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Guide 2 of 3

Driving Consultancy Profitability

TIPS & INSIGHTS

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Profit flare: making profit count in everything you do

Please note: *In this guide, we use the term 'consultants' to define any project-based business that offers a service to clients and needs to track time and project progress against estimates.*

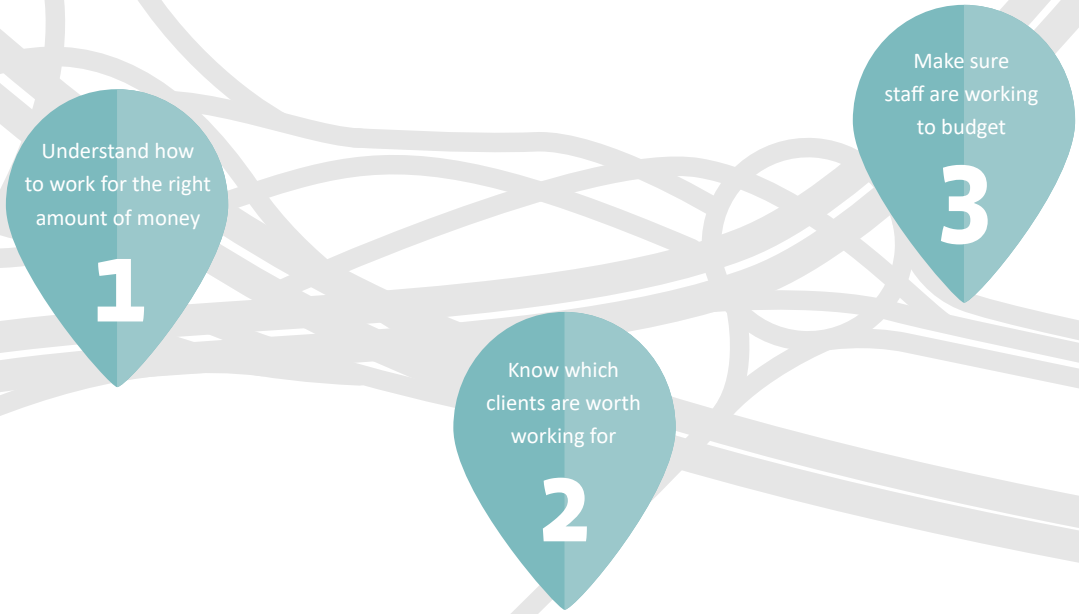
With the wide array of tasks and considerations that need to be juggled on a daily basis, alongside the additional requirement to keep one eye fixed on the long-term, there's little doubt that running a consultancy is a complex task.

From dealing with demanding clients and tight deadlines to managing complex projects and constrained resources, a successful business requires a wide variety of processes to be pulled together profitably.

Fortunately, while it's true that there are a multitude of interrelated aspects to consider in increasing profitability, there are some tried and tested routes that any business leader can learn from and act upon to make their journey smoother.

Indeed, writing for the **European Consulting Network**, Navigator Consulting Group Managing Partner Philip Ammerman neatly set out the critical connections for ensuring that everything you do, and all the processes you set up, are geared to make your activities as profitable as possible. His key focus points make an ideal starting point on the journey to improved profitability.

And to paraphrase, the three most important junctions can be neatly summed up as:



Each is essential for a more profitable business – so let's leave Ammerman behind us, while being grateful for the directions, and let's quickly look at how to make the journey a successful one.

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Working for the right amount of money

Only central banks have the right to print money, so you have to ask clients for the right amount. An accurate estimate prevents a project from costing more to complete than you actually charge to carry it out — meaning that if you underestimate, you have no-one to blame but yourself!

Problem is, it's not easy to charge the right amount of money for your service. There are many reasons you might be unsure about the amount you need to charge, and perhaps even some insecurity about how much value your service provides. But don't worry. You're not alone.

In fact, **in an article in Forbes**, business writer Kathy Caprino shared her personal experience, and said that hundreds of service providers find themselves stuck in a cycle of undercharging for their work.

Obviously, that's no good for profitability. So how do you get out of the cycle?

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Work out the type of project

If you want to boost the profitability of your business, you need to make accurate estimates. And to make accurate estimates you have to clearly define and categorise all the types of project your company carries out.

Unfortunately, this is not always straightforward – indeed, defining and managing a project and its scope is among the most significant challenges for any consultant.

