

## **HIRING A CONSULTANT -- READY TO EARN MORE PROFIT BUT DON'T KNOW WHERE TO START?**

Many of us face the same dilemma: We want to grow profit, but we're not sure where to start.

- ⊙ Do we increase the marketing budget
- ⊙ Can we decrease the training budget
- ⊙ Should we cut back on travel,
- ⊙ Is it time to raise prices?

Any of these can be the "right" choice. *But, which one do we pick?*

For now, let's start at the beginning, and then we can work through the process.

### **OUR BEGINNINGS**

Unless you purchased an existing business, most of us have faced the same path.

- You started your business as a local company and struggled to get past the Start-up phase. This was harder than you expected and you often felt like *you were running in place and couldn't get traction.*
- You didn't know the tax rules, *so you paid penalties you couldn't afford*
- Licensing requirements seemed like they were created *just to frustrate you.* Every month you learned about a new government form that was supposed to be filed *before you opened your doors*
- Your first eight marketing plans that you spent days and months creating fell flat with your customers (so, you kept thinking "*What's wrong with these people, anyway?*")

However, time passed and you moved into the Stability phase. If you're in "stability haven" now, then *enjoy the time, because it's short-lived. Ready or not, life moves on.*

Phase 3 is the growth phase and it's a major accomplishment for your business. *Eighty-Five percent of the people who started when you did have closed along the way.* In the growth phase, you have:

- Moderately growing income.
- Deep understanding of your customer's needs.
- Solid "Value Proposition" (*that special offering that keeps your customers returning to buy your products*).

By the way, the next two phases are **Maturity** (*where you bask in the glory of being at the top of your game*) and **Retirement** where you sell the business or transition the company to a new owner. Retirement is not the end of your career. It opens a new chapter in your life, such as Writing a book! (*It's easier than you think because when you self-publish, the editor loves your work.*)

But for now, let's focus on your Growth phase. Throughout all of your struggles, one part of your business has been constant. Your business is unique because it reflects your personality, your culture, and your priorities.

In fact, this distinctiveness is your most valuable competitive advantage and is responsible for your success. When you think about it, your individuality is the only competitive advantage that you can maintain over the long term. All other value items (i.e., better price, higher quality, faster response, etc.) are easily duplicated by any company that wants to compete on that basis. *So, celebrate your personality and the people who help you maintain your uniqueness.*

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## **SUCCESS SECRETS**

Ever wonder why some businesses flourish and some fail? Successful entrepreneurs use their unmatched business approach (*also called innovation*) to expand the company's success. On the flip side, unsuccessful owners continue to follow unproductive tactics. They are focused on stale or ineffective strategies that limit the company's potential and ultimately force the company to fail. So the question is:

### ***Why do some businesses succeed through innovation while others waste away and file bankruptcy?***

One reason is that prosperous companies seek guidance from consultants, professional advisors, and trusted business associates. These counselors offer opinions in many forms.

- ✓ Outsiders provide feedback about your company's strengths and weaknesses. (*Outsiders are free of your bias towards your company.*)
- ✓ Consultants keep up with many sources of information and can give you a summary of trends that affect your company. (*Do you really have time to read all of the magazines that arrive on your desk each day?*)
- ✓ New products enter the market with or without your knowledge and can quickly become substitutes for your products. Advisors can identify the soft substitutes that you may have missed. (*When you buy an iPad, you think twice before buying new CDs. When you buy a new car, you may have to postpone that Caribbean cruise. These soft substitutes often are missed by internal analyses of market trends.*)
- ✓ Friends, family and people you meet everyday are always ready with advice to solve your daily problems. These "easy" solutions tend to focus on symptoms or daily flare-ups, but they never seem to resolve the basic problems. Qualified consultants can help solve your core problems so that the daily issues never come back. *You know you picked the right consultant when the price of the solution is less than the cost of the problem.*

If you use trusted advisors, then congratulations again for making great decisions. Don't forget to let them know how they help you and your company survive each day. (*It's what keeps them going so that they're around when you need them again.*)

### ***If you don't have these valuable resources on speed dial, then you may be ready for the next step.***

The next step may be to hire a consultant who can provide value to your company when it is needed. Value in this context means that the consultant's advice should help you to increase revenue, decrease costs, or reduce your risk.

A consultant is a temporary resource that's outside of your operating activities. So, hire a consultant only when the advice is needed. (Some companies hire a consultant on retainer and then direct the consultant to new area each month as the original issues are resolved.)

## WHEN TO HIRE A CONSULTANT

Over time, your business faces operational decisions, such as:

- How do we upgrade technology
- Should we add new products
- How do we maintain profit or improve productivity?

