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Consultants and consultancy

This chapter answers the questions: what is a *management consultant* and what is *management consultancy*?

Why are you reading this book? Perhaps you are an experienced consultant who wants to pick up a few new tricks? Maybe you are new to consulting and want to gain a better understanding of what it is all about? This chapter is aimed primarily at the novice consultant.

Whether you are joining a major consultancy, starting out as an independent consultant, or have been recruited as an internal consultant, the chapter provides an overview of the fundamental concepts in consulting. Most of the book is about *how* to be a consultant. As an opening to the subject, this chapter answers *what* being a consultant means.

One of the ongoing challenges for consultants is to explain what we do to non-consultants. That's what I'm going to do in this chapter. I want you to understand what a management consultant is, be familiar with common consulting terminology and appreciate the difference between being a consultant and other roles.

If you are thinking of consultancy as a career, it is best to think through why you want to be a consultant and to assess whether it is a profession that can meet your desires. It is useful to have at least a basic grasp of the economics of a consulting business. This chapter sets out to do all of this. There is nothing complex here, but it provides the foundations for the rest of the book. This disparate range of ideas combines to give a basic but core picture of consulting.

One small but noteworthy point: rather than write the phrases ‘management consultant’ and ‘management consultancy’ repeatedly, I shorten these to ‘consultant’ and ‘consultancy’. This is commonplace in the industry and among clients, who generally just refer to ‘consultants’.

What is a management consultant?

There is a large and growing band of people who call themselves management consultants. Some consultants prefer labels such as *business advisor*, *strategy consultant*, *operational consultant* or even *leadership consultant*. These and related job titles encompass a divergent and eclectic group of individuals.

The work such people do varies enormously. The fee rates range from low to high, and the length of a consulting project may vary from hours to years. Clients who use consultants can be the owners of firms, mid-level managers, or the main board directors of major corporations. Clients may be businesses, or public sector and not-for-profit organisations. Some consultants are employees of the firms the consulting takes place in, many others are external but familiar faces within an organisation, while some consultants appear in a client organisation for a short time and never reappear again. Their areas of specialist expertise go from obscure pieces of business to generalist management or leadership advice.

“It is not easy to come up with a concise definition of consultancy”

Given this huge variety, what is it that is similar that enables them to be bundled together as *management consultants*? It is not easy to come up with a concise definition of consultancy that covers this assortment of roles.

The problem with describing the role of a management consultant is compounded by the fact that some common definitions have been written by people who are not consultants, and who do not understand what consultants do. But listening to professional consultants can equally be misleading. Those who are consultants have a vested interest in making the role sound majestic and magical, and to bias any description towards the type of work they specifically do. I have read definitions of management consultancy in sales brochures, books, dictionaries, encyclopaedias and blogs. A few definitions are the summarisations of people without any real understanding, some are correct but focus on irrelevant aspects of the role, many are good, but do not manage to encapsulate the role and its variations.

Given the wide variety of consultants, it's best to start by listing characteristics of the role of a consultant. As little in this world is absolutely black and white, there are caveats with each one of these characteristics.

Consultants typically do the following seven things:

- 1 They provide advice and recommendations to leaders in organisations, and may provide assistance with the implementation of the recommendations.
Caveat: Consulting companies may provide a whole range of services, from pure consulting to training and outsourcing. Not all of this is consulting. Consulting is about providing useful advice, and helping managers to implement the advice.
- 2 They base their advice and recommendation on a set of skills and expertise, or intellectual property they have available to them.
Caveat: This is what should happen. However, ask any experienced manager and they can probably tell you of the time they spoke to or even engaged someone who purported to be a consultant but who had limited skills, experience or intellectual property.
- 3 They consult. This may sound obvious given the name, but it is often forgotten. What I mean by this is that consultants engage in dialogue with an organisation and its staff, and apply their expertise to develop recommendations, taking account of the needs and context of that organisation.
Caveat: Some firms called consultancies do not consult. Such firms may be successful in selling research, benchmarking data or other types of information. Consultants do not sell products or give the same advice to everyone. There is nothing wrong with selling a product, but irrespective of how it is branded, it is not management consulting.
- 4 They are involved with a given client on a temporary basis.
Caveat: The length of a consulting project may be anything from hours to months. Occasionally, it may be years, although it is difficult to argue that someone who has worked continuously in one organisation for years is still working as a consultant. (Internal consultants work for one organisation, but they will be working on different projects across a range of departments or divisions.) It is not unusual for a consultant to work regularly for the same client, but each piece of work is of a limited duration.
- 5 They are independent. A consultant should be providing advice or recommendations irrespective of the internal politics and vested interests of an organisation or the managers who are their client. To do this a

consultant often needs a good understanding of those politics, but only as a way of making the advice practical.

