Professional Consulting Firm: Market, Organization, Success Factors

– Chartset 2010 –

Prof. Dr. Georg Rainer Hofmann

(9 January 2010)
Professorship for Information Management

Prof. Dr. Georg Rainer Hofmann

- Strategic Data Processing Concepts
- Issues of General Leadership
- Information System Management
- „Mathematics and Philosophy“

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The “Secret” of Consulting Success is ...

1. ... at a minor part the technological expertise, 
   *by far more important are* ...

2. ... the “Definitionship” of the processes and the culture of the firm,

3. as well as effective, *non-coersive* discipline and control,

4. ... self-discipline and responsibility of the professional staff members,

5. for the clients and the further development of the firm.
## IT Products are different from IT Projects

<table>
<thead>
<tr>
<th>Products</th>
<th>Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology-based,</td>
<td>Service-based,</td>
</tr>
<tr>
<td>Design-oriented</td>
<td>Dialogue-oriented</td>
</tr>
<tr>
<td>“Target&quot; are machines (computers)</td>
<td>“Target&quot; are enterprises (persons)</td>
</tr>
<tr>
<td>High technological competence</td>
<td>High social competence</td>
</tr>
<tr>
<td>Fixed prices (minus discounts)</td>
<td>Flexible prices (negotiable)</td>
</tr>
<tr>
<td>High market transparency</td>
<td>Low market transparency</td>
</tr>
<tr>
<td>Low margins, critical profit higher pressure on prices</td>
<td>Higher margins, “watch maker effect&quot;</td>
</tr>
</tbody>
</table>
**A Transition Process – Scientific Institute vs. PSF**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institute / University</strong></td>
<td>„semi commercial“</td>
<td>commercial PSF</td>
</tr>
<tr>
<td><strong>Success based on international</strong></td>
<td><strong>Success based on monetary</strong></td>
<td>Success based Clients' Benefit; Monetary Wins of PSF</td>
</tr>
<tr>
<td>Reputation; Publications</td>
<td>Benefit; <strong>Revenues with Clients</strong></td>
<td></td>
</tr>
<tr>
<td>„Being in charge“ for a Field of</td>
<td>Legitimation secondary;</td>
<td>Trusted Advisory Firm</td>
</tr>
<tr>
<td>Scientific Activity and Expertise</td>
<td>Trust in Expertise</td>
<td>Identification Clients' Issues</td>
</tr>
<tr>
<td><strong>Technological Competence</strong></td>
<td><strong>Social Competence</strong></td>
<td></td>
</tr>
<tr>
<td>Fixed Compensations and Honorary</td>
<td>Compensation within a moderate <strong>Meritocracy</strong></td>
<td>Compensation according to Policy of the Professional Service Firm (PSF)</td>
</tr>
<tr>
<td>(„basic public financials“),</td>
<td></td>
<td></td>
</tr>
<tr>
<td>since Market fails very often</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>High Market Transparency</strong></td>
<td>Low Market Transparency</td>
<td></td>
</tr>
</tbody>
</table>
Professional Service Firm: Trusted Advisory Firm (1)

The 5-step Trust Building Process

1. ENGAGE: Uses language of interest and concern
   “I’ve been thinking about your competitors, and…”
   “Your people have been telling me about..”

2. LISTEN: Uses language of understanding and empathy
   “Tell me more…”
   “What’s behind that?”

3. FRAME: Uses language of perspective and candor
   “I see three key themes emerging here…”
   “You know, what’s tough to do here is..”

4. Jointly ENVISION: Uses language of possibility
   “Wouldn’t it be great if…”

5. COMMIT: Uses language of joint exploration
   “What would it take, for each of us, to…….”

accord. to: Maister, TAF
Some Tips on Enhancing Credibility:

1. Figure out how to tell as much truth as possible, except where to do so would injure others.
2. Don't tell lies, or even exaggerate. At all. Ever.
3. Avoid saying things that others might construe as lies.
4. Speak with expression, not monotonically. Use body language, eye contact, and vocal range. Show the client you have energy around the subject at hand.
5. Don't just cite references. Where it is genuinely possible to create mutual benefit, introduce your clients to each other; they will learn from each other, and you will have plenty of reflected credit in which to bask.
6. When you don't know, say so, quickly and directly.
7. Yes it's important to have them know your credentials. Just don't get silly by having all those initials and certifications appear after your name on your business card.
8. Relax. You know much more than you think you know. If you don't really belong there, then don't put yourself there in the first place.
9. Make sure you've done absolutely all your homework on the client company, the client marketplace and the client individual, and that it's absolutely up to the minute.
10. There's no reason to show off.
11. Love your topic. It will show.

