BOOK REVIEWS

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The World's Newest Profession: Management Consulting in the Twentieth Century

Christopher McKenna (Cambridge University Press, New York; 2003; ISBN 0521810396) $25

The Rise of Management Consulting in Britain

Michael Ferguson (Ashgate Publishing, Burlington, VT; 2002; ISBN 0754605612) $84.95

Management Consulting: Emergence and Dynamics of a Knowledge Industry

Matthias Kipping and Lars Engwall, Editors (Oxford University Press, New York; 2002; ISBN 0199242852) $75

REVIEWED BY FIONA CZERNIAWSKA

History is not bunk. "Those who forget the past have no future" is an epigram from the Old Court House in Vicksburg, Mississippi. It is also the opening line of George Armstrong's 1962 autobiography in which he describes how he left National City Bank, where he had been vice president in charge of industry investigations in the 1920s, to form his own highly successful consulting firm. And it's quoted by Christopher McKenna, an Oxford academic, in his strikingly good book on the history of management consultancy, *The World's Newest Profession.*

Consultancy, McKenna argues, is the logical consequence of organizations' attempts to minimize their transaction costs: Consulting firms offer "economies of knowledge" that clients cannot match internally. In the course of pursuing this argument, McKenna turns several accepted myths on their heads. He argues that, contrary to popular belief, management consulting in the United States did not grow out of Taylorism but was an amalgam of three professions—engineering, law, and accountancy—combined with the consultative role of investment bankers. The rapid growth of the consulting industry was not fueled by Depression-era corporations' extraordinary need to cut costs, but by the "regulatory and commercial vacuum" that resulted from the Glass-Steagall Act. "Management consultancy," he writes, "grew not through a gradual process of linear evolution, but instead emerged from a competitive equilibrium shattered by regulatory change in the 1930s," just as an antitrust ruling against IBM in 1956 (which prohibited IBM from offering advice on the purchase and implementation of information technology) paved the way for Arthur Andersen's involvement in IT implementation.

Now, with Glass-Steagall repealed and the aftershocks of the Enron scandal by no means over, the timing of *The World's Newest Profession* could hardly be more fortuitous. McKenna accuses the industry of collective amnesia, of ignoring—at its peril—the extent to which past success has been aided by regulatory barriers to competition that are now largely dismantled. "Without any institutional memory of how consulting emerged as a distinct professional field," he argues, "the large management consulting firms will most likely find themselves competing against the same professional rivals that they accidentally defeated more than 60 years ago." It was a point, too, made by the above-mentioned Armstrong 40 years earlier: The "economies of knowledge" argument might explain why organizations bring in external advisors, but it was regulatory prohibition that gave consulting firms the edge over other potential knowledge brokers.

Nowhere is McKenna's breadth of scholarship and clarity of argument used to better effect than when he comes to consulting firms' reluctance to professionalize. Management consultancy, he suggests, is not a profession because the people running the major firms in the aftermath of the Great Depression chose to professionalize their firms—to rely on their corporate brand, in effect—rather than rely on the professionalism of the individuals who worked within these firms. “In contrast to lawyers and accountants, the leaders of the management consultancy profession believed their firms were more important” than the reputations of the individuals in them. The most prestigious firms did not require their employees to be certified; indeed, some actively campaigned against individual states’ proposals for licensing, despite client concern over aggressive selling and rogue practitioners in the 1930s and 1940s. As a result, the collective reputation of the consulting industry has been protected by spin rather than substance. “The objective standards of professionalism,” says McKenna, “were not as important as recasting the public perception of consulting as a professional activity.” If nothing else, Enron has served to demonstrate that businesses whose reputations are maintained by cleverly promoted brands rather than personal integrity are built on sand.

McKenna is not alone in arguing that the evolution of consulting has important bearing on an industry facing internal and external pressures to change. Michael Ferguson’s *The Rise of Management Consulting in Britain* is more a straightforward history and less a polemic—a Boswell to McKenna’s Dr.