Caveat: Consultants are human, have their own business interests to consider and naturally have their own biases. But a consultant's biases should be independent of a client's biases. In truth, consultants often get swept up in a client's politics and may manipulate the politics for their own ends (see Chapter 11).

- 6 They are not paid for from an organisation's normal staff budgets.

Caveat: A manager who wants to employ a consultant needs a budget for it. This is often true even for internal consultants who charge back their time, and if they do not, they remain an overhead to the rest of the business.

- 7 They add value to a manager and the client organisation by helping them to change. Value can take many forms, such as improved decision making, faster change implementation, reduced business risk and so on.

Caveat: At least they should do! The reality is not always so clear cut.

If we take these seven characteristics of a consultant and apply the pertinent points, it's possible to develop a definition of a consultant that is true in most situations:

Definition

A consultant is an independent advisor who adds value by helping leaders gain insights, identify improvements and achieve beneficial change appropriate to their situation.

Essential consulting jargon

There is some consultancy terminology that is used frequently and widely, and will be used often in this book. If you are new to the industry then it's essential you become familiar with these concepts. I am not generally a big advocate of jargon (see Chapter 12), but there are words and phrases that are continuously used by consultants. Most of these are simple, and may even be obvious, but they are used in ways that are specific in consulting and are essential to know. For the avoidance of doubt, let's quickly run through them.

Consultants tend to talk about *clients*, rather than customers. The concept of a client is explored in the next chapter. In general terms, the word is used

both to refer to an individual who gives the consultant direction on a consulting project, and the organisation in which that manager works. Hence a consultant may think of the client as Mr Peter Smith of the XYZ Company, or may consider the client to be the XYZ Company. To differentiate, when I refer to a client I am talking about a person (or group of people); when I am talking about the organisation the client works for, I use the term *client organisation*. This may sound pedantic, but not differentiating between clients and client organisations leads to poor thinking.

Once employed by a client, the specific consulting project being undertaken is usually referred to as an *engagement* or sometimes a *live engagement*. A client is one of a larger group of *stakeholders* with whom a consultant must deal. Stakeholders form a set of individuals whom consultants must take into consideration when delivering an engagement.

To win work consultants engage in *business development*. Business development relates to time that is not (usually) *chargeable* to a client, and includes activities that are associated with marketing a business and pursuing specific sales. The aim of business development is to identify *opportunities*, and then convert these opportunities into live engagements and hence have some chargeable time.

“consultants must normally write a description of the service they will provide”

An *opportunity* is the situation in which a client has a need for consulting support. To convert an opportunity into an engagement and be able to charge fees, consultants must normally write a description of the service they will provide to the client. This description is called a *proposal*.

Chargeable time is the time when a consultant is billing fees to the client. Once an engagement is complete, consultants often seek to *sell on* – that is, to sell a subsequent consulting engagement to the client so the consultant can remain chargeable.

In order to sell regularly, and for proposals to be successful, consultants may have *service lines*. A service line is a specific area of expertise that a consultant or a consultancy company invests in and sells to clients (see Chapter 4). For instance, one consultancy may have a service line in improving the management of technology, and another may have a service line to increase innovation in business. Service lines may be the informal labelling of expertise of individual consultants, but they can also be the formal documentation of processes and approaches to consulting by larger consulting companies.

Service lines and any other knowledge or approaches are often called *intellectual property* by consultants. Intellectual property has a specific legal meaning, but many consultants use this phrase in a looser fashion than the legal definition requires (see Chapter 4).

One of the most important measures of a consulting business is *utilisation* or *chargeable utilisation*. Utilisation is a measure of the proportion of time a consultant is working on fee-paying work on a client site. A consultant who is billing three days a week is 60 per cent utilised. There are some variances in how this is calculated (for example, some firms include holiday time, some exclude it), but I'm sure you get the general picture. It's normally not possible for a consultant to be 100 per cent utilised because some time must be spent on business development, the creation and maintenance of service lines and taking a holiday.

