MANAGING THE CONSULTANT LIFECYCLE

How to Maximize the Value Delivered by Consulting Partners

The consultant drug is an addictive one, as many businesses have discovered. To beat the competition, businesses need qualified and motivated individuals to investigate promising opportunities and – when the circumstances dictate – to push them through to fruition. To their misfortune, very few businesses have the luxury of a stable of readily available resources to assign to such endeavors. A seemingly unending emphasis on cost reduction has eroded workforces to their bare bones.

With existing personnel operating at 150 percent capacity and significant roadblocks to hiring new employees in a timely fashion, the only viable alternative is to use consultants (i.e., contract workers) to plug resource gaps. Hiring consultants is a fast way to address resource deficiencies, but there is a downside. Compared with full-time employees, consultants are expensive on an hourly basis, and their knowledge departs the building when the work is complete. Most managers shrug off these shortcomings as the cost of doing business – and with good reason. When employed to deliver short-term expertise, consultants are arguably the most flexible and cost-effective option available.

Left unchecked, consultants no longer simply supplement the talent acquisition process; they supplant it. As the appetite for consultants grows, a corresponding increase in consulting spend materializes as a major blip on expense reports. The management team commonly reacts by instituting a zero tolerance policy – an immediate moratorium on consultants. But such a dictate unravels quickly. The need for skilled resources cannot be denied. Turning off the talent spigot can dry up a company's innovation capabilities. The only alternative is to hire permanent workers, a tactic with serious flaws. Full-time employees are a cost commitment beyond the short term. And the processes to hire permanent workers rarely keeps pace with short-term needs. Gradually, managers feel the pain of the moratorium as their capability to marshal resources to address critical items is minimized. Failing to keep pace, these same managers push senior leaders to reconsider the moratorium. At this juncture, most senior leadership teams concede that a level of contract workers is necessary to provide the desired workforce flexibility. What they really seek is a program to manage contract workers that maximizes their benefit while minimizing their cost. Unfortunately, there are limited precedents. With the collapse of moratoriums, the baton is often passed to a sourcing team with a simple directive: Get us consultants, but at a reduced price.

There is a dirty little secret in consulting circles about programs that are run by "sourcing" teams. Consulting firms are on to the game, and they play it well. The rate card for preferred vendors denotes hourly rates for specific experience levels of consultants (partner, manager, consultant, etc.). After both parties agree to the prices on the rate card, an amazing thing transpires at the consulting firm.

THE SOURCING SOLUTION

When senior management delegates the ownership of contract workers to a sourcing team, the new program often looks remarkably similar to a system used to buy commodities. It begins with the selection of a group of "preferred" vendors. The requirements for inclusion on this list are few, but discriminating: provide a breadth of services that maps to the majority of the firm's requisitions and – most importantly – procure contract labor at reduced rates. In effect, the consulting firm agrees to a standard rate card and receives in exchange a guaranteed volume of work. The agreement is documented in a Master Services Agreement (MSA), eliminating the need to redefine the relationship with each engagement. It is strictly a volume play – more work for the chosen providers at a lower rate. For the business manager needing a consultant, the process is relatively simple. Once a resource need is identified, the sourcing group gathers resumes from the preferred vendors and forwards them to the business manager (i.e., the manager needing a consulting resource) for review. The manager screens the applicant pool and selects a resource. Rates are predetermined, eliminating the need for any negotiation. In theory, this approach appears to be a home run. The process is simplified for the manager, and the cost savings are locked into the contract. Sounds like a no brainer. But this approach is fatally flawed by significant issues in the blind spots.

First off, the intent of the sourcing approach is to reduce consulting expenses. But what consulting expenses? Although seemingly straightforward, identifying the specific cost bucket to trim is not easy. From a general ledger perspective, consulting services are commonly lumped into a professional services line item – along with accounting, legal services, advertising agencies, and just about any other "external" expense that needs a home. If the sourcing approach is exclusively targeting consulting expenses, the other costs need to be yanked out of this bucket. But due to the overlap of offerings provided by some vendors, segmenting costs by services provided requires broad assumptions. And once true consulting spend is isolated, those pesky "other" professional services costs are usually found to be significantly greater than anyone anticipated.