Johnson. Yet here too are surprises. Like McKenna, Ferguson debunks the idea that management consulting is an offshoot of Scientific Management. Instead, he tracks its origins to the second half of the 19th century, when Great Britain was bogged down by laissez-faire paternalism and self-help economics and was losing the grip the industrial revolution had given it. Ferguson also reveals just how uneven the development of the consulting industry has been. The Bedeaux approach to industrial efficiency, widely promulgated in the Depression era, failed largely because of a lack of communication between consultants and employees. This, in turn, led to significant misunderstandings about the work involved and unrealistic expectations about its impact. Secrecy was so endemic that, when the wives of two consultants, separately staying in a small provincial hotel while their husbands were occupied on client work, got to know each other, it took them several weeks to realize that their husbands were employed by the same firm.

While McKenna looks at the role that consulting firms played in disseminating American management philosophy, Kipping and Engwall’s book, *Management Consulting: Emergence and Dynamics of a Knowledge Industry,* provides a series of European perspectives on the development of consulting. Placing itself against a context in which the “literature on the consulting industry has taken a very critical tone,” *Management Consulting* aims to show that the “establishment [of consulting] as a recognized and legitimate knowledge carrier was not simple and straightforward, but a long and often conflictual process.” In France, prewar “consulting engineers” were originally stigmatized as “commercial” because their ranks were largely populated by people who had failed to graduate from the *grandes écoles.* In Sweden, it was the symbiotic relationship between consulting firms and academia that set the pattern for what continues to be one of the most “intellectual” consulting markets in Europe. In Finland, a “few great men,” drawn together by their common experience in resisting Nazi Germany and the Soviet Union in the Second World War, developed a “specifically Finnish rhetoric of management.”

Kipping and Engwall’s book also examines the role consulting firms play in creating and disseminating knowledge, again from a national viewpoint. Articles here range from studying how a small Italian consulting firm adapts the templates of international consultancy to its national context, to analyzing the extent to which the German media regard consultants as experts. But there’s a problem of largess here. Kipping and Engwall’s book is as frustrating as it is fascinating: What they gain by demonstrating the heterogeneity of the European consulting industry, they lose in terms of a single, coherent message. That may be intentional: With such an *embarras des richesses,* the editors may believe that any such conclusion would fly simplistically in the face of irreducible complexity. But it places their book at a disadvantage when compared to McKenna’s, which will undoubtedly sit, like Banquo’s ghost, at the consulting banquet for years to come.

But whatever their individual strengths and weaknesses, all three books are a salutary reminder of the dangers of taking for granted the past evolution and future development of the consulting industry. Consciously or unconsciously, the consulting industry has been rewriting its past, choosing to believe a single coherent—and convenient—story about its origins in Scientific Management. In fact, its real past may be murkier and more complex than we like to think. That the industry may not have some Darwinian-like right to exist, at least in its present form, is something that should give considerable food for thought during the current recession.

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Call Center Operations: Profiting from Teleservices

Charles E. Day (McGraw-Hill, New York; 2000; ISBN 0-07-016430-4) $65

REVIEWED BY GRAHAM WILLIAMS CMC

Consider the following trends:

- Sixty percent of all customer contact is now through call centers.
- Number of calls, number of call centers, number of call center agents, or revenue—and the outlook is for continued double-digit growth per annum over the next several years.
- It is now widely acknowledged that call centers are major contributors to the provision of fast, effective service, the building of sound relationships and trust between organization and client, and in some cases the establishment of a competitive edge based on relationship value, loyalty, and advocacy.

These trends are likely to continue because:

- More and more applications beyond the established banking, catalogue sales, airline reservations, technology help desks, order placement, billing inquiries, maintenance requests, and subscription renewals are becoming doable and profitable.
- Technology is facilitating connectivity and the dissemination of information between different parts of the organization (sales, service, and marketing) and its customers via new data management systems and communication channel possibilities.
- Customers are increasingly exposed to new, improved services, and this raises their expectations.

This book aims to increase our understanding of the subject of call center operations and help us, and our clients, conduct business more successfully.

The increasing importance of the role of call centers, their rate of growth and development and the bewildering array of vendor solutions being touted in the marketplace, especially in respect of technical features and functions, make this a very timely book for management consultants. Day cuts through the confusion and jargon. He deals with the related technology, process, and people aspects of call center operations in a clear, systematic manner that makes the technical aspects accessible to all. Indeed, simply knowing that a PBX is a private branch exchange, that CTI stands for computer telephone integration, and that ACD means automated call distributor—helps us cut through the jargon and grasp the underlying concepts. Free of gobbledygook, Day guides us on a step-by-step understanding of many of the developments within the teleservices industry.

