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The Industrialization of the Web

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By Joanne Sammer

If General Motors Corp. has its way, consumers will soon be able to place custom orders for cars over the Internet or through other channels. And the success of this initiative has the potential to create a tidal wave of change throughout the entire automotive industry.

After all, if GM begins taking custom orders that promise delivery of the vehicle in days or weeks, that has tremendous implications for consumers and the thousands of companies in GM's supply chain. For GM, it means the elimination of both its parts and finished goods inventory — a move that's expected to save tens of billions of dollars in costs as the Web allows the automaker to fully leverage a build-to-order strategy.

Think of it. Customized orders are fed directly to the mass production line, where the customer's steel-belted radial tires and Blaupunkt radio are ready for installation. Instead of "buying and inventorying" parts, GM now "buys and consumes" parts by leveraging the Web and offloading the inventory burden to Blaupunkt.

"GM will be transformed," says Daron Gifford, the global automotive practice leader for Deloitte Consulting who is working with GM to develop the build-to-order process. "I've never seen such change in the company, with so many different initiatives attempting to create value into this new marketplace."

The good news for consultants is that GM is not alone. Well-established Industrial Age companies of virtually every stripe are looking for ways to weave the Internet and e-business innovations into their core businesses. "It is hard to think of an organization that is not doing this," says Jim McGee, a partner with Diamond Technology Partners in Chicago. "The biggest distinction is that a lot of companies are simply transferring what they do now onto the Web. A much smaller percentage are actually using this as an opportunity to transform their businesses."

Even as these companies work toward immediate goals, another key issue is determining how the world will change in the next 10 to 12 years and where these companies will be at the end of that time. But it is unclear how many companies understand that. "I'm not sure how much of this is being driven by pressure from the marketplace for companies to look like they are doing something, rather than as a result of thinking through the long-term business issues," says Tony Sweeney, a vice president with Keane Consulting in Boston.

The consultant's role

Whatever form these initiatives take, there is one constant: These companies will need a lot of consulting help to make this happen. "These companies are trying to decide where these new business designs fit into the existing organization," says Erich Almasy, vice president with Mercer Management Consulting in Toronto. "As incumbent companies, they have the brand and the infrastructure and know the market, the business, and their customers. What they don't know is how to incorporate e-commerce into that."

Even before they have a particular plan or goal in mind, companies are exploring ways to bring the Web into their businesses because they either feel threatened or don't want to miss out on the potential opportunities created by the New Economy. "These companies recognize that it is not enough to look at current competitors, because new industry models and competitors are constantly emerging," says David Schneider, the e-markets Americas leader for PricewaterhouseCoopers. For example, Schneider worked with a heavy equipment manufacturer to identify potential e-business opportunities, one of which was to create and spin off a new on-line business. At the same time, the company realized it had to transform its core business to counter a more fundamental threat from another company in a different industry that was building the capability to step into its space. "These big companies have the might to take both things on at once," says Schneider. "They can think of the near-term by seizing opportunities and mitigating threats, while they also consider the need for a longer-term transformation in which they recast themselves for a fundamental new business model."

The challenge for consultants is to find ways to help these well-established companies accomplish that. Indeed, bringing these companies into the e-business world requires a consulting team with a broad array of knowledge and skills — change management, industry expertise, a strong understanding of that particular business, technological expertise, and even a bit of diplomacy. But although the need to staff a project team with appropriate technology expertise is absolutely necessary, this is often eclipsed by the need to find people who can tackle the larger business issues involved in these projects. For example, the automotive industry is looking for ways to simplify the assembly process — which includes about 10,000 parts. "One of the easier ways to do that is just by reducing the number of product combinations, and that's less a technology issue than a business issue," says Gifford. "From a consulting standpoint, the business perspective is much more critical. The technical perspectives are available, but trying to buy the business knowledge" is much more difficult. At the same time, Gifford warns against relying too heavily on industry practitioners to supply this business perspective. "If you bring just purely automotive practitioners into the project, you're just emulating the client and not getting enough good outside input and new and transforming ideas, which is really what the clients are hiring us for."

Into the e-business world

Before an Industrial Age company can move to an Internet-enabled business model, consultants can help it work through some key issues, including how the new model is different from what the company currently does, how it is organized, and how it delivers to customers. "The logical starting point is to determine where the company can start developing elements of this," says Almsy. For example, when ERP systems began taking hold, companies first adopted these systems where it made the most sense — usually finance — to get a feel for their capability. Another challenge for consultants is to abandon their own "Industrial Age" ways of doing things. "Today, things are done in parallel, rather than in sequence," says McGee. "In the past, large projects were almost industrialized themselves, with the problem being solved on a kind of assembly line with consultants managing the handoffs. Now, each solution is unique to the situation" and often implemented all at once. Consultants must also be prepared to help clients deal with any repercussions caused by the introduction of a Web-enabled business model. For example, if a company is going to use the Internet to supplement or replace existing channels, consultants have to be prepared to help the company deal with any resulting channel conflicts. "This is a complex transaction that can cause distress to the channel, so consultants helping with the transition can't approach this glibly," says Almsy. Even if the company won't need those distressed channels two or three years from now, it still needs to soothe the relationship to get to

that future point. "Be prepared to manage the stress on the system and the unhappy people that result," he warns. From a client relationship standpoint, consultants have to remain sensitive to individuals in the organization. "They have worked hard to get where they are and they are confused about where to go now," notes Almasy. "Be mature in how you respond to that." Another key success factor in these projects is finding the right pace of change. "It should be faster than the client is comfortable with" but not too fast to get results.

