



Learn to Love Leverage

Leverage addresses how to increase services revenue by structuring your staffing and expanding current engagement work to yield the highest rate of return on your human capital investments. The landscape is filled with services organizations that did not meet leverage projections because they only offered a uniform rate for all their consultants (e.g., \$2,000 a day) regardless of the experience and mixture of expertise on a particular engagement. At a minimum, establish a fee structure that is set at a higher level for your selected “subject-matter experts” and “gray hairs” who are the keepers of wisdom and the holders of deep experience in your organization. Experience shows that customers gladly will pay a premium to have these folks on the team.

According to David Maister, “The appropriate leverage for any practice is determined by one thing, and one thing alone: the nature of the services the practice is engaged in. A practice that specializes in cutting-edge, high-client-risk (‘brain surgery’) work will inevitably need to be staffed with a high partner-to-junior ratio: lower level people will not be able to deliver the quality of services required. On the other hand, practices that deal with more procedural ‘nonemergency’ needs will be inefficient if they do not have high leverage, since

high-priced people should not be doing low-value tasks.”¹

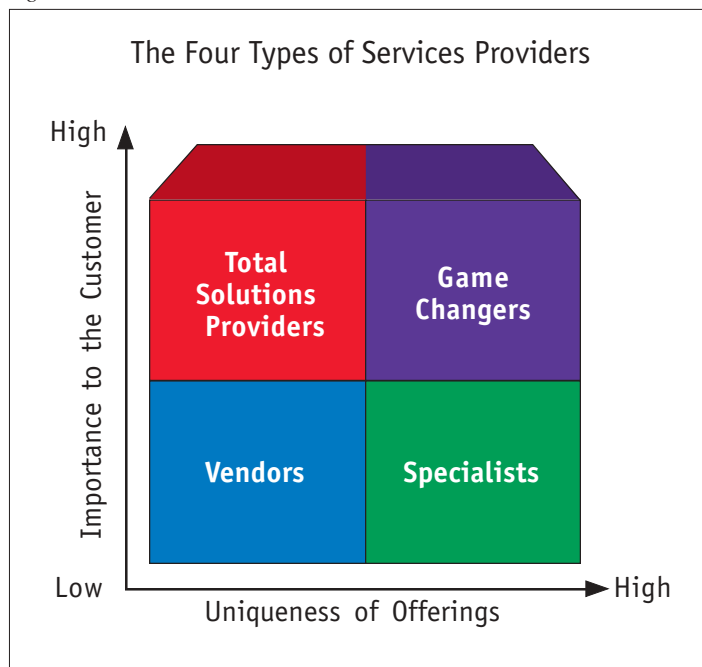
This aligns well with the four types of services providers (Figure 1)—the strategy you pursue will determine the most appropriate leverage model for your services organization.

To gain a better understanding of services leverage, let’s examine how a Total Solutions Provider would approach the concept. A first step would be to establish an initial “beachfront” at the client location composed of your best people. In this instance, a partner, primarily the client relationship partner, has high visibility over the first 60 days of the engagement. A key manager and at least two consultants and analysts support this partner. The role of the partner in this model is to build quick relationships across the organi-

zation in order to assess the leverage probability as well as the next several projects that should follow the current engagement. What typically follows is a bottoms-up approach, adding more and more analysts and consultants to the engagement and less and less of the partner as to specific time allocation. As most partners play this role, handling several engagements at once, their time at each location becomes less and less frequent. Consequently, a higher reliance on the manager who is in place begins to occur. It is not unusual in this situation for a particular manager to stay on a project for three to four years. Many a career of a manager in a consulting firm has been made in only one project where they helped grow revenues and build the initial staffing group from three to over 100 professionals.

The Vendor approach, on the other hand, would follow a different path to leverage, as these organizations bear down in a particular area to gain scale. Their objective is to obtain the “right of first refusal” on all segments of future work that falls within their “sweet spot.” In this regard, the value exchange is an opportunity for the client to receive a discounted fee structure (typically 20 to 25 percent) of what you would normally charge. The customer also obtains the advantage of having not only a consistent group of ser-

Figure 1



vices or technical consultants in place, but also the ideal assurance that future work will be carried out in a quality manner. This leverage approach provides four distinct advantages:

1. You can count on a continual stream of revenue over typically a three-year period of time.
2. Your utilization rates stay high, keeping your team productive and chargeable.
3. You block out competition that would like to work with the client.
4. You lower the risk ratio for the client due to their comfort level with your people and previous successful work.

Lastly, Game Changers and Specialists have a higher proportion of senior people to juniors on engagements, as the deep expertise they have sold can be delivered only by top performers.

An interesting leverage approach appropriate to all strategies is to involve the customer in the engagement so as to create stronger bonding and relationship building to leverage future work.

In the mixed client/consultant approach, the leverage model is a mixture of client and consulting personnel on all projects. At the high end, we have seen a 50/50 percent staffing of the division of work between the allocation of resources supplied by the client and the consulting organization. This type of arrangement provides each organization some unique advantages:

- Relationships are built quickly and are usually quite sustainable.
- Knowledge is transferred and ideally utilized for future projects.
- A “common fate” and “shared des-

tiny” mentality is created.

The down side of this type of arrangement is that the client will have to back-fill positions if they allocate 50 to 100 percent of the resources. Additionally, you may not see an equal distribution of productivity among the team. The skills of the consultant may be quite different and usually higher than that of the client. The resource team from the client side has the edge as to their knowledge of the functional and process knowledge of the organization as well as the politics that make it all come together.

In addition, some problems often occur as to the work ethic of the team. Many consulting firms have a very task-oriented work ethic that follows the philosophy, “We do whatever it takes to get the job done. If that means working 20 hours a day, seven days a week, so be it!” Client resources, on the other hand, may not be allowed to work overtime and are out the door at 5 p.m. sharp. This sometimes can create disharmony among the team unless you have a change management process in place, in addition to discussing these issues over time.

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right model to ensure the right mixture of skills, experience, and pricing strategy that supports the ultimate increase in the number of right people working on the right projects at the right time. Keep in mind that in a professional services environment, creating the appropriate experiences for staff and realizing good margins (50 percent or more) are very much dependent on your ability to leverage. ♦

References

1. Maister, David. *Managing the Professional Services Firm*. Free Press. pp. 36 1.

Note: This column is an excerpt from Alexander and Hordes’ new book, *S-Business: Reinventing the Services Organization*. It may be purchased at www.alexanderconsultingsbiz.com.

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