Here are a few samples of where he adds real value, so that we gain competence at:

- Carefully selecting the right functions and features for inbound, outbound, and blended call center operations; for example, automated out-dialing for credit collection, telemarketing, customer surveys—while also taking into account laws concerning privacy and confidentiality, technical protocols, and the plethora of complex rates and tariff-determination formulae as they apply in different jurisdictions.
- Knowing what advances have taken place in client/server technology, operating systems, and software so that we are put in a position to evaluate how these advances can help to improve call center agent's ergonomics, comfort, efficiency, and productivity.
- Comparing and evaluating the big advances, the potential, and the efficiency gains possible by evolving, utilizing, and integrating PBX/ACD, CTI, and ISDN (standards for converting from analog to digital signals). And then going beyond that to integrate Internet services with call center operations by, for example, enabling a website visit and call to a waiting service agent without the need for a separate dial-in.
- Deciding when and how to make appropriate and effective use of voice messaging, prompting, and IVR (interactive voice response) without upsetting customers—for example, giving callers information about nonpeak times so they can choose to call again when it is more convenient, or taking voice messages that agents can act on before getting back to the customer, or giving the customer the tools to facilitate self-service for order-status–checks, and the like.
- Drawing up guidelines and key performance criteria for savvy relational database management, selecting from the many available software systems and packages on the market, and avoiding typical implementation mistakes.
- Making use of a comprehensive knowledge and skills assessment and an action plan for service agents in order to improve selection, monitoring, appraisal, and development.
- Choosing and using tools and measures to forecast and monitor workflow,

call traffic, agent scheduling, and performance—in a world beset by hordes of variables, variations, and complications.

■ Understanding the basic productivity-based measures and industry standards, call agent motivation, physical layout, and ergonomic considerations.

Day's knowledge and recommendations come from years of practice serving hundreds of clients and from his impressive synthesis of concepts and materials. In this 500-page book, he has produced an exceptional reference guide that is packed full of useful information on call-handling applications. His writing is lucid and eloquent. What's more, he has organized his framework, chapters, appendices, index, and glossary so that navigating is easy. He takes us from the general to the particular—so we can choose between a surface understanding and real submersion in the subject. He tells us the basics and also provides a context to make sense of new developments and shifts that are currently taking place.

Some of the shifts taking place as the call center industry continues to grow and develop are these:

- An increase in the scale of operations of individual call centers
- New usage of and blending of various communication channels
- The emergence of preferred geographic centers of excellence for outsourced operations
- Increasing integration of Internet services with call center operations
- A greater variety and complexity of calls handled by service agents
- A rise in customer expectations over time, as already noted.

All the more reason why this useful book belongs in every sales, marketing, and customer service consultant's library.

My pleasure and praise notwithstanding, I wish Day had included his insights on:

■ The use of telephone-based call centers as a platform for entrenching customer-centricity throughout the organization and for launching successful customer relationship management (CRM) and customer experience management (CEM) initiatives

■ The customer satisfaction and relationship implications (both positive and negative) of the rapid growth of multimedia call centers, the uptake of Internet Protocol technologies, and the advent of blended self-service and assisted service applications

■ The development of people skills within call centers and organizations in order to complement our natural tendency to focus too much on the rational aspects of customer service and call center operations

Let me speak more to this last point, as I wish Day had done. Two current trends in customer service applications—CRM and CEM—are both really about delivering consistently good service so that a relationship is developed, a relationship that becomes cemented as a result of experiencing reliability, trust, assurance, and value. Over time, relationships can progress from a neutral absence of dissatisfaction, to satisfaction, to preference, to definite loyalty, and finally to advocacy. Clearly this outcome can be delivered only by a thoughtful application of the necessary people, process, and technical aspects of customer service initiatives, especially as applied in call centers. Customers look for a service experience that for them is easy and enjoyable and occasionally contains an extra surprise.