Gaining the right skills

How do consultants gain all the necessary experience to succeed in these projects? The short answer: They don't.

"It is clear to me that it is impossible for an individual to know everything necessary to make a difference," says McGee. Therefore, consultants need to be ready to align themselves with others in their firms who have skills that are very different from their own. "If you offer strategy expertise, someone else has to have the technology knowledge and another has to handle implementation. Make sure you respect the different mindset of the other consultants, respect their knowledge, and be prepared to have good conversations to figure out how to work together, because each one tends to think their area is most important." McGee also predicts that consultants with narrow specialties, whether economic analysis or database management, will see their fortunes dictated by those gifted with intangibles — namely the leadership and vision necessary to pull off these projects. "You'll have a comfortable living, but you won't build a dynasty," he says.

Even as they struggle to work and play well with others, consultants also have to make sure they are bringing the latest in "new business models, new ways of looking at industry structures, new ways of thinking about processes, and new ways of thinking about technological architecture and the enabling technologies," says Schneider. "If you're not brutally aware of what's cutting edge thinking and trends and possibilities, you're just not going to be effective, and you're certainly not going to be as marketable."

However, with technology life cycles so compressed, it can be difficult to stay on top of things. Therefore, KPMG requires its consultants to pursue a "major" and a "minor" in their training, while also looking for ways to leverage existing expertise into new technologies. For example, a consultant with procurement and SAP experience could leverage that experience by getting training in an e-commerce technology like Ariba, says Paul Ciandrini, an executive vice president with KPMG Consulting, LLC. "The more majors you have, the more value you have, although people usually don't have more than two majors and maybe a minor," he says. "The intent is to make sure consultants not only have a technical skill, but also industry value chain knowledge."

"This is one of those very threatening moments in the consulting business," concludes Schneider. "If you're not actively seeking out knowledge and skill development, you're going to find yourself in a much less marketable position very quickly — and that is a very uncomfortable feeling."

Sidebar: PowerPoints:

- Even as consultants work toward immediate goals with their clients, the key issue is to determine how the world will change in the next 10 to 12 years, and where the client's business will be at the end of that time.
- Before companies have a particular plan or goal in mind, they are often exploring ways to bring the Web into their businesses because they either feel threatened or don't want to miss out on the potential opportunities created by the New Economy.
- Although the need to staff a project team with appropriate technology expertise is absolutely necessary, it is often eclipsed by the need to find people who can tackle the larger business issues involved in these

projects.

Sidebar: Industrial Age Firms Make Internet Security Priority

In 1995, the automotive industry saw the future of its supply chains — and that future was the Internet Protocol. Executives at the Big Three automobile companies realized that the Internet was going to have an enormous effect on their business but, at a time when the term "e-business" had only recently been coined, they were also concerned about quality of service (QoS) issues, particularly security.

The Automotive Industry Action Group (AIAG) — the trade association of vehicle manufacturers and suppliers — consequently introduced the Automotive Network eXchange (later the Advanced Network eXchange), which was designed to provide a secure and reliable global network infrastructure that would replace the old complex legacy networks and facilitate the reengineering of supply chains.

Subsequently sold to Scientific Applications International Corp. (SAIC) in December 1999, ANX now connects trading partners electronically, allowing participating members of the supply chain to collaborate on product design and development; solicit and process orders; and facilitate just-in-time manufacturing and post-shipping schedules. While ANX is a privately managed network that uses open architecture technologies, it stands as a virtual private network (VPN) that links hundreds of companies in the U.S. automobile industry into a single, secure network for electronic commerce and data transfer.

The genesis of the system, according to Jeff Nichols, chief technology officer for ANXeBusiness at SAIC, was security, which remains "a critical part of our value proposition today."

For B2B commerce, "a privately managed infrastructure like ANX limits chances of being hit by a denial-of-service attack or an Internet virus or worm, because we basically control who is on this network," asserts Nichols.

"Our basic managed transport services are provided by certified service provider companies, including AT&T, MCI Worldcom, and Ameritech. The companies that access a specific gateway or router agree as a matter of policy to support communications over ANX via IPSec," explains Nichols. "Each subscribing company provides their end of the tunnel management."

And to top it off, VeriSign, a Mountain View, CA-based Internet trust service provider, signed an agreement in April with SAIC, enabling ANX trading partners to conduct high-value and high-volume transactions by ensuring proof-of-identity and trading privileges between buyers and suppliers via the exchange of digital certificates.

These Internet Protocol-era security measures are replacing the antivirus and firewall products that have heretofore dominated network security among industrial players in the economy, according to researchers at San Jose, CA-based Frost & Sullivan.

"The key drivers of this growth are the ubiquity of the Internet (more specifically TCP/IP), and the massive growth of e-commerce," says Tanner Smith, Frost & Sullivan's network security analyst.

"The ... growth of the e-commerce market [is] pushing end users into making investments into encryption security, a prerequisite for Internet trading," he adds.

To date in the automotive industry, 422 corporations have purchased a subscription or become part of the ANX managed transport service. The goal is to extend that reach to a total of 2,800 companies by the end of the year.

— By Mark Kagan

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