Even if a company can isolate consulting expenses while adopting a sourcing program, the integrity of this approach is immediately assaulted by the "executive end-around." Senior leaders hire consultants for a myriad of reasons: executive coaching, strategic planning, specialized corporate programs, and other transformational initiatives. In order to retain their external partners (as many of these specialized vendors lack the breadth of services to be preferred vendors), senior leaders circumvent the sourcing process by pushing the expense into another cost bucket or by making exceptions for their pet projects. The end result of this paring out of selected professional service costs: The cost base for consulting services is significantly reduced even before any savings are tabulated. The expected savings never materialize. And then the games really begin.

There is a dirty little secret in consulting circles about programs that are run by "sourcing" teams. Consulting firms are on to the game, and they play it well. The rate card for preferred vendors denotes hourly rates for specific experience levels of consultants (partner, manager, consultant, etc.). After both parties agree to the prices on the rate card, an amazing thing transpires at the consulting firm. Managers suddenly become senior managers when submitting resumes for roles – and this occurs across most levels of the firm. End result: The client gets a less qualified resource than they expected at the negotiated rate – and they don't even know it.

Then comes another unintended consequence of this approach. In the United States, the consulting industry is highly fragmented, with roughly 90 percent of consulting firms employing fewer than 10 consultants. As a company's sourcing team requires preferred vendors to be larger firms that "offer the full scope of business services," the preferred vendor list excludes the majority of consultants. The mistake here is managing consultants like commodities. Such a view implies that consultants at relatively equivalent levels have comparable capabilities. But one of the primary justifications for staffing consultants is to access uniquely qualified individuals who may not fit into the predetermined consulting levels. Many business managers recognize this contradiction and immediately begin exploring workarounds to sourcing programs, further wasting valuable time and energy. And they usually discover a convenient way to circumvent the process: simply hire "non-preferred" consultants via a pass through from a preferred vendor. Of course there is a downside to this trick. The preferred provider adds a markup to the "non-preferred" resource, and the hiring company ends up paying above the market rate for the resource.

Aside from these complications, the sourcing model may still appear on the surface to be getting results – i.e., lower average resource costs per hour. But the real truth may well be otherwise. If we circle back to the business rationale for hiring consultants, we need to ask a very fundamental question: How do we determine success in a consulting engagement? When we answer this question, the real shortcoming of the sourcing approach become evident. Boiling it down to the basics, the true measure of a consultant is that he possesses the skills, knowledge, abilities, ideas, collaboration skills, leadership, and motivation to build solutions that meet or exceed the enterprise's goals. Furthermore, the net value generated by the consultant (i.e., total benefit minus total costs) is paramount. Here is where the sourcing approach misses the target. The goal is not to get the lowest hourly rate; it is to maximize the value created by the consulting engagement. The hourly rate is only one part of the equation.

To achieve the goal of maximizing the value derived from consulting engagements, businesses need an approach that is radically different from today's common practices. What they need is a model that extends its focus beyond identifying preferred vendors and instead aims to maximize value creation, allow for business flexibility, and be user friendly. And it needs to be comprehensive, managing the consulting relationship throughout the course of an engagement. I call this model a Consulting Management Program.

CONSULTING MANAGEMENT PROGRAM

In contrast to the sourcing model, a Consulting Management Program is administered by a team of professionals (logically called the Consulting Program Office) who are not only experienced in identifying and hiring consultants, but also knowledgeable in every aspect of consulting engagements, including a detailed understanding of how consultants operate on a daily basis. Due to the knowledge and capabilities required to operate a Consulting Management Program, it is typically lodged in either a human resources department or with a team specializing in project management.

Over time, every consulting engagement passes through the four phases depicted below in Diagram 1: Consulting Engagement Lifecycle. These phases are the upfront identification of the resource need, the actual hiring of the resource, the management of consulting resources, and the eventual release of the consultant after the work is complete. While every phase is critical to a successful engagement, individual phases are often ignored or glossed over in the name of expediency.