This experience is most often facilitated when organizations pay as much attention to the interpersonal aspects of the transaction as they do to the material or rational aspects of the transaction *during* the so-called service moment of truth. The material aspects are image, furnishings, tangibles, equipment, business processes and operations, and product. The interpersonal aspects are relational, interactive, and experiential. This basic principle applies (at the threshold level at least) no matter what broad service strategy is followed by the organization, even if this is operational efficiency or product/services leadership and not customer intimacy. The reality is that organizations and their members can develop a culture of being rational, hard-nosed, efficient, and productive to the extent that this becomes their comfort zone, and they over-concentrate on the material aspects of their interactions with customers and neglect the personal aspects. A surprisingly large number of organizations lack the people skills—the emotional competence, if you will—to add emotional value (warmth and affirmation, for example) in their transactions with their customers. Therein lies an opportunity of incalculable value for many, if not most, organizations.

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Customer Equity: Building and Managing Relationships as Valuable Assets

Robert C. Blattberg, Gary Getz, and Jacquelyn S. Thomas (Harvard Business School Press, Boston; 2001; ISBN 0-87584-764-1) $29.95

REVIEWED BY BRADLEY E. HOSMER CMC

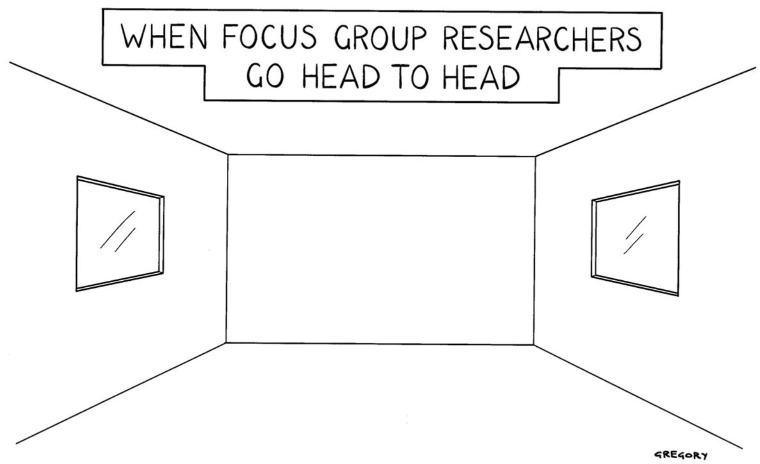
What are our customers worth? Do we manage them to optimize their value? If so, the authors of this book say we're on the cutting edge. If not, they advise catching up before more astute competitors leave us behind.

Robert Blattberg is a professor at Northwestern's Graduate School of Management in Chicago. Gary Getz is a Managing Principal at Integral, Inc., where he leads the firm's market and customer strategy practice. Jacquelyn Thomas is a professor at Emory's School of Business in Atlanta.

Customer equity is the value to us of our customer relationships throughout their life cycle. Understanding three central ideas helps us build more value into those relationships.

The first big idea in the book is that customers fall into one of four life-cycle phases and behave differently in each phase. These phases are *prospects, first-time and early-repeat buyers, core customers,* and *defectors*. Each customer has a present and future value to the firm. *Core customers* provide the most profit and should get most of our investment. *Prospects* and *defectors* have a lower value and should be allocated a smaller share of sales, marketing, and business development resources.

First-time and early-repeat buyers are the most likely to defect, so great care should be taken to invest enough (but not too much) to be sure that our products and services meet their expectations. We should invest in a combination of special pricing, additional services, and extra attention to help build loyal core customers. Since some will not become core customers, we must track these customers to measure how much additional customer equity we create. Obviously, the increase in customer equity must exceed our marketing cost, including special pricing and services. If it doesn't, we are not spending wisely. We can test different spending levels and combinations of programs, and by tracking the results find the combination that maximizes customer equity.



Customers in different phases have different wants and needs. A *prospect* may want or need a lower price, better value, or more intense customer service. *First-time and early-repeat buyers* need ease of purchase, value, product uniqueness, and ease of exit. *Core customers* generally want consistent quality and service. *Defectors* sometimes are won back with a concerted effort to resolve product or service problems.

The second big idea in the book is that we should tailor our marketing programs for each customer to build customer equity. Marketing has three essential missions—customer acquisition, customer retention, and add-on selling. Each mission involves different tasks and a different way of thinking. Therefore, the authors recommend organizing marketing departments around each mission, and I agree.

