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IMPROVING PROFITABILITY FOR CONSULTANTS

Hello All and Happy Spring!

The economy seems to be slowly improving ... in **some** services and **some** areas at least.

Still ... profit margins are being squeezed for many consultants, designers and professional service firms.

It's important to realize that even in very competitive service lines, some firms continually out-perform their peers.

ASFE and other surveys of member firms regularly find a wide range of profitability between the top and bottom quartiles ... and we note that the same firms typically trend in one quartile or another, year after year.

It's also very clear to me that it's **not** a zero-sum game. That is, it's not necessary for one firm to gain better profits at the expense of other firms. Most good clients regard financial success as an indicator of effective management.

If the whole profession raised its standards, its expectations, its best **practices**, its client qualification and selection, and the management of projects, the whole profession would be more profitable, as are ...

- legal professionals
- accountants and auditors
- doctors and health care professionals
- management consultants!

One of the best management consulting firms in the world is McKinsey. They look for **engineers** with an MBA. A dozen or more years ago, their typical fee for a senior consultant was \$5,000 per day. They understand their value and don't work for clients who don't also understand it.

I hope you enjoy and use some of the tips and practices in the following information!

With best regards,

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WAYS CONSULTANTS CAN IMPROVE PROFITABILITY

1. **GIVE CAREFUL ATTENTION TO WHO'S DOING BUSINESS DEVELOPMENT** ... and how, where and with whom. Business development is your most important activity, or should be. One good client recently identified a senior marketer who unintentionally, but often, makes for really bad projects or prices them poorly or both. He was reassigned to a more appropriate role.
2. **REALIZE THAT PROJECTS ARE PROFIT CENTERS:** Every project needs to have profit goals set **and** met. Some PM's will need assistance from management or business development leaders in setting appropriate profit goals for each project to maximize the opportunity inherent in the project.
3. **COLLECT FOR EXTRA WORK:** This is a critical skill and can make all the difference in achieving project profit goals or losing money! PM's need to know that it's important and **how** to do it well! Extra work is an opportunity to be more profitable and to be **paid** for your work.
4. **BILL AND COLLECT PROMPTLY:** PM's are often slow and overly cautious about both billing for completed work and collecting overdue bills. Once again, they may need help or coaching or guidance by their manager and/or the CFO. As one client says, "We cannot spend WIP or AR!"
5. **IDENTIFY PM'S PROFIT TRACK RECORD:** They should be known, and if problematic, fixed. Fixing can require coaching, discipline, remedial training or even reassignment to another role (if not quickly, soon). Several profitable firms regard PM as the most critical management in their firm, and it is.
6. **HIGHLIGHT, CELEBRATE, RECOGNIZE** the strong profit performance of PM's and their **teams** whenever you can, however you can. Cash or concrete awards aren't as effective as recognition among peers, and may cause resentment. **Financial rewards** come best in bonuses or raises, **later**.
7. **LOOK "UPSTREAM" FOR TROUBLE:** For example, what are the **root causes** of "loser" projects? Study how the project was identified, qualified (go/no go), defined, priced, negotiated, staffed, and managed. Then, spread the "lessons learned" throughout the firm.

8. **CFO PROVIDING CONSULTING HELP TO PM'S ON TROUBLED PROJECTS:** Several firms have found that an excellent **consultant** on the CFO's staff, who is both "on call" and also **inserts** him/herself into troubled projects with helpful analysis and coaching, can be worth 20 times his/her salary.
9. **FEWER AND BETTER MEETINGS:** As contractors often start every meeting with a short discussion on safety, you could start (or finish) every management meeting with a short discussion on **profitability**, with a focus on **how** we can improve it. Encourage attendees to share ideas.
10. **MORE ATTENTION TO OVERHEAD COSTS:** The most profitable firms have **higher** OH costs, but the difference is they make sure their OH dollars are spent on activities that generate **attractive** revenues and profits.
11. **DEVELOP NICHE SERVICES:** Emerging client needs often provide the opportunity to **value-price** a new service ... with existing talent or new talent you acquire. While they may be "small," they can be very profitable! And they may grow into a large future service.
12. **"NON-TRAINING" TRAINING IS BEST:** Coaching and mentoring, special assignments in the company, leadership in professional or trade associations, added responsibilities or challenges, internal clinics or forums, or working **in** a good team ... is the best "training."
13. **TOTAL QUALITY MANAGEMENT:** This one may take a while to bear fruit. It's **not** more or better QA/QC, it's improving your **work processes** so that quality is built in. It often simplifies work vs. adding work. The most profitable firms continuously improve everything they do.
14. **DON'T BELIEVE YOU NEED TO GIVE ANYTHING AWAY TO BE VERY PROFITABLE!** The most profitable consulting firms also have **great** staff morale and **super** client loyalty for their best clients. The research is clear: you'll be about as profitable as you are really determined to be.
15. **REMEMBER PETER DRUCKER'S DICTUM:** **Profits** are not something "nice" to have "left over." They are **necessary** costs of staying in business! They provide rewards to key staff, to continually assure we have tools and resources, to achieve a return on owners' investment, to have necessary reserves for future security, and for the capability to acquire new staff, as well as new locations, services and systems.