{ Diagram 1: Consulting Engagement Lifecycle }

EVALUATING CONSULTING NEED

- Identifying appropriate roles for consultants
- Evaluating financial impact of hiring consultant for role

HIRING CONSULTANTS

- Identifying candidates
- Evaluating candidates
- Negotiating contracts

RELEASING CONSULTANTS

- Transitioning responsibilities and knowledge from consultant
- Removing consultant's access to facilties and systems
- Capturing feedback on consultant

MANAGING CONSULTANTS

- Onboarding newly hired consulants
- Monitoring progress
- Resolving issues

CONSULTING ENGAGEMENT LIFESTYLE

The purpose of the Consulting Program Office is to assist the business manager throughout all four phases of a consulting engagement. Examining this model from a high-level perspective, the Consulting Program Office collects and organizes information on resource options, acts as the single point of contact for consulting firms, and oversees the processes to hire, manage, and release consultants. A key point of emphasis is that the primary responsibility for consultants resides with business managers – not the Consulting Program Office. After all, it is the business managers who are tasked with achieving specific business goals. It is only logical to place the authority with the individuals accountable for results as the consulting engagement progresses through the four phases.

1. EVALUATING THE CONSULTING NEED

Implementing a Consulting Management Program starts with the establishment of guidelines as to the overall aims of the program. The value in this exercise is to build parameters as to when and where it makes sense to employ consultants. Too often, there is a significant disconnect between when consultants are utilized and when they logically should be utilized. Based on prevailing conventions, there are three primary roles where consultants are an appropriate substitution for full-time employees:

1. EXPERTISE – the consultant possesses skills, knowledge, or abilities that are unavailable in the enterprise or are costly to hire as full-time employees.

2. TIMING – hiring consultants allows for the accelerated completion of an initiative as the need for specific resources exceeds the enterprise's capacity.

3. OBJECTIVITY – consultants provide an external perspective untainted by the politics and potential career ramifications of open and honest debate on a business topic.

But for every valid use of a consultant, another consultant is hired for nonsensical purposes. Chief among these is the placement of a consultant in what should be a permanent role as the position is critical to the company's ongoing operations. This misuse arguably drives consulting spend more than any other – and it comes with consequences beyond just cost. Once embedded in a position, consultants develop institutional knowledge and become increasingly difficult to dislodge without negative ramifications to the ongoing business. Less costly but equally wasteful are roles where consultants are hired to rationalize decisions that have already been made (i.e., share their objective opinions after the fact). If the answer is predetermined, forgo the consulting expense and invest the dollars elsewhere. And then there are roles where consultants are hired to prop up poor performers. While it is sometimes appropriate to use consultants to train employees, hiring them to support the daily responsibilities of an under-performing employee is a poor managerial decision. Why not just hire an appropriately skilled resource? Regardless of the miscue, when launching a Consulting Management Program, crafting guidelines on consulting usage upfront helps to mitigate such blunders.

As resource needs are identified, the first step is to hash out the specifics of each role. A well-defined role is a one-pager on the resource's planned responsibilities; the specific knowledge, experience, and skills desired; goal expectations; and the anticipated duration of the role. Armed with these specs, the

Consulting Program Office can study historical rates and the going rates for comparable resources to provide an estimate of the hourly rate for the resource. The following step is extremely important, yet often ignored. After receiving the estimate, the business manager should always bake the incremental consulting costs into the initiative's business case. Many a shortsighted manager has hired consultants, blissfully unaware that the net benefit predicted to be delivered by the initiative would be eliminated once consulting costs were factored into the analysis. Always confirm that the use of consultants makes financial sense before proceeding. With this confirmation in hand, incorporate the consulting role(s) into the remainder of the project management deliverables (i.e., work plan, roles and responsibilities, change management deliverables, etc.). Only then is it time to begin the search for the right resource.

2. HIRING CONSULTANTS

The hiring process begins with the Consulting Program Office querying the resource pool to identify candidates with the appropriate skills and knowledge. Even when there is a front-runner for the role, conducting the search is still worthwhile. If nothing else, it gauges the availability of a comparable resource and provides comparative market rates.

