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DRIVING PROFITABILITY IN ENVIRONMENTAL CONSULTANCIES

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Increasing profits • Reducing risks • Advice from ECs

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Managing the ups and downs

ANTICIPATING THE ROLLERCOASTER EFFECT

In our parallel report *The Future of UK Environmental Consultancies* we assess the current state of the sector, showing key trends and forecasts for the future.

It is a positive assessment. But a glance at the financial results of environmental consultancies (ECs) in the UK shows that profit margins vary widely in any given year. That's hardly surprising perhaps, given the complexities of running such operations. Overall, however, it's a rosy picture.

But ultimately every sector relies on the health of the overall economy for it to thrive. So is there anything that can mitigate this effect to some extent? What are the fundamentals of working in the EC sector, and can they shed light on best practices? How can an individual EC capitalise on opportunities in the good times yet prepare for the bad times, reducing risk?

THE ADVICE

We looked for advice from a UK source that assesses EC profitability from the specialist perspective of valuing such consultancies for mergers and acquisitions purposes. This is because it gives an interesting viewpoint, objectively assessing the effect of actions consultancies take to protect and improve profitability irrespective of market conditions. It translates into ideas for risk reduction and increasing equity value.

With that in mind we contacted Tony Rice, partner of Equiteq, who writes that even when the state of the economy does take a dip, environmental consultancies have some control over their fate and can act to alleviate many of the challenges faced by the sector. As he puts it, it means that at such times you do not need to be 'in a position of vulnerability, constantly buffeted by events.'

ROBUSTNESS

Assessing a company's robustness is key. Rice believes that many ECs are 'technically-led consultancies, often dominated by individuals who possess superior technical skills but whose business skills are not sufficiently developed'. He accepts that superior technical advice is what clients want, but more is needed. 'You want a business that offers the best of both worlds – a reputation for technical excellence and to be better at business development than your competitors.'

THE 8 LEVERS THEY OUTLINE

Rice talked about the 'Eight levers' he uses to benchmark companies against best practice.

1. Market proposition

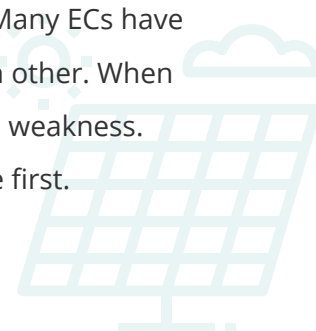
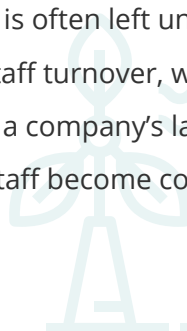
Technically-led consultancy firms tend to frame their proposition in terms of what they sell, rather than what clients need and the outcomes for them.

2. Management quality

The leadership of technically-led firms typically work in the business rather than on it. As a result, Rice believes that they give insufficient investment in functional disciplines such as marketing, human resources and IT enablement, increasing their profit risk.

3. Consultant loyalty

Attracting and keeping a quality team of consultants is clearly crucial, yet Rice thinks the task is often left unmanaged by consultancies. Many ECs have experienced high staff turnover, with firms poaching from each other. When a recession arrives, a company's lack of HR skill can be a crucial weakness. Remember that if staff become concerned, often the best leave first.



4. Sales and marketing processes

Good marketing, lead tracking and business development clearly reduces risk. However 'robust sales and marketing have not, traditionally, been a forte of the consulting sector', says Rice.

5. Intellectual property

The consultancy's information about projects and clients can be seen as intellectual property that needs to be safeguarded, rather than left 'in the heads and laptops of an extremely mobile workforce.'

6. Quality of fee income

Rice talks of the quality of its fee income as much as the quantity, referring to the diversity of its client base in addition to the size and length of contracts. In an economic dip, if client quality is weak the pressure to reduce prices will be strong.

7. Client relationships

This is all about perceptions and peer-to-peer interactions, and could refer to matters such as the quality of the specialisms and the consultancy's track record, respect and trust.

8. Sales and profit growth

From the perspective of an M&A house, proving capabilities in sales and profit growth over three years is naturally the gold standard.



Advice from ECs on the front line

GETTING TO GRIPS WITH PROFITABILITY

To get closer to the front line, we met with senior managers of three UK environmental consultancies and discussed profitability issues with them in some depth.

It turned out to be a subject of particular interest to one of them (ECUS, a five-location multi-disciplinary environmental consultancy) because over several years...

"...profitability was quite elusive. Everyone was working hard, but profits were hard to materialise."

It's a famous refrain. Here was a consultancy that was busy year after year. They had a good reputation, clients valued their expertise, and they had a strong team. So an outsider would assume that business for them was very good. One problem: profits stubbornly did not materialise.