How does consulting differ from other roles?

Understanding the role of the consultant starts by appreciating the difference between a consultant and an employee, a manager or a business leader. The boundaries between being a consultant and, for example, a manager are grey, but there are important and definite differences.

Let's start by considering the role of a consultant versus an employee in an organisation using consultants. The obvious point is that a consultant is not an employee of the organisation they are helping, but an employee of a consulting business. Why does this matter? Most consultants want to do a good job that satisfies a client, but their performance assessments, pay increases, promotions, ongoing praise and criticism are not done by the client organisation. All these are influenced by their performance with clients, but consultants have different motivations from client organisation staff. Consultants are never fully part of a client organisation's team. For example, a client may regard a consultant as having done a brilliant job by providing fantastic advice. A consulting company may judge the same consultant to have only done an average job because he did not manage to make any additional consulting sales.

A consultant can be part of a client organisation's project team, and in doing this share some goals with other staff, but consultants are always to some extent independent from the client organisation. Their incentives and performance drivers are different. This is true even for an internal consultant. Obviously, an internal consultant is employed by the same company as his or her clients, but is not employed by the same department, nor is part of the same management hierarchy. This is not necessarily a bad thing – a consultant

who is as much part of your team as any other employee will struggle to then give truly independent advice.

What about the difference between being a consultant and a line manager? Like managers, consultants often are hard-working and want to produce a quality result, but this is relative to the scope of a consulting engagement. They do not, and arguably cannot, deliver an end result in a client organisation.

“ consultants are temporary visitors to an organisation – it is line managers who must live with the results of any consulting engagement ”

They do not live with the outcomes of their recommendations. If a consultant is providing advice, then, if the advice is accepted, a line manager has to implement this advice somehow. Even if consultants help with implementation planning or a change implementation project, they do not end up working with the results following the implementation. Consultants are temporary visitors to an organisation – it is line managers who must live with the results of any consulting engagement.

There is another point about consultants compared to managers. Many consultants are ex-managers with a good understanding of the challenge of managing a department. On the other hand, while all consultants advise, some have never managed anything of any significant complexity. Even relatively senior career consultants, who became consultants from university, may never have managed a team of more than 20 people. For someone in an operational role with several thousand staff and a budget of hundreds of millions, a consultant's understanding of the reality of dealing with this number of people and scale of budget will appear limited. The consultant's response to this should be not even to attempt to be an expert line manager, but to provide focused specialist expertise beyond that of a normal manager.

Finally, what about a consultant compared to a business leader? Many consultants fancy themselves to be great leaders. There are well-regarded business gurus who have come from a consulting background, but a guru is not a leader – a guru is an influencer and a shaper of opinions. Sometimes you see a successful chief executive with a background in consulting, but, on the whole, I am sceptical about professional consultants as business leaders. The consultancy profession encourages the development of a range of skills such as strong communication and influencing skills. On

“ you can be a good consultant without having the ability to lead or inspire ”

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The fact that consultants are different from employees, managers and business leaders is not a criticism of consultants. Consultants are not employees, managers or leaders – that is not what the role entails or requires. Consulting is a different role from being an employee, manager or leader. Consultants must appreciate these roles, be able to work with them and be able to influence them. Some consultants may have a background in organisations which required them to manage or to lead, but this is not universally true. Consultants should not forget that the role of the consultant is to consult, not to manage or to lead.

Comparing consulting to other roles depends on the type of consultant being talked about. There are two dimensions of consulting we should be aware of:

- 1 **Internal or external consultants:** An internal consultant is a full-time employee of an organisation who has a role as a consultant to the business. Typical examples include human resources (HR) or internal change management specialists. An external consultant is someone who is engaged for a specific consulting project, but otherwise is independent of an organisation. Internal consultants tend to have a greater understanding of an organisation's culture and are familiar with many aspects of a business that an external consultant will take some time to learn or understand. External consultants will typically have a broader range of experience in a specific service line and have done work similar to their current engagement in multiple organisations.
- 2 **Strategic, operational, implementation or specialist consultants:** Many consultants work in a wide range of roles and float between providing strategic advice, helping with implementing it and supporting operational managers. Generally, you can differentiate between consultants (and consulting companies) who advise organisations at a strategic level – what direction a business should be taking; at an operational level – how the business should be run on a daily basis efficiently and effectively; or at an implementation level – how to deliver projects and changes (which may be derived from the advice of a strategic or operational consultant). There are also specialist consultants who focus on a particular area of advice. All consultants should be specialists, but what I mean here is, for example, those consultants who focus on specific areas such as regulatory compliance advice or digital transformation.