In fact, a recent article in **Forbes magazine** has highlighted the scale of this issue. Although defining and working out the project is critical to success, 42% of executives don't give consulting firms any input on the project's strategic direction before starting work, instead preferring to figure things out as they go along.

But to ensure you are on course to make a profit, you need to know what sort of project you face from the get go. Fortunately, this needn't be as hard as it sounds. In his book *Flawless Consulting,* Peter Block neatly distils the possibilities down into three overarching project types:

- 'Expert': Where you have control of the project
- 'Pair of Hands': Where the client has control of the project
- 'Collaborative': Where you share control of the project

Choose a pricing structure

Once you know the kind of work a project entails, it becomes easier to draw up your estimates. There are many ways to do it, but one source has created an interesting set of approaches to fees, based on Block's project definitions. Let's expand on those approaches here.

Fixed Fees & Success Based – Fixed fees are generally used where the value added is high, and are generally negotiated as part of a tender. A success based fixed fee is paid only if agreed metrics are met, which poses high risk for the consultant, but might make for an easier sell. It's best for Expert projects.

Time Based – This puts the risk squarely on the client and is most suitable for a Pair of Hands consultancy projects. Your profitability is safe with this method, but limited.

Demand Based – Demand based fees are the easiest to calculate. They are either based on a multiplier of what it would cost the client to pay a salary (anywhere from 150-300%). Or on what the competition is charging. It's great for Expert and Collaborative projects.

A Mix of the Above – Of course, structures for billing do vary from consultancy to consultancy. But the golden rule is this: align your charging method to the approaches and objectives of the project – this should ensure a mutually beneficial end result for both client and consultancy.

Learn from experience

As you work with different clients and pricing structures, you should learn from your successes and mistakes. Keep accurate records of projections and estimates, and compare them with the results at the end of the project. In fact, speaking about the need for experienced consultants, even **Richard Branson** has written about the importance of learning from mistakes:

"There is more to learn from mistakes than from successes. Understanding what went wrong, where instincts failed, or what internal and external factors were responsible for taking an enterprise off course are all vital lessons in business. Understanding the failures of the past is key to having success in the future."

Apply that mind-set to your costings and soon enough you'll build up a rigorous database of examples that have been tried and tested – for spot-on estimates in the future.

IN PRACTICE

With Synergist, it's easy to compare actual performance with the estimate of previous similar projects to learn from mistakes, prevent previous inaccuracies from being repeated, and develop a more commercial and evidence-based approach to future pricing.

In addition, Synergist makes it easy to carry out Win-Loss analyses for all work bid for, providing an ever growing and readily accessible knowledgebase of in-house intelligence that becomes more valuable month-by-month.

PROFITABILITY TIPS

1

Synergist has produced a *'7 Ways to Increase Consultancy Profits'* infographic guide. It **can be seen here.**

Its headings are:

- Staff Utilisation
- Project Health
- Saving Staff Time
- Better Decision-Making
- Resource Management
- Accurate Estimating
- New Business

PROFITABILITY TIPS

2

It's always interesting when an MD is asked what their number one benefit is from their new management system. When we asked the Managing Director of London-based consultancy **Europe Economics** he gave *'Reduction on project overruns'* as their number one improvement, followed by *'It has allowed us to have a more timely view of costs and profits.'* These are quite typical responses. Europe Economics are a successful and renowned consultancy in their specialised field, but as their previous system was based around spreadsheets it was never able to deliver what they needed. **See their story.**

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2

Knowing which clients are worth working for

Profitability relies on an even relationship between you and the client – unfortunately, this often isn't the case in practice. Sometimes, too much work is being done compared to what the client is paying for. At others, there are situations where you simply have to 'sack' a client for the longer-term good of your business.

Unbalanced relationships between client and consultancy are extremely common. However, if you have too many clients that aren't delivering profit, you could soon find that what looks like an impressive client-roster isn't necessarily helping you move forward.

After all, as Caroline Johnson, a partner at mergers and acquisitions specialists Results International, **has stated**, many consultancy businesses make most of their profit from their top ten clients, only to then lose much of it working for clients 20 to 40. At the same time, however, Harvard Business Review found that it can be around 11 times easier to win work from existing clients than new ones – meaning businesses are unsurprisingly reluctant to end even the most difficult of relationships.