accord. to: Maister, TAF
Professional Service Firm: Trusted Advisory Firm (3)

The more your clients trust you, the more they will:

1. Reach for your advice
2. Be inclined to accept and act on your recommendations
3. Bring you in on more advanced, complex, strategic issues
4. Treat you as you wish to be treated
5. Respect you
6. Share more information that helps you to help them, and improves the quality of the service you provide
7. Pay your bills without question
8. Refer you to their friends and business acquaintances
9. Lower the level of stress in your interactions
10. Forgive you when you make a mistake
11. Protect you when you need it (even from their own organization)
12. Warn you of dangers that you might avoid
13. Involve you early on when their issues begin to form, rather than later in the process (or maybe even call you first!)

accord. to: Maister, TAF
Taxonomy of the IT market: Products vs. Projects

**Strategic management consulting incl. IT**
Global Planning, Second Opinions, Nat'l und Int'l "Awareness"

**Business process-oriented IT consulting**
Enterprise-wide Usage of IT, Concepts, Purchasing

**Adoption of software and hardware**
Specifications und Adoptions on System level, "Introductions"

**(Standard) software, hardware**
Licences, "per Piece", Standard SW, Standard HW

**Retail of standard products**
Consumer-oriented Retailer, Discounter

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**problem-specific**

Owners, CEO, Leaders

Head of Department

Head of Department

Head of IT

Project Manager

Yes / No (Prices?)

---

**product-specific**

Head of IT

Head of Department

Standard SW, Retailer

Standard HW Discounter

Retail of standard products

---

MBA Business Integration
**Offers of Products and Projects:**

**Investment Volume, Mobilisation Time Frame**

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Problems Specific</th>
<th>Product Specific</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic management consulting incl. IT</td>
<td>smaller than 1</td>
<td>ca. 1</td>
</tr>
<tr>
<td>Business process-oriented IT consulting</td>
<td>ca. 10 - 20 d</td>
<td>ca. 1 - 6 m</td>
</tr>
<tr>
<td>Adoption of software and hardware</td>
<td>ca. 1 - 2</td>
<td>ca. 3 - 5 - 7</td>
</tr>
<tr>
<td>(Standard) software, hardware</td>
<td>ca. 0.5 - 3 a</td>
<td>über 6</td>
</tr>
<tr>
<td>Retail of standard products</td>
<td>ca. 1 - 3 a</td>
<td></td>
</tr>
</tbody>
</table>

- **Invest Index:**
  - Top Strategic Consultants, Freelancers, McK, ATK, BCG, ...
  - Small & medium Consulting firms, „Lünendonk’s 25“
  - (small & medium) SW Firms, System Providers
  - trad. IT producers
  - trad. IT producers, large SW enterprises and firms (SAP, MS, ...)
  - Retailers, Warehouses

- **Mobilisation Time Frame:**
  - in fact 0
  - ca. 10 - 20 d
  - ca. 1 - 6 m
  - ca. 0.5 - 3 a
  - ca. 1 - 3 a
The IT market trends – since many years – to the „left“; „right hand“ we see a concentration (oligopolies):

- Higher pressure on margins and prices
- Leverage of acquisition effort is less
- Ranking and standing of clients is lower
- The spectrum of products is smaller and more "standardized"

For the IT market, a certain orientation to the left is necessary.
Projects of the “Professional Service Firm” (PSF)

- **Strategic management consulting incl. IT**
- **Business process-oriented IT consulting**
- **Adoption of software and hardware**
- **(Standard-) software, hardware**

**“Brains”**
- Analytical, Standing

**“Grey Hair”**
- Experience

**“Procedural”**
- Efficiency

- Project orientation: Client first, Firm second, ...
- Further processing of primary products
- "Value-added Re-Selling" and services

mod., accord. to: David Maister, PSFM
Consulting Revenue in Germany in Bill. EUR

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (Bill. EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>9.6</td>
</tr>
<tr>
<td>1999</td>
<td>10.9</td>
</tr>
<tr>
<td>2000</td>
<td>12.2</td>
</tr>
<tr>
<td>2001</td>
<td>12.9</td>
</tr>
<tr>
<td>2002</td>
<td>12.3</td>
</tr>
<tr>
<td>2003</td>
<td>12.2</td>
</tr>
<tr>
<td>2004</td>
<td>12.3</td>
</tr>
<tr>
<td>2005</td>
<td>13.2</td>
</tr>
<tr>
<td>2006</td>
<td>14.7</td>
</tr>
<tr>
<td>2007</td>
<td>16.4</td>
</tr>
<tr>
<td>2008</td>
<td>18.2</td>
</tr>
<tr>
<td>2009</td>
<td>18.X</td>
</tr>
</tbody>
</table>