Another thing to consider is whether the work being done is consulting or another related profession. There are several job titles in common use

which are often employed in relation to consultants, or in relation to people doing work that can seem similar to that of a consultant. The main examples are:

- **Contractor:** A contractor is a temporary employee who is usually paid a day rate to complete some work which is of a transitory nature, where it is not efficient to employ a permanent member of staff. This covers a wide range of areas – from office cleaners to short-term senior staff. The overlap with management consultants is that many projects require temporary staff, and these are often contractors. Organisations are often left with a choice of whether to use contractors or consultants. A rough difference is that a consultant is employed to advise or provide skills the client does not have access to, and a contractor is employed as an extra pair of hands to increase the capacity of an organisation beyond that available with existing permanent staff. In reality, the boundaries are not hard and fast.
- **Interim manager:** An interim manager is a specialised form of senior contractor. An expert manager is engaged to perform a management role for a limited period of time – for example, because a senior manager is ill, on maternity leave or when a search is underway for a replacement. Interim managers are usually expert managers, who fit quickly into even the most senior management roles. It is difficult to define hard and fast boundaries with consultants, as many consultancies offer interim management services and some consultants regularly work as interim managers – but when they do, they are not working as a consultant.
- **Coach:** Coaching is normally done on a one-to-one basis with individual leaders, employees or teams of a client organisation. Coaching is concerned with helping individuals or teams to reach their full potential. A consultant may work as a coach or mentor, but there are professional coaches who do not consider themselves management consultants.
- **Facilitator:** A facilitator is someone who uses facilitation skills to help a group or team resolve some issue or problem. Facilitation is one of those badly misused words in business (and is explored further in Chapter 8). Facilitation is often closely associated with workshops, but it is possible to use facilitation in other situations. Facilitators do not advise directly, but help clients to solve their own problems. Facilitation is both an expert profession in its own right, but to a certain degree also a skill of most consultants.

It's useful to understand the real differences in these roles, but the boundaries are not fixed. Many consultants have the necessary skills and often work in these other roles, but you should not assume that all consultants can perform such roles effectively. Put another way, you can be a successful consultant without, for example, having the capability to facilitate, coach or be an interim manager.

Varieties of consulting organisations

There are different organisational structures you can work in as a consultant. The choice is important as it will affect the type of projects you do, the nature of the day-to-day work and the level of risk and uncertainty you expose yourself to. There are essentially five ways you can work as a consultant:

- 1 as a solo or independent consultant working for yourself or your own company;
- 2 as an employee of a major consulting company;
- 3 as part of an organisation offering a portfolio of services of which consulting is only one – the most common is the consulting, IT development and outsourcing company, but there are other variants;
- 4 as part of a small consultancy company;
- 5 in a short-term or virtual organisation brought together for one client opportunity.

What's best for you depends on personal preferences, and what opportunities are open to you. I have worked as a consultant in all these models.

The independent consultant is usually either someone who has worked in a larger consultancy but wants a more self-sufficient lifestyle, or an ex-manager or subject-matter expert who now wants to advise rather than manage. There are many reasons for choosing to become independent. I prefer to work for my own company as it enables me to maximise my personal flexibility. The cost is that I am completely dependent on my own ability to find projects and generate an income.

“organisations
always need help”

I have not found this a problem. I have an established reputation and organisations always need help. My business costs are comparatively low, and I have other revenues. I have access to a wide range of work. This gives me great flexibility. For instance, if I feel I don't want to work for a few weeks or months I can take a break. I don't need to make that much money to cover my business costs.

