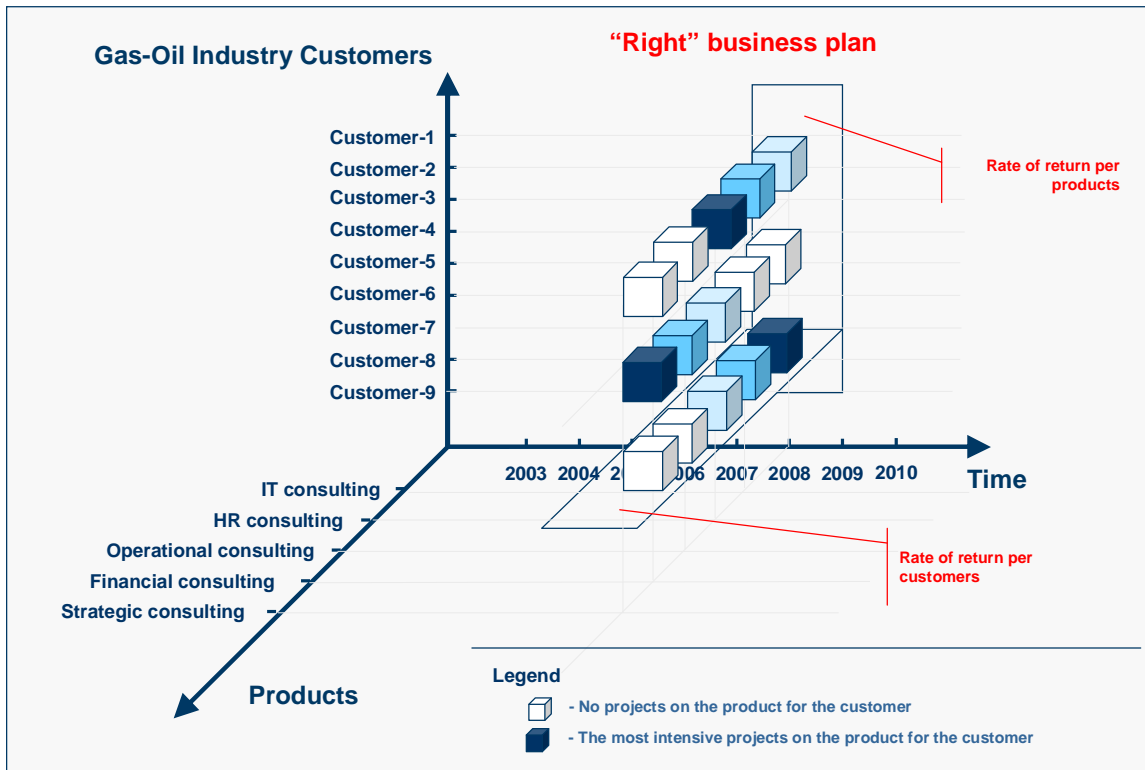


Fig.9. 3D-model - time dimension

4.2. Financial model

In the company's accounting system a project is regarded as a dedicated profit centre (for commercial projects) or as a cost centre (for other project types). Budgets of individual divisions are formed based on budgets of projects considering the input and costs of each division involved in a project. Budgets of divisions make up the overall budget of the company. Cost accounting is project-specific. Customer-specific and product-specific cost accounting have also been provided. Customer-specific cost accounting can be used to determine the rate of return from each specific customer and make reasoned decisions on whether or not the relationship with the customer should be continued and whether or not the terms of the relationship should be modified. Product-specific cost accounting can be used to determine the rate of return from each specific product and make reasoned decisions on whether or not the product should be continued.

We had to overcome two main complications in implementing that model. There were technical problems due to the requirement to maintain hourly timesheet records of consultants in a large company environment (several thousand employees). On the other hand, the specifics of consulting business hampered objective assessment of the efficiency of project time expenditures. Nevertheless, this is the model currently relied upon in the operation of the company's accounting system and its motivation system applied to all staff categories from consultant trainees to top managers.

5. Concluding remarks

The philosophy of project management in a state-of-the-art consulting company is that for such a company projects are the way of conducting business and the way of operating in a competitive environment. All company operations (operations that have profit making as their immediate objective and to a large extent internal company development operations) are carried out in projects.

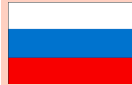
When this approach is applied, project accounting can and should become the basis of the corporate management accounting system and ultimately have direct links to accounting postings, which in turn makes the company much more manageable. The management has a clear understanding of which projects should and which ones should not be pursued given their rates of return, which projects have break-even risks and which ones have high margins. The management knows all project performance cost components and what each working hour of a consultant was spent on. This enables fast and correct managerial decision-making, efficient allocation of resources and elimination of losses, ultimately increasing the company's profits.

In order to materialize the concept of a project oriented organization, project management in a consulting company should be implemented as a full-fledged management cycle encompassing strategic management, the company's organizational structure, its financial structure and budgeting system, the human resources management system, the quality management system and many other aspects including information technologies.

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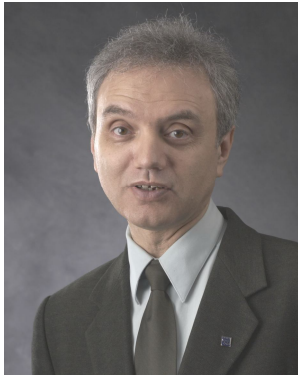
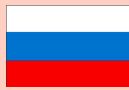
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About the Authors:

***Dmitry Sadkov****Author*

Dmitry Sadkov is Deputy General Director and Director of Management Consulting Department of Information Business Systems (IBS), a leading business consulting firm in Russia. He graduated from M.V. Lomonosov Moscow State University, majoring in physics, and during several years worked at the Department of Physics, Moscow State University. In 1995-2000 he worked as a consultant with McKinsey & Company. Since 2000 he is Director of Management Consulting Department, IBS. Dmitry supervises and directs top IT consulting and management consulting projects for customers such as Federal Agency for Education, AK Transneft, Federal Customs Service, TNK-BP Management, URALSIB Financial Corp., Norilsk Nickel, etc. Dmitry can be contacted at DSadkov@ibs.ru

About the Authors (Continued):

**Grigory L. Tsipes***Author*

Grigory L. Tsipes, CPMS IPMA, is Chief Consultant of Information Business Systems (IBS), a leading business consulting firm in Russia, and a Vice President of the Russian Association of Project Management, SOVNET. He is Deputy chief editor of the journal *Project and Program Management (Russia)* and member of editorial board of *CIO magazine (Russian edition)*, is a frequent participant in PM conferences worldwide, and chairman of Program committee of SOVNET International Symposiums. Grigory is author of several special seminars and training on corporate project management. During his 30 years of consulting, scientific and teaching activities, he has participated and managed over 30 large consulting projects, has published over 50 scientific research works including 3 monographs about information technologies, process and project management. Grigory was Chairman of the Program Committee for the SOVNET project management symposium in Nizhny Novgorod, Russia in February 2007. Grigory can be contacted at GTsipes@IBS.RU.