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The Role of Transportation Consultants within the Consulting Industry, by Tom Dorazio, Undergraduate Student, University of Minnesota.

Introduction

The concept of management consultants has been around for nearly a century, becoming one of the fastest growing professions in recent years. This industry has been regarded by some as a poor use of money, and is often joked about by professionals. Still others, a great many others, have utilized consultants in one form or another, giving the industry tremendous growth in the past 30 to 40 years. There are many questions about this relatively secretive and confidential industry, such as: who are these consultants, when should I use one, and what can they offer to me? All of these must be answered in order to understand the role that consultants play in today's business world.

There is an almost endless list of the many different types of consulting firms operating in the United States today. From the large Big Eight accounting firms such as Arthur Anderson, to the small single practitioners, consulting firms exist in many shapes and sizes. With this large range in size also comes a broad range of services. From the large companies who offer all types of services, to the specialists in just about every field imaginable, consultants have flooded the market with their expertise and services.

One area of specialization in the consulting market is that of the transportation consultants. This market segment has been around almost as long as the consulting industry itself, and is continuing to grow. How does this market segment compare to the industry as a whole? This is the question that will be explored citing similarities and differences between the two, as well as analyzing the future of the transportation consulting industry. To accomplish this we must first begin with a detailed analysis of the consulting industry, in order to gain some insight into the broad concept of consulting.

MANAGEMENT CONSULTANCY History of the Industry

Today's consultants can trace their roots back to the 1880's, when the concept formally

appeared with the use of time-and-motion studies. These studies allowed outsiders to enter the client's business, perform analysis, and provide alternatives and solutions that increased efficiency and profitability. This concept spread quickly as results showed productivity increases of up to 50% could be obtained. Then, in 1914 Booz Allen & Hamilton was founded, followed by McKinsey in 1926, both starting in New York and offering general consulting services. But it wasn't until the 1950's that the smaller, single practitioners began to establish themselves in the market. These practitioners were mainly comprised of academics who set up their practice in addition to their role in the schools. However, the biggest growth explosion was yet to come, during the 1960's. This accelerated growth was due to the emergence of the Boston Consulting Group in 1963. The BCG arrived with their focus solely on strategic management and advice for top executives, which led to an abundance of strategy consultants. Also in the 1960's, the large accountancy firms joined the consulting industry, finding this area of business very profitable. Today accounting firms, such as Arthur Anderson, are finding their consulting services are beginning to out-perform their auditing services.

Categorizing Consulting Firms

While it is very difficult to categorize this broad, and many times overlapping industry, the following general types of consultants exist.

Pure Strategy Consultants - These consultants work primarily for chief executive officers and assist them in making long range strategy decisions. These consultants are mainly MBA's in medium sized firms, similar to the Boston Consulting Group.

Traditional Management Consultants - These consultants also work with top executives, but also offer added areas of expertise, such as finance, marketing, etc. They also employ mainly MBA's, with firms such as McKinsey and Booz Allen & Hamilton being typical of this type.

Accountancy Firms - These firms go after the more technical, information systems work demanded by clients. Since these firms arose out of auditing this was a natural area for them to excel in. They usually employ fewer MBA's, with more finance or computer oriented personnel than the two previous types of consulting firms. Firms in this category include Arthur Anderson, Peat Marwick, and Cooper & Lybrand.

Human Resources Specialists - These consultants specialize in human relations or personnel issues such as pension plans and pay structures. These firms try to stress the importance to top executives of incorporating personnel management into the firm's overall strategy. Firms such as Towers Perrin Forster & Crosby, and Mercer - Meidinger represent this group.

Specialty Consultants - This type of consultant can be found in almost any type of market area where the need for expertise is present. This consultant usually provides a single type of service to specific types of clients. Thus transportation consultants fall into this category, although they have subdivided their market even further.

This type of broad grouping of management consultants is useful in recognizing the many different types of firms, and the range of services they provide. Few if any consulting firms can offer all the consulting needs to a large firm, however, some are trying to achieve this goal in the future.