At the other extreme are the major consulting companies. If you have little experience, are a recent graduate or like to combine consulting with a corporate culture, these are the organisations for you. The big consultancies can be attractive places to work. They tend to give great opportunities for professional development and international working and arguably reduce your personal risk as you have teams of people around you also helping to win and deliver engagements. Additionally, the larger firms often win massive projects which may require leading-edge thinking and techniques, although on the largest projects you can feel like a cog in the machine rather than a real consultant. If you become a senior manager (or partner) in such organisations the rewards can be high. But it does mean taking on all the baggage that comes with corporate life.

“ big consultancies are notoriously political environments ”

Big consultancies are notoriously political environments. Some are focused on people who fit their specific organisational culture, which can give the consultancy a defined feeling that will not suit everyone. If you want to work for a big consultancy take

care choosing, as the entry requirements, culture, work expectations and rewards vary significantly.

Companies offering a portfolio of services beyond consultancy provide a large variety of career options. However, if your firm is not purely a consultancy, there is always the tension over how independent the consulting advice is and whether it is just a sales channel for other services. Some outsourcing firms have successful consulting divisions, but there is always a doubt in some clients' minds as to whether the consulting is impartial advice or a funnel to win outsourcing contracts.

There are many smaller consultancies, which offer a compromise between the complete self-sufficiency of the sole trader and the corporate hierarchies of the larger firms. Some of the smaller consultancies are industry leaders in specific consulting niches. For instance, you can find consulting firms who specialise solely in financial regulation, telecommunications, customer services or cost control in manufacturing. If you have a particularly focused specialisation there may be a firm for whom you are a perfect fit.

“ it's easy nowadays to form 'virtual organisations' with other independent or small consultancies ”

I run my own company but that does not mean that I am tied to working by myself. It's easy nowadays to form 'virtual organisations' with other independent or small consultancies. I have been involved in large engagements, won in competition with some of the largest consulting firms. I have a network of

trusted colleagues and partner organisations, and we work together to deliver the larger engagements that a single consultant may not manage.

Why do you want to be a consultant?

Let's reflect on why you want to be a management consultant, and if your reasons have a realistic chance of being fulfilled.

“ the best reason for wanting to become a management consultant is because you enjoy the process of consulting with clients ”

The best reason for wanting to become a management consultant is because you enjoy the process of consulting with clients. If you have never worked as a consultant, just what 'consulting with a client' means will be unclear. If you do know, and this is the reason for becoming a consultant, then you are well set for a successful career. However, most people have more pragmatic grounds for becoming a consultant.

A common reason to join the profession is the potential variety of the work. Although as a consultant you may work in a specialist area, you will work in many organisations. The context and culture of the organisations and details of the problems will vary significantly. I find consulting work highly varied. I have worked all around the world, for companies in a wide variety of sectors, with clients of differing levels of seniority, to help resolve a divergent range of problems. However, if the service you will provide to organisations is specialised – for example, helping them to be compliant with a specific piece of industrial regulation – what variety you gain from different clients you may lose in essentially doing the same piece of work again and again.

Some people join consulting for skills development, which typically arises from one of two sources. Development may happen because of the wide variety of challenging work you are involved in. There is no quicker way of improving your skills than intense and challenging work! Alternatively, and this is most true for graduates coming into consulting, it is because you join a company that understands that its key asset is people and hence is willing to invest significantly in their development. Consulting does provide a great way to develop a powerful set of useful skills, such as problem analysis, communication skills and influencing skills. One important exception to this is that if you want to learn how to manage people then you will be better off seeking an operational line management role.

However, you can avoid much of the burden of line management that goes with a corporate role. Some individuals love managing people, some hate it. If you work for a large consultancy you may still have staff whom you have to performance manage and motivate, but the teams tend to be small. As an independent consultant staff management is not something you have to worry about.

Graduates often want to join consultancies for the lifestyle and travel. A few professions enable you to travel even more and to wilder places, such as mining and oil exploration, but generally consultancies offer a fantastic opportunity to travel as a consultant if you want to – especially if you are multilingual. Such travel can be exciting and rewarding. Working in foreign countries gives you a perspective that other travellers never gain, but it is a double-edged sword.

“working in foreign countries is a double-edged sword”

Travelling all the time can be dull. Often the locations sound exotic, but an office is an office wherever it is in the world. Continuous travel will play havoc with your social life.