Entrepreneurs understand that running a business means knowing when to accept a new opportunity, when to take on new projects, and when to focus on improving daily operations. Once you decide to start a project, the first issue is to determine whether you can solve it internally or hire an independent consultant to assist. Before you decide, consider three main reasons to hire a consultant.

1. Internal staff lack the specific project skills. *Will the project fail if you let unskilled staff manage the process just to save a few dollars?*
2. The organization has limited resources to address the issue. A consultant may be a good option if you lack time, technical knowledge, or extra staff. *(Show me an executive with free time, and I'll show you a person who missed two opportunities today.)*
3. Independent validation is necessary for external groups (Governmental audits, product certification, responding to public bidding opportunities, etc.) *A consultant who's comfortable in this arena may not know more than you, but can be a better presenter of the information you have.*

So, let's take a closer look at these three reasons to hire a consultant.

### REASON ONE - LACK OF SKILL

When a company lacks staff with the skill to complete a project, it may be time to hire a consultant. Skill can be defined as a combination of training and *experience*.

*Training* is the formal transfer of knowledge received by an individual while learning to perform a task. This is the concept behind bicycle training wheels, which is to let the person try with assistance until he/she is qualified to stand alone.

*Experience* is measured by the time over which a person has been performed similar tasks successfully. You can't gain skills by reading about someone else's experience. *(Ever see a qualified consultant who has reached the ripe old age of 25?)*

When considering whether to hire a consultant or use staff, ask yourself:

*Could my staff perform the project successfully  
at a competing company with minimal supervision?*

If YES, then they're ready to take on your project with a high potential for success. Be proud of your crew and your leadership, because this is quite an accomplishment!

If the answer is NO, then hire a consultant to bring new skills that complement those of your employees. When you assign unskilled staff, you risk project failure and your company could lose its competitive advantage in the marketplace (either temporarily or permanently).

Here's an example that I hope you never see. For the past 10 years, ABC Company used a manual work order tracking system to verify product quality. The company decides to join the new century and buy a turn-key computer system that includes vendor installation and training. ***This scenario is almost guaranteed to fail!*** Let's take a look at why it will fail.

- ✓ Employees have no experience logging their time and materials using a computer.
- ✓ The new system creates a cultural change, along with a technology enhancement.
- ✓ There are no concepts, language, or procedures to transition staff from the manual system to the computerized system. *(It is hard to find comparisons between the manual and the automated systems that staff will understand.)*
- ✓ Finally, the vendor (who is focused on the standard three-session training guide) is totally unprepared to relieve the stress when staff become concerned about, missed deadlines, bad reports, and poor performance appraisals.

A consultant can assist by designing a training and implementation schedule and then organizing the transition from manual records to an automated system. The consultant can work with the vendor's training crew to develop a true migration that will create a feeling of success and empowerment in your staff. *In this example, it's more important to find a consultant with project tracking skills rather than hiring a consultant with manufacturing experience.*

A consultant can be a valuable resource when staff are not current with new products that can improve existing production systems. For example, a company can search for a consultant who knows about alternative plastic seals to replace existing rubber seals that fails in a highly corrosive environment. Such a consultant can use industry contacts, prior experience, or detailed knowledge about the specific plastic material to highlight information that's not readily available within the company because of recent industry innovations. *In this example, a consultant with manufacturing experience may be essential.*

## **REASON TWO - LIMITED RESOURCES**

A consultant can help your company when you have limited resources to solve the challenge. Resources include time, equipment, technical support, training materials, or other tools required for a successful project. When a company has limited resources, a consultant can help address these concerns by adding new resources to those of the client.

For example, when a company develops a new product, the first step is to design a prototype to test the specifications as well as test market acceptance. One option may be to reconfigure existing equipment to create a prototype, but this can be expensive and a waste of effort if the product is not marketable immediately. The owners may believe the project is financially feasible if the test succeeds, but they may not want to spend a lot to create a prototype.

In this example, a consultant with access to a private tooling shop may be able to create prototypes at a relatively low cost until the company makes a final decision to introduce

the product as a large-scale operation. The consultant can leverage his/her knowledge and contacts to save the company from re-tooling its production equipment.

### **REASON THREE - NEED FOR INDEPENDENT VALIDATION**

Another reason to hire a consultant is to validate project results for outside investors, financial backers, or absentee stockholders. For many years, CPAs have provided independent assessments of the financial projections for business expansions. In the same way that CPAs are hired as financial consultants, a company can hire engineers, marketing specialists, and production experts for their respective expert opinions. The consultant can verify that the proposed venture will produce: 1) the projected results, 2) within a stated timeframe, 3) using reasonable assumptions. (*Any major change requires a significant investment, so why risk failure if you can determine your chance of success before you start?*)

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### **WHERE TO FIND A CONSULTANT**

You can always find a consultant in the local phone book. However, finding the appropriate consultant is much harder. Why not use a proven approach if you want to find the right consultant? Consider these factors when you hire a consultant.