Industry Leaders

The overall revenue generated by the American based consulting firms has been estimated at \$7 billion a year. This estimate comes from the only trade newsletter of the industry called Consulting News. This source also estimates that approximately 60,000 management consultants are employed worldwide by these firms. The top 20 international consulting firms are listed in Table 1. From this table we can see that there is clearly no single type of consulting firm dominating the market, with the top 3 all concentrating in different areas. It also identifies which firms are growing the fastest by showing their position 4 year earlier. This table suggests that the accounting firms are gradually gaining on the other firms, with five firms in the top ten. These large consulting firms will continue to grow as mergers and acquisitions increase in the coming years.

Already the 1980's has seen an enormous amount of takeovers and consolidations in the industry. Towers Perrin Forster & Crosby has taken over many smaller specialty consulting firms recently including Cresap (1983), Case (1985), Tillinghast (1986), and Hayes/Hill (1986). Other firms such as Touche Ross, Peat Marwick, and Mercer-Meidinger have also acquired smaller specialists since 1983. Saatchi & Saatchi has been involved heavily in takeovers by purchasing Hay (Ranked #13, Table 1), and

Cleveland Consultants (1987). Saatchi has declared that by 1992 it plans to be one of the three biggest consulting firms in the world. In doing this Saatchi hopes to become a one stop source for all the needs of a company, from consulting, to insurance, finance, advertising, and legal. In the midst of this flurry of mergers some have predicted that the Big Eight accounting firms will soon become the Big Five.

The main reason for this widespread trend towards consolidating is that many industry executives fear that like so many other industries, only the biggest will survive in the competitive future. Along with this is the growing fear of lawsuits being leveled against consultants whose recommendations prove to be disastrous to their clients. If this type of lawsuit eventually becomes widespread throughout the industry, the smaller firms may not be able to afford to stay in business, due to much higher insurance and legal costs. Whichever the motivating factor may be, it is clear that the general direction among the large consulting firms is to grow through acquisitions and mergers at a very fast rate.

The Smaller Firms

While the biggest firms in the consulting industry receive most of the attention due to their size and dominance in the market, there are also the small practitioners who make up the overwhelming majority of consulting firms. These firms have found niches in the market that the larger firms have either ignored or are technically unable to handle. With the absence of large overhead and administrative costs, these firms have prospered in this environment.

Presently there appears to be a constant stream of people who are starting up their own consulting practice, thus filling the demand. In fact, many of these smaller companies are actually being established by former top employees of the larger consulting firms. Information Consulting Group, a new business venture, was started in 1988 by former Arthur Anderson veteran Gresham Brebach. After being forced out of his job at Anderson he began packaging computer systems, and encouraged six other Anderson executives to join ICG. He now estimates that in five years revenues will reach \$100 million. (Forbes, Nov. 14, 1988, pp. 355). Although this type of success is not characteristic of most small firms, the fact that many executives are leaving the larger firms to establish their own company is quite

common. Other sources of practitioners have been from business schools where academics have begun consulting practices along with their teaching careers.

While these smaller firms continue to grow, they will run the risks of becoming prey to takeover bids, or they could experience the problems associated with being a mid-sized firm. Here they will not be large enough to utilize economies of scale, and increasing overhead costs become very difficult to control. Many consulting firms have been trapped in this situation and ironically some have called in outside consulting firms to get them straightened out. Both McKinsey and BCG have at one time provided consulting services to a firm who later became a major competitor.

It is clear that the future remains bright for the smaller consulting firms who are able to find a niche in the market, and provide a specialized service. Many people believe that the days of the general consultant are over, and that one firm cannot provide the necessary quality in all aspects of their services (although Saatchi & Saatchi believe otherwise). With the technical know-how and practical experience, small consulting firms should remain competitive in the future.

Characteristics of Management Consultants

Despite the great diversity among management consultants due to their range of sizes and services, some things are relatively consistent throughout the industry. One of these common issues is the reason firms turn to consultants. These reasons include advice on coping with a change, a fresh or independent analysis of overall strategy, or advice on a specific step the company plans to make soon. Other realistic reasons are because it is fashionable or trendy to call in a consultant, the firm doesn't know what to do next, or some people use them to strengthen their own political power in the firm by having the consultant side with them. Although these last reasons are not ideal, they still occur, and are sometimes the motivating factor for bringing in a consultant.

