A Brief History of Business Strategy Consulting

by Jon Craighead

Professional Business Strategy Consulting began in 1963, forty eight years ago. Prior to that date the term strategy was used exclusively in the military lexicon. The concept of strategy as applied to business is still a relatively new phenomenon. I've written this white paper in an effort to create a brief but meaningful overview of the development and practice of business strategy.

The history of strategy consulting begins with a man named Bruce B. Henderson. The son of a Nashville bible salesman, Henderson lived from 1915 to 1992 and is universally considered the father of business strategy. Henderson was trained as an engineer, which was and remains today a standard entry level occupation for many consultants. Another recurring theme was Henderson's advanced business training at the prestigious Harvard Business School, although he left the school ninety days before completing the program. He began his working career at Westinghouse Corporation, then moved to Arthur D. Little management services. Next, after a challenge by the CEO, he accepted a position at the Boston Safe Deposit Trust Company, a money management trust company. He worked in the consulting arm of the trust company until 1963 when he left to establish the Boston Consulting Group (BCG), which became the first national consulting firm to develop an exclusive strategy consulting practice.

Henderson's fundamental theory focused on two of the three "Cs" of consulting, *competition* and *cash* - the third being the *customer* which would not come into play until later years. His policy was to hire the absolute brightest business school graduates, usually Harvard Business School summa-cum-laude's, and pay them top salaries. He developed the "Experience Curve"(EC), which was his version of the learning curve. The EC was based on the work of another American engineer, Frederick Taylor, best known for the assembly line process. In 1915 Taylor invented a mathematical formula that calculated production costs based on repetitive steps in the manufacturing processes. Taylor's theory was that as you became more proficient in the process, you could make the process less costly, thereby passing the reduced cost on the customer while simultaneously remaining profitable by selling in large volume. This resulted in a significant pricing advantage over competitors. Today we see this in the lowest-price concept practiced by Wal-Mart and Dell. The concept was new in the 1960s because it required studying the market and knowing and understanding the competition at a depth unheard of previously. By engaging the practice of studying the competition, the Boston Consulting Group offered their clients a service that was nonexistent. The firm became enormously successful, both nationally and internationally. Today BCG produces 2.7 billion dollars in annual revenue and has 4,400 consultants and 71 offices in 41 countries.

One of the brightest stars in Henderson's group was William Bain. Born in 1937 to a Tennessee food wholesaler, Bain was Phi Beta Kappa majoring in history at Vanderbilt University and graduated in 1959. One of the few BCG team members who wasn't an engineer, Bain was a masterful salesman and led the company in producing the largest percent of billable assignments. However, he became disenchanted with Henderson's policy of research and reporting. With the firm's practice of sending a report, walking away, and leaving the implementation up to the client, he was concerned that they were leaving too much "on the table" – in effect leaving behind considerable repeat business opportunities. Bain's focus was on the *customer* and *competition*.

In 1973 Bain resigned from BCG to start his own strategy consulting firm, Bain & Company . He quickly took on Black & Decker and Texas Instruments, which were BCG clients he had developed. He hired six of BCG's employees. His primary idea was to pick one firm per industry then create a long-term partnership for many years with that firm, making sure that their consulting was being put to optimal use and execution by his consultants. Bain's new company diverged from other consulting companies and for many years would only accept assignments that reported directly to the client's CEO. He later developed a private equity firm called Bain Capital which bought failing companies, improved them, and resold them. Today Bain & Company produces two billion dollars in annual revenue and has 5,000 employees and 46 offices in 30 countries.

McKenzie Consulting was formed in 1926 and ultimately became the premier consulting firm in the US and globally. The firm's founder, James O. McKinsey, was an accounting professor at Chicago University. He is considered the father of managerial accounting. McKenzie's operational approach was solving issues of concern to senior management primarily in the areas of finance and budgeting services. Their recruiting practice is more widely diverse than their competitors, including not only the field of engineering but science, medicine, and law as well. McKinsey has produced more CEO's than any other company, including more than seventy past and present CEO's at Fortune 500 companies.

It wasn't until 1988 that the firm, under the leadership of Fred Gluck, seriously entered the strategy market. This happened mainly as a result of being jolted by the success of BCG and Bain & Company. Unlike Henderson and Bain, Gluck, who was managing director of the firm from 1988 to 1994, didn't form his own company but instead took a much more difficult path – leading a revolution to bring a storied firm into the modern age. Over a period of time he managed to successfully shift the organizational focus to include a strategy practice and bring its considerable resources and talent to the world of strategy consulting. Due to its size and influence the firm focused on all three "Cs": *customer, competition, and cash*. Today McKenzie has annual revenues over five billion dollars, 17,000 employees, and 100 offices in 45 countries.