Some people want to enter consulting for the money. The money earned as a consultant can be good, but it depends what you are used to. Few consultants achieve the rewards of the chief executive of a major company, unless they happen to become a senior partner in a big firm. On the other hand, most reasonably successful consultants earn more than senior middle managers and junior executives in most other industries.

There are much more down-to-earth explanations for becoming a consultant. Some people just fall into it. I was recruited by Coopers & Lybrand out of industry. Frankly, I had no idea what consulting was but it was better money, which for a young man with a family seemed an attractive proposition. I was lucky in that it is a career that has suited me immensely. Other people come into consulting because they feel they have no other choice. Perhaps they have been senior managers who find themselves made redundant late in their career and unable to find a suitable alternative role. These are not necessarily bad reasons for entering the profession. We are all, at times, hard-nosed about our careers. There are many successful consultants who have started as a consultant as a way of overcoming redundancy, but simply because you have business skills does not mean you will thrive as a consultant.

A popular dream is a ‘portfolio career’ – one made up of a variety of side hustles: a career in which you mix different types of work together. This is possible as a consultant, especially if you are self-employed. Some types of work can complement consulting well. I know many people who manage

to control this mix successfully. I have several professions: as well as running my consulting business I write, deliver training courses and seminars, have a business game that I sell, and take regular time out to do other things I am interested in.

Whatever your reasons for considering consulting, don't fool yourself that it is always an easy ride, or that it will give you a completely flexible lifestyle. For example, as a self-employed consultant you may well be able to take more holiday, you may well be able to work part time – but, and it is a big but, only within the constraints of your clients' needs. You may decide to work only nine months a year, but that does not mean you can definitely choose the three months you don't work to be 1 November to 31 January every year while

“ clients won't usually wait for a particular consultant ”

you are in the South Pacific, and expect at the same time to be 100 per cent fee earning until 31 October, with an immediate start again on 1 February of the following year. Clients won't usually wait for a particular consultant. If they have a problem, they want

someone to fix it; and if you are not available, they can usually find someone else to do the work just as well. Consulting opportunities cannot simply be turned on and off. They have to be searched out and won. Clients and engagements do not easily fit a predictable pattern. If you want flexibility you do need to have some flexibility yourself.

Whatever flexibility you want from consulting is effectively a constraint on your ability to service clients. If you are clever and pragmatic there is no reason why the constraints cannot be overcome and you can manage to balance your own and your clients' desires well. But you cannot maximise your income and maximise your personal flexibility (unless, perhaps, you really are a world-renowned industry guru).

I know many people who love working as a consultant. But consulting does not suit everyone's personalities. If you are constantly working in different organisations, it changes the relationship with the place you are working. To some extent you will always be an outsider. Not everyone likes this.

Consulting can leave many people with an ongoing feeling of uncertainty and risk. As one project ends, where is the next and when will it start? If you are an independent consultant there is no career path as such – you may want to vary your work, and may over time increase your rates, but there is no hierarchy to be promoted through. If you work in one of the large consultancies, promotion is possible, but for most firms seniority beyond a certain level does not just depend on your consulting skills and expertise, but on your ability to sell.

Consulting offers great opportunities, but it is different from other types of employment. It offers potentially high rewards and significant flexibility. If unmanaged, it can intrude into your personal life, but so does any senior role. If you are pragmatic and flexible, then you can get a good level of rewards and flexibility in return.

The economics of consulting

The past few decades have brought an increasing stress on the work–life balance and less on the financial factors of employment. Even so, an aspect in deciding whether to be a consultant is whether you will make the income you

“this is not a business plan for a consulting business”

desire. Whether a career in consulting can provide you with the money you want depends on your expectations (or income needs), your degree of success, but also the inherent economics of consulting. Before entering this profession, you should understand your potential income. I am going to look at

this only simply. This is not a business plan for a consulting business, but it does explain the basics.

Let's start by considering the case of a single independent consultant as this is the simplest to understand. I will only look at revenues. Costs for independent consultants are generally low, and often those that are incurred are attributable to clients and can be recharged as expenses. So, I am going to ignore them for now. This is a gross generalisation, but it is fine to begin with as it will not change the overall outcome significantly. There are two factors that determine how much money you generate as a consultant:

- 1 the number of chargeable days a year you achieve; and
- 2 your daily charge-out rate.