Another characteristic is the level of secrecy surrounding the consultants, and their activities. This stems from the historic view that a consultant's presence in the firm meant the firm was in trouble, and people would probably begin to lose their jobs based on the consultant's recommendations. This made consultants particularly unpopular

with workers as well as middle managers. Consultants also fostered a secretive attitude by many times refusing to disclose which firms were their clients. This kept out the competition, and also protected the client's firm from being labeled as a "problem company". However, consultants are now beginning to disclose some of their larger clients for the purpose of advertising their services, showing who the well known, satisfied customers are. Some companies are also starting to eliminate the negative perception of hiring consultants by disclosing this information in press releases. This changing attitude towards the consultants is slowly growing, but there are still a great many people with a secretive and suspicious perception of the management consulting industry.

These generalizations of the whole industry vary within different segments as well as in relation to the size of the firms. However, they do reflect the overall characteristics, and general perceptions of most consulting firms.

With this broad overview of the consulting industry, a good framework has been developed to study the relationship between the industry as a whole and one of the smaller segments which makes up the industry. This area of specialization is the area of transportation consulting. Transportation consulting can be categorized as a highly specialized and technical area of consulting, where very specific skills and knowledge are required. This discipline is typical of most specialty consultants, and will be analyzed in the following section.

TRANSPORTATION CONSULTANTS Introduction

Transportation consultants are specialists in the industry who provide their services mainly to carriers and shippers in the logistics market. This distinct market segment has allowed the transportation consultants to subdivide their services even further, creating more specialization and finding niches within this market. Unfortunately very little has been published concerning this very intriguing and dynamic segment of consulting. It is for this reason a questionnaire was developed for this analysis, to determine the general characteristics of this industry, as well as the future path it will be taking. All of the following statements and conclusions are based on the responses of this survey, with the assumption that the returned questionnaires portray an accurate

representation of the industry as a whole. From this analysis only generalizations and apparent trends can be obtained, which for this comparison with the management consulting industry as a whole should be quite adequate.

The Transportation Consulting Survey

This survey (Appendix A, not published) was devised in order to gain an overview of the transportation consulting industry concerning the following topics.

Industry Information - This type of information includes how long the firm has been in business, number of employees, number of clients, types of services offered, future growth areas/decline areas, and annual revenues. With this information a picture of who the consultants are, and what services they provide can be obtained.

Interaction with Colleges and Universities - This section identifies if these firms offer internships, recruit graduates, or are involved in joint projects or studies with Universities.

Measuring the Performance of Transportation Consultants - This section looks at what types of criteria are used to measure their consulting services, compensation methods, follow-up services, and a profile of their client base.

Employment Requirements - This section examines the requirements and possibilities for employment with a transportation consulting firm, for a recent college graduate.

The survey was mailed out to 280 transportation consultants listed in the 1989 Directory of Industrial and Commercial Traffic Executives. Of the 280 surveys, 11 were returned due to a bad address, with 4 survey respondents who were in another line of work now. This left 265 surveys, of which 50 were returned with usable data. This gives a return rate of approximately 19% for the questionnaire. With the information gathered, the following model of the transportation consulting industry was developed.

History of the Industry

Transportation consultants have been around nearly as long as the consulting industry itself. Starting around the early 1900's the transportation consultants began offering their services. There was slow growth in this trade until the 1960's when the number of consultants in the industry began to rise rapidly. This increased growth rate has stayed with the industry up to the

present time (see Figure 1). This growth pattern is remarkably similar to that experienced by the consulting industry as a whole. This may suggest that few factors exclusive to transportation, such as deregulation, have been major contributors to the number of transportation consultants entering the industry.

Size of the Consulting Firms

When analyzing the size of these firms it was discovered that the majority of these consulting firms are relatively small, with many single practitioners in operation. Roughly 70% of the responding firms had less than 10 employees working in the firm. Along with this, approximately 70% of the firms had annual incomes under \$500,000. However, on the larger side, over 21% of the consulting firms took in over \$1 million in revenues, with some as high as \$7 - \$10 million. These numbers help us to see that this industry is indeed very specialized, with the potential for the large incomes of the general management consultants virtually impossible.