Studying the business consulting field, Harvard Business School (HBS) is widely recognized as one of the top graduate business schools in the world. Established in 1908, today the school has developed an academic staff of 200 and an administrative staff of 1,100. Their average student enrollment exceeds 1,900 annually. In addition to its academic programs, this institution also includes research and publishing arms which are considered preeminent breakthrough business reference sources. Its star-studded list of alumni include major Fortune 100 CEO's, and diplomatic, military, and academic personalities across all disciplines and countries. From its inception HBS has made a significant contribution to the development and success of the business domain around the world. During It's early history, HBS , like other business schools, did not welcome new or modern concepts or ideas that strayed from its traditional format. Their scorn extended particularly to scholars who endeavored to bring the new concept of business strategy into their hallowed halls. Michael Porter was one of those scholars who met with intense resistance from the established elders who gave no credibility to free thinking upstarts. He fought for his job and later his tenure, and eventually became the most famous business school professor of all time.

It wasn't until the 1970's that any mention of strategy entered into the Harvard lexicon. The basic and most fundamental course offered was their Business Policy course. Michael Porter, born in 1947 and the son of Georgia Tech professor, majored in aerospace engineering at Princeton. He matriculated to Harvard Business School for his MBA and later his PhD in economics. Porter became a proponent of the idea that each company was different and that formulaic approaches could be misleading. He developed the Five Forces framework: suppliers, buyers, new entrants, industry competitors, and substitutes. This was his effort to bridge the two worlds of economics and business practice; however that effort was not well received by the faculty, who were committed to the continued teaching of the mainstay Business Policy course. The new HBS dean John McArthur became a supporter of Porter and allowed him to teach a non-degree program where he could pursue his research with practicing managers. He created a course titled Industry and Competitive Analysis, which became an instant hit, silenced his distracters, and gained him creditability.

The essence of Porter's work laid down the academic substrate that enabled a well-educated manager armed with the right analytical techniques to chart strategy even without a wealth of experience. His next major contribution was the creation of the *value chain* theory. An antidote to the low-pricing theory, the value chain theory asserts you can create a product of such value that the public would pay more for it. Examples include Lexus and Apple. Porter heads a list of the most frequently cited experts in academic literature on strategic management and, since the death of Peter Drucker in 2005, as today's most influential management guru.

In this overview of the development of business strategy I've focused on the primary players. There were of course many other brilliant and provoking thought leaders who's impact ranged from ideas that crashed as quickly as they were offered, to ideas that have provoked new thinking and experiments for the greater future of both business and society. These include Jim Champy's Reengineering, Tom Peters and Bob Waterman's <u>In Search of Excellence</u>, Gary Hamel and C. K. Prahalad's Core Competencies. In addition, the decisive work of Frederick Reichheld, of Bain and Company, who broke new ground with his research and writing on the Loyalty business model and marketing. In creating the idea of customer relationship management (CRM), Reichheld is responsible for bringing the human element to the table where management began to realize their greatest assets are the people they manage and the customers they serve.

SUMMARY

What's the point of studying history if it can't provide some guidance in the present. One benefit is to study how committed people approached pressing issues in the past that could be useful today. I do not mean to suggest that strategy is a perfect science that cures all ills. Nor is this a process of looking backwards, but of looking forward. However, there is a saying that those who don't learn from history are doomed to repeat it. What strategy does is foster an intellectual curiosity, imagination, and a belief in the potential of possibility and people. Additionally, strategy creates a climate that empowers getting out on the skinny branches and taking risks. Taking *calculated* risks is an expression of freedom from the self-imposed boundaries generated by our past experiences. Ultimately, the primary advantage of strategy is the creating of a roadmap for success and a platform to chart new paths that weren't going to happen.

Amazingly, one can create a future without knowing how to make it happen. Often the result exceeds our original expectation because we learn as we play the game. In fact, in the mere saying, a new future starts generating reality; because we now have the idea and a new inspiration to be in action to produce the results we've declared. Our country was built on dreams of achieving the impossible. This game of creating unimagined futures has resulted in over seventy years of American leadership in the world. We'll need to rediscover that spirit now to continue our leadership role in the future.