(Not all consulting projects are charged on a daily basis, but this basis is accurate enough to understand the general economics of the business.)

It is as simple as that. How do you know how many days a year you will work for and what daily charge-out rate you will achieve? There are huge variations between different consultants. Taking account of fee rates and number of chargeable days it is quite easy to find two apparently similar consultants, one of whom has an income three or four times higher than the other. At the extremes, comparing the lowest to highest revenue-generating consultant, the multiples are much greater.

Some estimates

To estimate the daily rate you will achieve it is best to do a little research, but it is not straightforward finding accurate information. There is no easily available database of rates as there is no transparent market in consultancy, and it is generally not in consultants' interests to make it transparent. A good place to start is a web search. There are websites dedicated to sourcing consultants and other temporary staff that will give you a rough idea of potential daily rates, but these tend to focus on the lower end of the market. There are studies of the industry, but they are not always freely available. Even if you get hold of one, their categorisations of consultants may give you some ideas but generally are too broad to base your own fees on. A good source of information is your personal network.

Ask a few friends who hire consultants regularly, and you may be able to get a feel for the sort of rates the big firms charge. These tend to be higher than independents achieve, although this is not always true. The best way to get a feel for rates is to find someone with some experience of the industry and ask them what they think you will be able to charge. Never forget, whatever fee rate you expect or want, it actually depends on a client being willing and able to pay it.

Next you need to estimate how many days a year you will work. If you are new to consulting, do not be overly optimistic. Can you work 5 days a week for 52 weeks a year? That gives you 260 chargeable days a year, but you should never assume that what you make is 260 times your daily rate. You will rarely be 100 per cent utilised – and even if you can be, do you want to be?

As a rule of thumb, assume you will be busy 100–150 days a year. You may well be a lot busier, but if you cannot afford to be a consultant working only this many days you are taking a risk. Whether you can take that risk depends on your risk appetite and your lifestyle. Many consultants make a comfortable living on this, and many more are busy for considerably more than 100 days a year. But it is best to be conservative at the start of your career.

Other factors

There are several other factors to consider. There are possible tax efficiencies of being self-employed or running your own business. You need professional advice to understand these fully, and tax legislation changes all the time. Remember, if you are becoming a self-employed consultant after a career in industry there are none of the benefits that you may have received in your

previous job. There are no extra pension contributions, no bonuses, no paid holiday, no health care or sick pay, no car allowance, etc.

You need to plan your cashflow, and do not confuse income with cash flow. Consulting tends to pay big bills in dribs and drabs. Some clients are slow in paying. I am usually paid reasonably promptly, but some invoices have languished for six months before finally being paid. You need to have a float of money to cover these periods.

For a consulting firm with multiple employees the economics are far more complex. Costs cannot be ignored. Business costs for premium office space and facilities may be high. Staff you employ will naturally expect many benefits on top of salaries. There will be the costs of non-fee-earning staff and senior staff: although they may be able to charge some fees, these may not cover the full cost of their salary and expenses. Bad debt has to be considered – that is, clients who will not or cannot pay. I have never (yet!) experienced this and it does seem to be rare. However, in the largest firms, simply because of the volume of work they undertake, occasionally a client may not pay. Whatever the size of firm, slow payment remains a far bigger issue.

The profitability of consultancy companies can be high when chargeable utilisation is above a certain level, but drop below this level and all those large salaries and fancy offices can soon lead to big losses. Hence the tendency of some firms to recruit heavily in the boom times, but to be quick to make staff redundant when the economy is struggling. In the end, although an accountant could find a million flaws in my simple views, the profit of a consulting company can be approximated by a simple piece of arithmetic:

$$\text{Profit} = (\text{days charged} \times \text{average charge-out rate}) - \text{cost of business}$$

The rate you charge and the number of days you work are dependent on clients, but your costs are largely under your own control. With modern technology and services, you can run a consultancy on a shoestring and

“with modern technology and services, you can run a consultancy on a shoestring and still look completely professional”

still look completely professional. Therefore, the most important considerations will always be making sure you charge for enough days at a high-enough fee rate to generate the income you require. If you are committing yourself to significant costs before you have started to generate revenue, think again. You can always make those commitments once you are sure of your income.