Services Offered by Transportation Consultants

Within the transportation consulting industry there are areas of expertise and further sub-divisions, giving way to an even greater level of specialization. The questionnaire identified 10 distinct areas in which the consultants could provide different services to their clients. Many of the consultants offered services in several of the areas, giving multiple answers to this question. The most common types of services offered by the consultants were Freight Payment and Auditing, along with Carrier Negotiations. Roughly 70% of the responding firms offered one of these services, with 52% of the firms offering both of them. A large gap appeared between these two areas and the next group of services, consisting of Legal, Fleet Control/Routing, Customized Software Packages, Transportation Brokerage, and Facility Planning. Another gap appeared at the bottom of the list with Merger & Acquisition, Warehouse Management, and Rate Quotation services being provided by the fewest number of consultants.

Services Which Will Grow/Decline in the Future

When asked which services would continue to grow in the future the consultants

responded predominantly in three main areas. These areas included Customized Software Packages, Carrier Negotiations, and Freight Payment/Audit. Although multiple answers were received by some respondents, approximately 30% of the consultants answering this question chose one of these services.

In the area expected to decline there was only one very significant answer given, this being the service of Freight Payment/Audit. Freight Payment/Audit received over twice as many responses in this category as the next closest, that being Legal. This presents a very interesting contradiction since Freight Payment/Audit was expected to be one of the top future growth areas by many consultants. However, the rest of the data is fairly consistent with respect to the expected growth areas, with Customized Software Packages receiving no votes for decline and Carrier Negotiations with only 4% thinking it will decline.

Customized Software Packages

One area of particular interest is the services of providing customized software to clients. With only a third of the consultants offering this service, and the expected growth in this field very high, this segment has the potential to be very lucrative in the future. The types of software packages developed range from Costing, Accounting, to EDI, with no clear dominance of any particular type. This expected growth is also consistent with the consulting industry as a whole, since the firms who provide this type of Information Systems service, such as the accountancy firms, are growing at a faster rate than the other consulting groups.

Measuring Value and Compensation

In order to judge how effective the transportation consultant's services are, several ways of measuring their performance are used by the firms. The most common way to measure their services is the amount of cost reductions the consultant can make for the client. When asked, 52% of the consultants responded with this method, followed by 16% who judge the value by how many old clients the retain. This heavy use of cost reduction is partly due to the inherent difficulty in measuring long term effects to the clients.

Compensation for transportation consultants is primarily in two forms. This first is on a Straight Fee basis alone, where all work is contracted for a specific cost, which is paid

after the agreed upon work has been completed. The other major type is a combination of Straight Fees and Contingency Basis. Under this method, depending on the type of service, a consultant will either charge a straight fee, or a percentage of the amount of money the firm saves as a result of the consultant's work. The contingency method is primarily used when Freight Payment/Auditing work is being done by the consultant. A third category exists which is payment on a Contingency Basis Only. Only 8% of the respondents fall into this category, most of which offer primarily only Freight Payment/Audit services.

Customer Trends for Transportation Consultants

When asked how many of their clients were repeat customers the responses ranged from 20% to 100%. This wide variance was mostly attributable to the length of time the firm was in business, with the newer firms having fewer repeat clients than the older established firms. The average answer was 76%, or three out of four clients being a previous customer. This estimation is identical to the consulting industry as a whole where it is claimed that three-quarters of their work comes from previous clients. (The Economist, Vol. 306)

There appears to be no dominant trend in the type of clients transportation consultants have, with regard to the size of their projects, or the number of firms seeking these services. An equal number of consultants responded that they see no trends in their client base, as opposed to seeing a trend towards larger projects for fewer clients. The larger number of consultants said they see a trend towards smaller projects spread over more clients. This group received 46% of the response with 27% given to each of the other categories, thus showing no predominant trend throughout the industry.

Involvement with Colleges and Universities

The survey was also designed to find out if transportation consultants had any relationship with colleges or universities, and what these might be. Only 18% of the respondents said they were involved in university projects, with more than half of these stating their involvement was strictly in a teaching role. Another question looked at their involvement in sponsoring internships or recruiting graduates. Here, only

14% responded positively, saying that they did in fact carry out these types of activities at local campuses. The main reason for this very low number is that a majority of the consultants, 74% look only for experienced personnel with a prior history in the transportation industry. Another reason given by several respondents was a lack of interest by the students. They stated that programs which they previously had for students were cancelled due to a poor response. For these reasons the amount of activity done in conjunction with colleges and universities is relatively limited.