The actions they then took:

- They brought in a new Finance Director (Sara Blannin) to get to grips with it.
- They chose a new project management system – the one they opted for was Synergist.
- Every month their Executive Team would go to Board meetings and present what progress had been made on profitability, step by step.

Sara's findings are given below, in her own words.

After the experience, Sara went a step further and came up with **Four Fundamentals for Profitability** which we also outline below. We use those fundamentals as a framework for showing the findings we received from the other two ECs, who also chose Synergist.

We pass on their comments here verbatim in the belief that others in the sector can benefit from what they found.

Two main contributors:

Gary Winder, Managing Director of REC, with 160 employees.

Sara Blannin, Finance Director of ECUS. 70 employees.

We are grateful to them for their time in volunteering these contributions.

1

GET A GRIP ON UTILISATION.

Utilisation rates are a cornerstone of project-based businesses in the same way that occupancy rates are a cornerstone of the hotel sector.

Discovering the facts of your utilisation can be a revelation to those running the business. So many insights can flow from it, such as:

Do you need to hire?

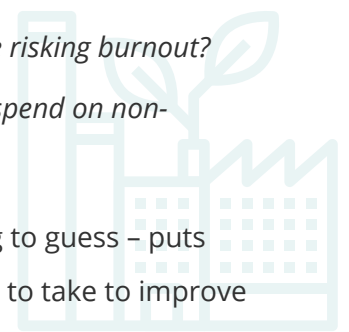
Are your targets fair?

At what point does profitability start to flow?

Are you overloading part of your team, and therefore risking burnout?

What is the true extent of time your teams currently spend on non-chargeable work, and is it going up or down?

Knowing the answers to these – as opposed to having to guess – puts you back in control and prompts the actions you need to take to improve profitability.



In the words of the contributors:

"Without a proper system you simply can't know your true utilisation percentage. When we installed Synergist we were in for a shock: In some cases, our utilisation was more than 10% worse than we had thought. That makes a huge difference." [ECUS]

"With consultancies like ours you need to be on top of utilisation in order to drive and manage bottom-line profitability. You need to be in control of time and able to manage it. You need to know exactly how busy you are, and that has to be directly linked into the core of the business." [REC]

"Knowing how many unallocated hours we have in any one month is very powerful and is a great asset when it comes to good staff planning and resourcing." [ECUS]

"Consultant Utilisation reports have proved particularly useful as a key indicator in monitoring the business performance as a whole and indeed for individual consultants." [UK environmental consultancy].

2

CREATE TRANSPARENCY.

You obviously need to know what's happening in your consultancy at all times. That doesn't seem a lot to ask, does it? But in a busy, complex, multiple-project organisation it's impossible to know what's really happening if all you have at your disposal is a non-integrated system such as a mix of spreadsheets and individual apps.

Perhaps the best way to think about it is to consider what it would feel like if you were the client and a consultancy was a service provider to you. If you queried an invoice item, or wanted a project progress update for a meeting right away, you would expect the answer quickly and without fuss. Process efficiency and transparency are the only way.

What sort of visibility should you expect from a system?

Here's an initial checklist to give you an idea.

- Real-time information on profitability of each project, plus profitability analysis by type of client and type of project.
- Analysis indicating which past projects didn't finish up as profitable as you had planned, with the facility to drill down to find out why.
- Information showing whether your utilisation rates are going up or down.
- Analysis of project health, in real time.
- Live visibility of work in progress.
- Your team's latest forecasts of planned work, by team or by person, showing open opportunities.
- Current forecasts of your business pipeline.

After implementation, this is what ECUS said:

"Profitability is very clear now, by project, by sector, by client – we can report on a variety of key categories."

Profitability is a big topic

The consultancies we met mentioned **three particular aspects** of it in particular.



A. TRANSPARENCY AND HIRING DECISIONS

Clients With skills shortages and widely varying workloads being such big issues, there is always the temptation to hire early.

But do the facts always substantiate it? Without a joined-up system it is notoriously difficult to be sure every time.