No matter which way you see it, when the goal is profitability your client relationships need to balance with the books. Below we outline two common difficulties in dealing with clients, as well as tips on how to spot, and ideally, fix them before they get out of hand.

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Get tough on 'scope creep'

Imagine a project is progressing smoothly, and then a small change is implemented at the client's request without charge. And then another. And then a larger one…

Everyone recognises the picture: scope creep. It's a huge problem that, **according to some consultants**, can find its way into almost every project. Usually, it isn't the case that the client deliberately wants to get more than they have paid for, simply that they don't understand exactly what they should expect within the quote or the financial implications of their request.

Fortunately there are a few tried and tested ways to ensure everyone is on the same page from the outset and to reduce incidents of last minute client requests slipping under the radar:

- Fundamentally, make sure the vision and expected outcome of the project is clearly defined before you agree to start work. If you're working to one goal and the client is expecting another, things can quickly get prickly further down the line.
- Work out the key priorities and deliverables for the project and break them down into defined phases, with associated resources requirements, costings, milestones and deadlines. Try to schedule some additional time into each phase, so if the project takes an unexpected turn due to make client-requested alterations, there is time to deal with this without the overall project going off course.
- Make sure you have a process in place for dealing with changes that fall outside the agreed deliverables. When you set out a clear project plan with timings and costings for each sub-stage of activity, it is easier and more transparent to work with the client to show them where a request falls outside of the defined scope, how much it will add in terms of additional charges, and, crucially, whether this represents value for them.
- Finally, make sure all your team knows the 'three whats'. What is within project scope; what requires additional charges; and what to record and report. When change requests do occur, it's also always good to review internally, as a project team, against agreed deliverables and resource requirements. There will inevitably be times when it makes more sense – in terms of maintaining good client relationships – to deliver smaller changes within the initial costings of a project.

Know when to discuss an ailing relationship

Perhaps you've been collaborating with a client for a while and the pre-existing fee structure isn't suitable anymore. Even though they're a long-standing partner, you still feel like you're constantly fighting for work, justifying costs, or losing money on jobs. Having the data to be able to continuously monitor client profitability is a powerful tool to help you see when profit attributed to a specific client is consistently below target.

If so, it's time to re-evaluate how you work with the client. Having the objective facts to show them helps enormously.

The **Harvard Business Review** has explored the difficulties consultants face in making the call to let a client go, often because it's much harder to win a new one. But in some situations, the signals are too strong to ignore. For example:

- When the client wastes your time
- When you're locked into low fees
- When your client is never satisfied

But before you do call time, try to talk it through first. Arrange a time to sit down with the client and talk.

For example if a client's initially sporadic projects have become consistent, ongoing work, it might be time to negotiate a retainer — which would guarantee you more of a steady and consistent income. If client-side internal processes have become more complex over time, meanwhile, you may need to allocate extra time for recurring project types and tighten up on 'within budget' alteration allowances.

Sometimes it's good to take a step back, evaluate all your work for a long-term client and assess how you billed for it. Would you have quoted a new client in the same way? Is there a more efficient model that would be better for you and them?

IN PRACTICE

Synergist tracks over-servicing in a simple numerical manner from task level, right up to overall project level. In addition, the system provides an overall picture of all activity and investment with a specific client through a dedicated report, making it easier to assess if a trend of continual over / under servicing is evident.

On an individual project level, Synergist gives users total visibility over how resources are being used at all stages of project delivery, in real-time and against projected activity requirements. This allows them to identify and rectify problems early, in a collaborative and transparent way.

PROFITABILITY TIPS

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Some project-based businesses develop long-term relationships with some clients yet never quite create a retainer arrangement with them, even arrangement with them, even though they would love to. Is there a secret formula for encouraging retainers? Not really, but data transparency certainly helps. The CEO of consultancy / agency ClickThrough talks about how Synergist has helped in this department. "Time is completely visible now. It's helped us sell retainers... and a lot more." **See their story.**

3

Making sure staff work to budget

If you're going to be profitable, you've got to be efficient with time. One way to do it? Decent timesheets. Thing is, consultants generally get into the job because they like the work. They're less likely to care about recording time.

And it's not just the staff in your office, the problem is on a global scale. Recent research referenced by Harvard Business Review has estimated that a total of $7.4 billion a day is lost in the US economy alone due to poorly filled out times sheets – and that's including top tier professionals such as lawyers, doctors and consultants.