For most staffing requests, the Consulting Program Office assembles a list of candidates to be vetted by the business manager. For each resource, the office provides the business manager with basic information including details of their prior work experience, specialized skills, areas of expertise, hourly rate, and any previous experience working with this individual or their firm. In the optimal arrangement, the Consulting Program Office maintains a database of current and past consulting resources, national and local consulting firms, and contract workers recommended by employees and business partners. As long as this repository is diligently maintained, it is a quick conduit to identifying candidates and gauging consulting rates. However, even when perfectly maintained, the diversity of skills and knowledge required to meet business needs may extend beyond known resources. To accommodate such requests, the Consulting Program Office should always maintain connections to external sources such as LinkedIn in order to broaden the resource pool.

At this point in the process, the business manager often takes the lead in selecting and hiring the consultant. At the business manager's request, the Consulting Program Office may participate by reviewing resumes, scheduling interviews, or even conducting interviews. Once the business manager selects a consultant, the engagement details are documented and negotiated with the specific provider by either the Consulting Program Office or the business manager. To arrive at a fair price, the Consulting Program Office may complete a quick rate assessment as mentioned previously. A key point is that the rate is based on the specific role and the consultant's capabilities. Negotiated rate cards are blind to the specifics of a project and therefore will frequently price resources inaccurately, such as underpricing a resource with critically needed skills. The result is a gap between the rate listed on the rate card and the rate required to retain the needed resource. It is worthwhile to repeat that the goal is to maximize the value created during the consulting engagement and not just to contract at a great hourly rate. This means getting the right skills and knowledge at a fair rate. With iterations and experience, the Consulting Program Office negotiators usually become adept at identifying appropriate rates for specific resources.

The end result of negotiations is a formal agreement on the specifics of the engagement – commonly documented in a Statement of Work (SOW). The SOW includes the general outline of the work to be completed, major milestones, pricing, a change order process, and billing guidelines including reimbursement for travel and other expenses if not covered in the MSA. Through

3. MANAGING CONSULTANTS

As an engagement starts, the Consulting Program Office transitions into a less active, yet still important role. While available to directly assist with specific issues, they also advise business managers on best practices in managing consultants. While the management practices vary, several tactics are nearly universal in their applicability.

• *Weekly Status Meetings with Business Managers* – Strongly encourage business managers to conduct status meetings with consultants on a weekly basis. The intent of these meetings is to cover the basics (e.g., progress made to date, early discoveries, immediate successes, bottlenecks, issues requiring resolution), and never hesitate to ask the consultants' perspective on any facet of the company. With their backgrounds, consultants are a great source of objective insight into people, processes, technology, business structures and general improvements.

• *Identifying and Eliminating Bottlenecks as They Appear* – Consultants are expensive. You are not paying cost … you are paying retail for their services. As with any endeavor, there will be bottlenecks. When left to their own devices, consultants will labor through roadblocks without your assistance. But is this the most efficient way for them to spend their time? Maintain an open dialogue with consultants. Whenever the field of play is muddied and progress is stymied, make sure they inform you of the challenges. Often a sponsor needs only minutes to eliminate roadblocks (e.g., through an email requesting cooperation, a decision, or prioritization) that would take a consultant days or weeks to navigate.

• *Focusing Consultants (and Really All Your Efforts) Where There Is Value to Be Captured* – Again, consultants are expensive. Is it the most efficient use of your consultants to have them scheduling meetings or running administrative errands? Hire administrative assistance when there is a significant administrative component to an initiative. Let the consultants focus their energies on driving initiatives to completion. Using $400-an-hour consultants to make copies is wasteful – but extremely prevalent even today in Corporate America.

• *Workplans & Monitoring Tools* – The oversight of consulting engagements frequently goes to extremes. Every little task might be tracked, driving up costs as the consultant must focus on complying with internal control mechanisms versus completing the actual work. At the other extreme, consultants operate without any workplans or tracking. This situation is equally risky as the project may stray off the intended track or may take far longer than necessary. The key is to use an even hand. High-level milestones are sufficient in the overwhelming majority of cases for planning a project, aligning resources, communicating progress to stakeholders, and understanding deployment periods. And in general, only track those milestones when corrective actions are possible.