mod., accord. to: BDU
Growth Rate of Segment Revenue vs. GNP

mod., accord. to: BDU

MBA Business Integration

Prof. Dr. Georg Rainer Hofmann
Aschaffenburg
Consulting Intensity in Germany

mod., accord. to: BDU
Professional Service Firm: Balance of three factors

1) Kind of Projects

Clients / Market
(Service Offers)

2) Honorary
Profitability
(Success)

3) Career Prospects
Hiring Employees
(Satisfaction)

Leverage

mod., accord. to: David Maister, PSFM
Marketing Measures

1. **Broadcasting**: Public Relations for New Contacts
2. **Courting**: *ex-ante*: Caring for a single (prospective) Client
3. **Superpleasing**: Surpassing the expectations of the Client
4. **Nurturing**: *ex-post*: Caring for a single (prospective) Client
5. **Listening to the Market**: Definition of new Services

The Result is quantitative in Terms of ...

mod., accord. to: David Maister, PSFM
Professional Service Firm: Marketing Statistics

Sum of effort for marketing and acquisition:
according to the cg / ncg relation

Win / loss ratio:
sum of offers vs. der “won“ projects
Average: ~50%, ideally: >90%, public context: ~15%

Effort of acquisition vs. project volume:
Average: ~10% - 15%, ideally: ~ 1% - 2%

Recurring business ratio:
“Zero-effort in acquisition” business !

Innovation ratio:
Part of revenue related to new issues and tasks, new products

Penetration ratios:
Client? Market segment?
mod., accord. to: David Maister, PSFM
Marketing Measures: Broadcasting, by Effectiveness

1. Signalling of **genuine own expertise** via proprietary research; such as benchmarking, empirical studies, articles in revised journals, etc.
2. **Client seminars** for a important relevant topic
3. Contributing to **events of (at) the client**, illustrating project results
4. **Newsletter**, regarding relevant(?) topics
5. Personal networking, **“political” activities**, associations, etc.
6. Fairs, **advertising**, sponsoring, etc.

The result is the “qualified new contact“ (so-called “lead”).

mod., accord. to: David Maister, PSFM
Professional Service Firm: Project Motivation

GET BETTER WORK not just MORE WORK

WILL THIS ENGAGEMENT....

1. ALLOW US TO LEARN NEW SKILLS?
2. EXPOSE US TO AN IMPORTANT NEW CLIENT?
3. INCREASE (NOT JUST SUSTAIN) AN IMPORTANT EXISTING CLIENT RELATIONSHIP?
4. ALLOW US TO LEVERAGE MORE THAN IN THE PAST?
5. ALLOW US TO COMMAND HIGHER FEES THAN IN THE PAST?
6. ALLOW US TO WORK "HIGHER" IN THE CLIENT ORGANIZATION?
7. INTRODUCE US TO A NEW INDUSTRY?
8. LEAD TO BETTER WORK WITH THIS CLIENT?

IF NOT, WHY DO WE WANT THIS WORK?

accord. to: Maister, PSFM
Taxonomy of Expertise

Enyclopedic Knowledge

Personal: CVs

Presentations, Charts

Experience, Hints

Projects: Profiles, Reports

Acquisition: Risks, QM

Clients: Contact Persons, Business

MBA Business Integration
Professional Service Firm: Definition of Product

- **Potential**: Rendering of the ability and willingness to work for the specific client. → Referenzen, CVs

- **Process**: How the consultant will work with – and for – the client.

- **Result**: Output and performance, e.g., a study, a software system.

- **Client Benefit**: Benefit the client will have, resp., may expect.

- **Price and Calculation Schema**: Costs plus margin, market prices, calculation based on opportunity.
Professional Service Firm: Marktsegmentierung

- **Region**: (Global) geographic criteria, cultural areas, languages

- **Branche**: Group of clients with similar products: Financial and banks, chemistry, automotive, or IT, …

- **Issue**: Problem of client, or task to address

- **Key Clients**: (Most) important clients

- „Size“ of clients
Professional Service Firm: Data Structure Lead List (1)

Index:
- no deleting in the list!
- function of an eternal chronicle

Consulting Issue:
- prospective project name
- co-ordination of the acquisition (per market segment !)