Regarding *customer acquisition,* many firms analyze their customers, but few analyze their customer-acquisition efforts. It's impossible to optimize customer-acquisition programs without detailed knowledge of both new customers and those who do not buy. Detailed information helps us determine the value of prospects, optimize acquisition programs, and build customer equity.

For example, it may make sense to use low introductory pricing to attract prospects who are likely to become core customers. These customers will produce customer equity. It may make no sense, however, to use low price to attract customers who are likely to defect. If we understand our customers, we can tell the difference in advance.

Regarding *customer retention,* and contrary to popular notions, the authors claim that we can increase total customer equity by not trying to retain all our customers. Some customers are simply not worth retaining, as their expected value is less than the cost of retaining them. For example, some customers buy on price. Unless the firm meets or betters the price offered by the competition, the customers will defect. At some price-point, the value of such a customer exceeds its worth.

The idea that customer satisfaction always increases customer retention and leads to higher profits, say the authors, unfortunately is not always true. For example, in the U.S. auto industry, 90% of the car buyers report satisfaction, but only 30 to 40% of car buyers repurchase the same brand. So, it's important to analyze repurchase data, to predict customer equity, and manage our marketing programs accordingly.

What does retain customers? Foremost are the many components of customer service, including functions many forget to include, such as accounting, logistics, and engineering. We need to ask three questions: What customers will this service retain, and for how long? What is the potential value of those customers? And, the key question, does the customer equity created exceed the cost of service?

The authors present four tactics that also boost customer retention—rewards (such as frequent-flier miles), free gifts, special services, and add-on selling. *Add-on selling* is both a tactic and the third of three essential marketing missions. It is not the same as cross-selling. Cross-selling is simultaneously promoting related products such as computers and printers. Add-on selling is selling unrelated products to the same customer. An example is AT&T's Universal Card—although this credit card was marketed to current AT&T customers, it had no relationship to the other products and services offered by AT&T.

In my experience, most firms do a fair job at customer acquisition. Most do a reasonably good job with customer retention, generally using customer service as their main retention strategy. Few make any effort to implement add-on selling. And almost none gather the information needed to quantify customer equity.

That brings us to the third big idea in the book—and the big opportunity for building our own customer equity and helping our clients do the same. That idea is that we can devise new ways to measure the value of customers, and, with that information, better invest our resources to produce more value.

The authors provide a detailed mathematical formula for calculating customer equity. Here's my nontechnical version of how it works. First, you estimate the profit from first-time customers. Here's how the authors say to do it: Take the number of prospects contacted and multiply by the probability of acquisition. Then multiply by the margin that each sale will generate. From this total, subtract the cost of acquiring those customers. This includes the cost of the marketing program, sales expense, samples, and so on. The result is a customer equity value for newly acquired customers.

Next, estimate the profit from future sales to these newly acquired customers. Here's the formula: Multiply the rate of retention in each future period by the profit obtained from customers in that period. Then multiply that value by the discount rate to convert future profits into current dollars.

Ideally, customer equity should be calculated one customer at a time. However, most of us and our clients do not have complete enough information on individual customers to do that. Nevertheless, we can begin with a simple "back of an envelope" approach using available information on groups of customers. Later, we can consider ways to create powerful systems capable of analyzing customer equity, right down to the individual customer.

Two present and future realities help make customer equity management more doable. The first is the continual decline in the cost of computing power and storage. This makes it financially feasible for many, if not most, firms to build and maintain databases of customer behavior. The second reality is the emergence of high-powered, low-cost database-management software. These programs enable easy and fast crunching of the data needed to analyze customer acquisition, customer retention, and add-on selling.

A third reality, however, is a barrier to implementing customer equity programs. That is the lack of skilled statisticians who can work with data and develop the models and tools needed to implement these programs. The authors hint that expert systems may someday help solve this problem.

Overall, this book introduces some new thinking about marketing, customer retention, and the present and future value of customers. It contains many ideas we can apply to our own consulting practices, and to our clients' efforts, as we all struggle to meet the challenges of dynamic and changing markets. I recommend the book to you without reservation.

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