Unfortunately, not all consulting engagements progress as anticipated. The reason for the failure might be any number of causes – environmental factors changed, the project was inadequately resourced, the plan was flawed from its inception, or perhaps the consultant failed to deliver. When consultants are at fault, the Consulting Program Office must assist the business manager in remedying the issue. Depending on the circumstances, a corrective action may be taken, such as having the consultant report his activities more frequently or requesting reimbursement from the consultant. Other times the consultant is not the right fit and needs to be dismissed. In this unfortunate situation, the Consulting Program Office informs the consulting firm of the business manager's decision and launches the process to close down the engagement.

For all enterprises, continual innovation is imperative to sustain and grow performance. And this entails having highly skilled resources to address opportunities as they appear. With limited internal resources, enterprises need consultants to fill resource gaps. However, there are pitfalls to avoid when using consultants. Maximizing their benefit while minimizing any negative consequences requires a methodical and systematic approach.

4. RELEASING CONSULTANTS

Eventually the time comes to end every consultant's engagement. Perhaps the work is complete, the project goals are no longer valid, or the consultant is underperforming. There are unique occasions when keeping consultants engaged for extended periods makes solid business sense. For example, a consultant might be retained to roll out a solution in another area of the company, or his institutional knowledge may allow him to accelerate another initiative. But in general, there is a diminishing return on the value of a consulting resource over time. When embedded in an environment for an extended period of time, consultants lose their objectivity and their ability to leverage experiences from other companies. They adopt the company's culture and practices. At some point, they begin to act and feel like full-time employees. Consultants call this "going native."

As the engagement's end date approaches, the Consulting Program Office partners with the business manager to tie up loose ends. Similar to its role during startup, the Program Office frequently coordinates the administrative tasks of an engagement's closure such as removing the consultant's key card access, shutting down access to systems and computer networks, and repossessing assets like computers. While the ownership of administrative tasks may vary, the Consulting Program Office definitively owns the capture, consolidation, and dissemination of feedback on a consultant's performance. With the engagement's conclusion, a member of the Consulting Program Office conducts interviews with team members and business partners involved in the initiative. These discussions serve to confirm the basic facts: the consultant(s) employed, billing rate (if different from the initial rate), role(s) performed by consultants, and the project's duration. But the most important output of these interviews is performance feedback. This includes individual perspectives on the consultants' skills/expertise and what they brought to the role, whether it was great leadership skills, strong awareness of emerging market trends, etc. Ideally, this feedback is collected on every single consultant and consolidated into a single repository. Then as future needs for consulting services arise, this repository can be queried to identify candidates (or firms) with the appropriate knowledge, skillsets, and institutional understanding – and those who have performed well on prior engagements.

Also during these interviews, the Consulting Program Office commonly debriefs with the project team and stakeholders to assess how the consultants were utilized.

During this part of the interview, the intent is to answer two questions:

- What went right with the project?
- What could have been done better?

Through these conversations, the Consulting Program Office gathers data to build recommendations on how to elevate the management and performance of consultants on future engagements. Just like any other process, continual evaluation and improvement is critical to a successful Consulting Management Program.

For all enterprises, continual innovation is imperative to sustain and grow performance. And this entails having highly skilled resources to address opportunities as they appear. With limited internal resources, enterprises need consultants to fill resource gaps. However, there are pitfalls to avoid when using consultants. Maximizing their benefit while minimizing any negative consequences requires a methodical and systematic approach. Using a Consulting Management Program to manage the full lifecycle of consulting engagements can ensure that the company gets the right resources … for the right cost. When successful, a company's talent pool is augmented by external resources arming it with the firepower to respond to today's challenges and tomorrow's opportunities.

About the Author

David Hamme is the Managing Director of Ephesus Consulting and a thought leader on innovation, strategic planning, operational improvement, business process management, and cost reduction. Hamme is the creator of a pioneering approach to innovating enterprises by defining change through process adjustments. This approach is presented in his book, *Customer Focused Process Innovation: Linking Strategic Intent to Everyday Execution* (McGraw Hill, 2014) available at all major booksellers. David Hamme can be reached at dhamme@ephesusconsulting.com