The Effects of Deregulation

The impact of deregulation on the transportation consulting industry is not very easy to quantify. While deregulation has led some of these firms to prosper in new areas or services, others have been forced out of the consulting business. We have already asserted that deregulation was not a key factor in the growth of the transportation consulting industry, but it did have some significant effects concerning these consultants. Evidence of this is seen when nearly 72% of the respondents have increased or expanded their services since deregulation. This in itself does not mean that deregulation was the only factor, however, when asked what effects it did have on their firms the respondents had plenty to say.

The most commonly stated effect of deregulation was that rates are now much harder to find and they change too often. Finding the correct charges has become more difficult for the consultants, leading to much more computerization of the rates, in place of tariff publications. Another related issue mentioned frequently is the complexity now involved in carrier negotiations. With the increased need for knowing what the true costs of the carriers are, and not being fooled by inflated prices with big discounts, the consultants have indicated this to be a much more difficult area. While some consultants have cited these effects as damaging to their business, many others have claimed this has made their business flourish. This is due to the increased need for knowledge and experience in this area which many shippers do not have. Thus, as many respondents cited, the need for third party logistics services has increased dramatically, providing a much higher demand for their services. Another related effect is that now, with the many different rates and contracts by the carriers, the billing and payment of

the carriers is much more complicated. This increased complexity has resulted in many more errors, and double billings by the carriers. Consultants who provide Freight Payment/Audit services have seen a greater demand for their services as a result of deregulation. These are some of the most widely noted effects that deregulation has had on the transportation consulting industry.

Relationships and Trends in the Industry

From the survey data it is possible to develop some correlations between different categories of transportation consultants. One such relationship exists with respect to the age of the firm and the number of services provided. Here we find that the older a firm is the more focused its services are, offering fewer different services to their clients. On the other hand, we see that newer firms provide a wider array of services to their customers, trying to be "all things to all people".

Firms over 50 yrs old	Avg 3.1 services
All firms surveyed	Avg 3.4 services
Firms under 16 yrs old	Avg 4.8 services

From this data we can see a trend towards finding a niche in the market and sticking to a more focused strategy as the consulting firm matures.

Another relationship is present between the age of the firm and the amount of revenue generated. This correlation shows that as a firm matures, its revenues generally rise, despite offering fewer services as noted above.

<u>Revenues</u>	<u>Years in Business</u>
under \$100,000	17.6 years
\$100,000-\$500,000	28.3 years
\$500,000-\$1,000,000	26.0 years
over \$1,000,000	33.6 years

When examining the firms which generate over \$1 million annually in revenues it is evident that they are more likely to offer Customized Software Packages and Freight Payment/Audit services than consultants in the lower revenue brackets. For example, 60% of the \$1 million firms offer Customized Software Packages, as opposed to only 21% of the other firms offering this service. Also, in Freight Payment/Auditing we see that 90% of the \$1 million firms offer this service while only 68% of the other firms do. From this data correlation we can make the

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assumption that the most profitable areas in the transportation consulting industry are in Customized Software Packages and Freight Payment/Auditing. These two areas were also at the top of the future growth chart, leading to the conclusion that this type of work will not only continue to grow but generate significant revenues in the future.

Conclusion

Throughout this analysis there have been numerous similarities between the management consultancy industry and the transportation consulting segment. These include the relatively similar growth pattern over the previous century, the highest growth area being in information systems and computerized services, and the same type of client return rate (about 75%). This leads us to assume that many of the growth patterns and future areas of potential growth are universal over the entire consulting industry.

This is shown by the transportation segment developing along the same lines as the entire industry, but on a much smaller scale.

The few recognizable differences include the type of services offered, the size of the firms, and the ownership structures of the mostly proprietary transportation consulting firms. These differences are mainly attributable to the high degree of specialization found in the transportation industry.

Overall, the future looks bright for the consulting industry including the transportation segment. The increased need for specialists in the business world today, along with the growing computer applications necessary to fulfill these needs, has made consulting one of the fastest growing professions in recent decades. This trend towards contracting for experts will continue as today's corporate staffs become leaner, fueling future demand for consultants and their increasingly specialized services.