How come bad timesheets make such a huge loss?

Well, without accurate information of billable hours, you can't accurately bill clients. Add to that issues of productivity, or working out retainers, and other daily tasks, and the importance of the much maligned timesheet becomes clear.

So how do you tempt staff to do this universal chore?

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Engrain timesheets into your business culture

Our conversations with Synergist users have taught us a few interesting lessons on how consultancies have managed to foster high timesheet adoption rates in practice.

An interesting tactic for introducing timesheets from scratch, for example, is to run an incentive programme to encourage completion. One of our clients created a 'Timesheet Raffle' initiative, through which the owners of flawless timesheets where entered into a draw for prizes. It instantly raised the profile of timesheets across the company and resulted in a fast take-up. Even without such gimmicks, focusing on the ease of entry and the payoff for the team and company help engrain timesheets into the accepted routine. And after adoption there is often a feeling of *'What was all the fuss about?'*

Focus on the individual payoffs

When your employees understand what timesheet data is for, they're more likely to fill it out. Unfortunately, many employees are never provided with a convincing argument as to why they should fill their timesheets in.

Often, the onus is therefore on the consultancy to make sure timesheets are actually being put to good use – and then showing the wider team the payoffs of providing more accurate time records. After all, accurate and comprehensive timesheet data should help deliver a better picture of how projects have progressed, how efficient different activities are, and, from there, subsequently support better decision-making in future.

As one of our clients said, "when we explain that [timesheets] help us to be more selective about which jobs we take on now, that helps a lot." Also, by giving all team members access to live timesheet data, they can take more control of their projects and be more efficient in how they use their time – giving them an extra sense of ownership.

Cut unnecessary categories

Over time, one-off job types creep into timesheet categories. It gets to the point where one of the team tries to record their travel, and they don't know whether to use 'meeting (to/from)' or 'travel to client'.

While many consultancies seek to control their admin costs, these sort of duties only add extra time and work. Then somebody has to go through the timesheets, and then realign any errors or mistakes. This could quiet easily become a routine and expensive job. **According to reports**, admin tasks cost small firms 28 hours a week, accounting for a £5bn annual shortfall to the UK economy.

So instead of contributing to pointless admin, don't be afraid to audit categories. Which do you really need in order to assess productivity and progress? How many can be combined into collective activity types?

IN PRACTICE

Synergist offers a simple, integrated solution to ensure every employee always has the quickest, most accurate method of recording time at their fingertips.

For example, Synergist's web-based time tracking software enables precise recordkeeping while employees are off-site, including via mobile phones and portable devices, ensuring they can add time to a project while working on it, wherever they are. It's easy and it saves time.

Talking of saving time, our clients tend to highlight the following as particularly time saving as a result of their new system:

- Estimating and drawing up invoices
- Evaluating and making decisions based on live financial data
- Assessing the current position and remaining time allocations for live jobs
- Eliminating repetition when carrying out administrative tasks
- Completing month end reports

In fact, one client 'conservatively estimated' that Synergist saves them 41 hours a month, increasing profit margins across all areas of their business.

PROFITABILITY TIPS

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Most outsiders would assume that the easiest question any business could be asked is *"Which of your projects are profitable, and which aren't?"* Yet the answer turns out to be elusive for so many businesses. One Synergist user summed it up neatly. *"Proper data... pulls everyone together, shows which projects are going to be profitable and which aren't".* We're not sure if we've seen a more concise reason for getting a consultancy management system than that...

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Synergist – the trusted job costing and project management system that helps consultancies take control of their business and improve profitability and performance.

We've spent the last 15 years creating systems for consultancy and agency managers to help them drive their time-and-project led businesses more effectively. This has led to a wealth of narratives by business managers explaining how Synergist has saved them time, improved efficiencies, increased team awareness of big-picture issues, informed decision-making and improved client service.

We're based in the UK in a delightful converted cotton mill next to a canal in the hilly part of Cheshire, close to Manchester.

Fancy a chat? Give us a call or drop us an email.

www.synergist.co.uk

Phone: **01625 572 690**

Email: **enquiries@synergist.co.uk**

Our colleagues at **Magnifeye / The Agency Works,** our implementation & training partners from our first days, will be happy to give you a personalised demonstration of the system either online or in your office. See **www.magnifeye.co.uk**

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