Finally, what about the situation in which you take a job within a consultancy as an employed consultant, rather than someone who runs their own business? Here your salary is to some extent divorced from the economics of the consulting business – it's down to what you can negotiate. The big

“ at a more senior level, your value to a consultancy is more related to your relationships and personal network ”

firms tend to have a standard package for graduates. For more senior staff the salary and package will depend on how valuable you are to the consultancy and what you can negotiate. At a more senior level, your value to a consultancy is more related to your relationships and personal network than your pure consulting skills.

Generally, the large consultancies pay well and provide a good set of other benefits. There are professions paying higher, but consulting has to be considered as towards the top end of the market in terms of salaries.

As an internal consultant it is different, and your salary will depend on the market rates associated with your specialisation and the remuneration policies of the specific firm you are being employed by. Generally, salaries are significantly lower than in the consultancy companies.

What makes a good consultant?

By this point you know what a consultant is, why you might want to consider it as a profession and whether you will make any money. In this final section I want to consider what makes a good consultant. Much of this book is taken up with giving advice on how to be a good consultant; this short section is concerned with what would be assessed as a good consultant.

When I told a friend of mine, who is a successful and experienced consultant, about writing this book he responded with the comment that there is little to write. He said the book would only be about 10 pages long. He then went on to advise that I should not write a book, but a haiku! The truth behind this jibe is that it is quite simple to define what a good consultant is – but most of this book is about how to achieve this rather than defining it. My poetry skills are limited, so I will stick to prose rather than the haiku. A good consultant: *continuously adds value to clients commensurate with their fees.*

We will explore what ‘adding value’ means in later chapters.

There is a difference between being good at something and being a good consultant. There is an old joke, aimed rather unfairly at teachers, saying *those*

who can, do; those who can't, teach. This joke can be extended to become *those who can, do; those who can't, teach; and those who can't teach, consult.* The joke for teachers is unfair, but it hides an important truth – there is a difference between being good at something and being a good teacher. It is similar for consultants. There are many advantages in having management experience, but consulting is not about managing. Equally, having been a great manager is an advantage for consulting, but it does not guarantee that you will be a successful consultant.

From your perspective you are a good consultant if you achieve your personal objectives through consulting. Only you know what your personal goals are. The rest of this book is about how you can continuously add value for your clients. However, you may wonder whether you have the right type of personality to succeed as a consultant. There is no single personality type who makes the best consultant, but I will pick on a few factors which I think are important.

Firstly, as a consultant you should be a people person. I know this is a clichéd phrase, but it has a core truth. It's not necessary to be an extrovert, but you must be happy engaging with others. You will constantly be working and interacting with people, and if this does not excite you then consulting is not for you.

Next, you should be flexible and adaptable. Client needs and expectations vary enormously, and you need to flex to the situation.

It may surprise some people, but it also helps if you are not status conscious. Although you may end up as a hugely successful consultant earning much more than most of your clients, when you are on a client's site you are just a consultant doing a job for them. Sometimes you will be regarded as someone senior in the client organisation, but may be seen as quite junior in the next one. If you have an ego that has a problem with this, consulting may not be for you.

Consultants must be orientated to resolving problems. A client has engaged you to help; there are many forms this help can take, but all of them must result in resolving the client's problems.

Next, while a consultant is there to help, they must not be over hasty in determining solutions. You must have the personality that wants to solve problems properly, rather than resolve the most apparent symptoms. You want to be like the doctor who finds out *why* a patient has spots rather than the one who just gives a cream to make them less itchy.

Finally, you must be someone who listens. To be objective and to provide a diagnosis that is most helpful to the client requires listening and assessing the situation. Solutions must be tailored to the specific context.

There are many other factors that influence your ability to be a great consultant, but the above are critical.

Summary

If you are new to consulting there are some essential concepts you must understand. You should now be familiar with the main concepts covered in this chapter. They are:

- The role of a consultant and the difference between it and other roles, especially that of a line manager.
- The skills of a consultant in relation to those of other professions such as contractor or interim manager.
- The core consulting jargon.
- The variety of consulting organisations.
- Why you want to be a consultant and whether it is a profession that can fulfil those needs.
- The economics of consulting.
- What makes a good consultant.

The rest of this book will explain how to be a good and successful consultant.