Client, Contact Person:
- incl. a „check“: Position, standing, budget?
- address!
- experience being made? Creditworthiness?

Own Team; Project Management:
- responsible for acquisition progress,
- maybe some persons with special budget,
- (later) project manager
Professional Service Firm: Data Structure Lead List (2)

Status:
cyclical model: Contact, pre-proposal, proposal, presentation, Loi, contract, on hold (until?!), lost

Follow-up; Date:
which is the next status of the lead – when will it be reached?

Location in Time, over quarter or year:

Prospective Volume of Contract (T€):
realistic estimation is absolutely mandatory!

Winning Probability (p):
realistic estimation is absolutely mandatory!

Volume * p (T€); Location in Time:
Short / Long in Leads? - Budget vs. Resources!
Professional Service Firm: Life Cycle / Lead List (3)


Pre-Proposal: Rendering of Expertise

Proposal: Qualified Rendering of Product

Presentation: „Proposal at Hand and by Heart“, Beauty Contest, Q&A

On Hold: Why that? How long? Trigger for Progress?

Loi: Instead of Contract due to legal Complexity

Contract: [ Problem and Mistake #1 : Take the money and run ... ]

Follow-up: Some other issues and problems? - Cross-Selling!

Lost: WHY? Will we do better next time? Any Lessons learned?
Professional Service Firm: Career Model (1)

**Assistant:**
Meeting deadlines, professional and correct operation of defined tasks in projects and back-office

**Consultant:**
Management of own schedule and work capacity „*managing the self“*, analytical understanding and solving of problems, professional expertise, intelligence, social and communicative capability, tolerance, taking(!) advice, OA skills, presentation and documentation skills

**Senior Consultant:**
Advanced expertise, “broader range” – (partly) project management, Contribution to business development: Acquisition, innovations, etc.

**Manager:**
Formal und professional correct project management, providing guidance and leadership for a (virtual) team in expertise and business
Professional Service Firm: Career Model (2)

Senior Manager:
All-over responsibility for an area of professional business:
  Management of personal, acquisition, project portfolio
Pro-active “discovery” and development of new business:
  Planning and controlling relevant investments,
  Leadership in knowledge management (KM)
De-facto Partnership

Partner:
  „Positioning“ of the PSF: Reputation, development of image
  Social “Standing” – “society top level” compatible
  Long-term-oriented care for clients’ relationship

Senior Partner:
  Even improved “standing” – “international society top level” compatible
  Steering (international) activities and policy of the PSF
  Fostering of international and global acceptance of the PSF
Professional Service Firm: Organisation – Productivity

\[
\text{Profit}_{PSF} = \frac{\text{Profit}}{\text{Honorary}} \times \frac{\text{Honorary per hour}}{\text{Employees}_{PSF}}
\]

ISSUE: Costs, Niveau, Employability, Complexity

accord. to: Maister, PSFM; Maether, Modelling PSF
Professional Service Firm: Quantitative Global Controlling

Diagram:
- Recruitment Process
- Permanent Education
- Acquisition
- Marketing

Variables:
- Number of employees
- Number of hours per year
- Number of cg hours
- Number of ncg hours
- Average honorary per hour
- Average number of hours per project – project size
- Number of projects
- Compensation, bonus, etc.
- Other expenditures, infrastructure, etc.

Equations:
- \( \text{Number of employees} \)
- \( \text{Number of hours per year} \)
- \( \text{Number of cg hours} \)
- \( \text{Number of ncg hours} \)
- \( \text{Average honorary per hour} \)
- \( \text{Average number of hours per project – project size} \)
- \( \text{Number of projects} \)

Steps:
1. \( \text{Number of employees} \) \( \text{div} \) \( \text{Number of hours per year} \) = \( \text{CG : NCG} \)
2. \( \text{CG : NCG} \) \( \text{add} \) \( \text{Number of cg hours} \) = \( \text{CG : NCG} \)
3. \( \text{CG : NCG} \) \( \text{div} \) \( \text{Average honorary per hour} \) = \( \text{REVENUE} \)
4. \( \text{REVENUE} \) \( \text{div} \) \( \text{Number of projects} \) = \( \text{P : M : C} \)
5. \( \text{Compensation, bonus, etc.} \) \( \text{add} \) \( \text{Other expenditures, infrastructure, etc.} \) = \( \text{P : M : C} \)

Notes:
- \( \text{P : M : C} \)
- \( \text{Win loss ratio} \)