"Sometimes a team asks us to hire a senior consultant for them. But the Synergist data can show us that we actually need someone in a more junior role. That makes a huge difference to our bottom line." [REC]

"Synergist shows exactly what the capacity is in each of our teams. It lets us analyse, improve and challenge efficiencies, rather than simply leaping into hiring every time." [REC]

"We [previously] couldn't give team managers the information they needed to manage their staff as well as they wanted, or to make well-informed decisions." [ECUS]

"We have so much more information at our fingertips with Synergist. And without it we would need double the number of people to administer." [UK environmental consultancy]

B. TRANSPARENCY AND SPEED

Everybody's working hard, but are they always working on things that deliver results? Or is it possible that your team is using up too much precious time

- searching for information
- or looking at data that is out-of-date
- or scrambling to pull data together for an invoice, or a report, or a client meeting?

processes, be financially astute and commercially savvy. They learn these things at ECUS now. This helps their careers, and it helps us." [ECUS]

"A lot of a consultant's time can be taken up with routine administrative tasks. Synergist removes a great deal of this from them, enabling the teams to focus more of their time on their clients and projects." [REC]

"Synergist saves us a lot of time. The previous FD had to spend two and a half days just preparing the WIP, for example. That's all in the past now. The time taken to complete our invoicing has greatly improved, not to mention reducing the time spent validating the data." [ECUS]

C. TRANSPARENCY AND SMART DECISIONS

How many decisions take place across your consultancy every day? Think about it.

“There are two ways that companies handle information. One is to keep it locked up tight, so only a privileged few see it. The other is to share it so that everyone...

... is empowered to make smart decisions

... can learn from the facts

... can communicate constructively with colleagues and clients to everyone’s advantage” [ECUS]

“Prior to this, we could be focusing on the wrong areas. We had 54 people working hard but profits were still elusive.” [ECUS]

“We used to get data only after the event – and it was out of date, incomplete and inaccurate. That’s simply not good enough or sustainable, and hindered quality decision-making.” [REC]

And what of those Board meetings at ECUS?

In Sara’s words:

“Solving the profitability problem was key. Now, our Exec team can go to the Board meetings every month and say ‘We’re getting it right!’ The list of things to sort out gets smaller every month. We’re down to finessing things now. There are no more instances of us not understanding profitability issues. That’s all behind us.”

3

The assumptions we make in business and in life are mostly hidden from us. We are unaware we are making them, which makes them dangerous.

We think we are simply making clear observations and taking obvious decisions, so naturally we believe we are right. We defend those decisions, and if someone else comes to a different viewpoint we try to prove them wrong. But, all along, our assumptions could be entirely wrong.

What can break this cycle? Clear facts. When confronted with the unmistakable truth we are forced to do a rethink. Doing this can make the difference between a struggling consultancy and a profitable one.

"You can't run a complex business properly unless your assumptions are being constantly tested. And the most effective challenge to assumptions is with evidence – clean data. So accurate real-time information on projects, clients and profitability is crucial." [ECUS]

"Transparency exposes wrong assumptions. Synergist delivers information that gives us confidence with which to challenge assumptions, both for management and the teams." [ECUS]

4

Gut instinct is one of the most powerful tools you have. It is your intuition, and in so many circumstances in life it serves you brilliantly.

But it sometimes gets it wrong, leading to decisions that threaten hard-won profitability.

The co-founder of a successful project-based business once told us:

“Synergist lets us make informed decisions. We are given the facts. Not all facts are enjoyable, but you need them anyway. It’s like using bathroom scales. You might not like the reading, but it is objective so it helps you make decisions.”

If your consultancy is very busy, your gut instinct tells you that everything is fine.

“You need to accept that being busy isn’t the same as being profitable. People can be busy on the wrong things.” [ECUS]

CONCLUSION

What impressed us most by what ECUS did was their focus on the big issue and their systematic approach to solving it using the new evidence in front of them. Each action they took improved things a little, which gave them and their Board the encouragement they needed that they were on the right track. This is what turning profitability around looks like.

And what of Tony Rice’s ‘Eight levers?’ Can Synergist help with those?

Yes, with seven of them.

Management quality

Synergist helps bring order to the business. It brings sensible processes and efficient ways of working. It delivers powerful reports as standard, and it issues alerts when problems surface. All this helps redress the balance if the enterprise was previously rather closer to technical environmental matters than business matters.

Attracting and retaining skilled staff

Getting staff is challenging in a skills shortage world, but Synergist is renowned at helping consultancies raise the effectiveness of team members, increase engagement, inform their decisions and help accelerate their careers.

Business development

Synergist has built-in processes for business lead tracking and forecasting.

Intellectual property

With information safely unified into one live whole, you avoid any reliance on project and client data residing in heads and laptops. As an extra bonus, new recruits are better equipped to hit the ground running because they have all the project- and client-related information in front of them from day one.

Quality of fee income

One of Synergist's standard reports and dashboards shows the percentage of your business by client, or client type, making any diversity vulnerabilities very transparent.

Client relationships

Users of Synergist comment widely on the positive effects on client service of communicating accurate, timely information, including progress, alerts and answers to queries.

Sales and profit growth

The Synergist effect on consultancy growth and profitability is well documented – these are two primary reasons that consultancies choose Synergist in the first place.

[Call to action and contact details needed]

[Also the PDF will be interactive, so links can be used]