### **AVAILABILITY**

When you're ready to start a project, determine the amount of time needed from a consultant. While the time commitment will be determined by the project plan, most owners know in advance an approximate timeframe for the project. For example, the consultant can be engaged for 8 hours at one time, 24 hours over two weeks, 40 hours per week for a series of weeks, or any other arrangement that is appropriate. The following criteria can guide your decision.

- ***An 8 hour per week project means that the consultant will serve as a project overseer.*** The consultant will not perform detailed tasks because of the limited time constraints. Also, the consultant won't supervise staff or make final decisions. Finally, internal staff are responsible to develop status reports and identify project completion points as they occur. (*Bottom line: Don't expect miracles from a consultant after only eight hours.*)
- ***A project that requires 24 hours per week from the consultant assumes that the consultant will serve as an on-site manager.*** Staff can report directly to the consultant for project results and direction. The consultant reports directly to the owner and may have limited ability to authorize overtime, small dollar purchases, and hiring temporary workers.
- ***A 40 hour per week project means that the consultant will become part of the business' staff for a designated period of time.*** The consultant will have a designated work area (office, telephone, file cabinet storage, etc.). Also, the consultant will participate in management meetings when the project is discussed. The consultant will supervise directly a small group of employees and will be held accountable for the success of the project.

The above guidelines do not eliminate contract negotiations about the consultant's level of participation. Let the project dictate your needs. Availability is also defined by the following criteria:

### *Accessibility*

Accessibility is defined as your ability to contact the consultant and obtain a direct response to your questions. Ideally, you want to call a consultant, ask a question, and receive an immediate response. However, reality dictates that ideal access is not guaranteed.

A consultant who's always available by phone probably is not in great demand. It could be low skill. Or, it could be low demand for that skill set. Conversely, a consultant in high demand may set a low priority in answering your questions if you're not clear about your expectations up front.

Determine your access needs for the consultant during the project and immediately afterwards. You can even consider a weekly call schedule to eliminate telephone tag and missed calls.

### *Location*

The consultant's physical location also impacts consultant's accessibility. A consultant who lives 2,000 miles away probably won't attend a meeting with a 24-hour notice. However, if you need a consultant who can answer questions by telephone or e-mail, then the distance between the consultant's office and your meeting isn't a concern. Conversely, if you need a consultant who is readily available, you should choose local consultants.

If you need ready access to the consultant and there are no local consultants with sufficient skills, then expect a reduced level of service from the available pool of local consultants. *Owners who can't compromise on quality often hire consultants from other cities and compromise on accessibility.*

### *Suitability to Task*

When selecting a consultant, consider whether the consultant's skills are suited to the project tasks. For example, when you need to install a production tracking software on your local area network, the software consultant probably won't install cable, build wiring boards, or splice connectors at the workstation locations. To solve this issue, ask the consultant to design the training schedule and then hire computer technicians under a separate agreement to implement the hardware equipment. Also, you'll probably save money when you hire the right person for each job component, *and saving money without compromising quality is always a good thing.*

Sometimes a project requires that a company representative present technical information, like a new product design, to a non-technical group, like financial investors. A consultant with cross skills in engineering and business may be a better presenter than sending staff to present the project status.

### *Cost vs. Value*

A key decision factor in hiring a consultant is the cost of the services proposed. We're all familiar with industries that use market-based pricing (discount retailers) or cost plus pricing (contractors). In contrast, professional services are priced to reflect the value of the services. Fees don't relate to the consultant's operating costs.

In addition, consultant's fees vary widely within their specialty area. Compare the rates of a lawyer practicing alone to a large downtown firm and you'll see that performance does not always determine price. Their prices reflect all of the value that is available to you through their services. A large firm can provide representation in multiple states whereas a single lawyer may practice in only one state. If you need the expanded services, you'll pay the large firm fees. However, if you need only local representation, the single lawyer may be a better value.

As you review the cost section of a professional service contract, focus on the value of the services. If the consultant's fees are lower than the anticipated value of the services being provided, then cost is not an issue. Conversely, if fees are higher than the anticipated value, then the consultant may be rejected.

*This approach of accepting or rejecting the fee structure based on value allows you to base your final acceptance on the quality of the work promised, not on the size of the consultant's organization.*

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## **HOW TO HIRE A CONSULTANT**

Finding a consultant in the next month is difficult without a starting point. Business owners should maintain a list of potential consultants. Your list of potential consultants can include:

- Referrals from friends and colleagues. (One of the best sources because your friends have a vested interest in your positive outcome.)
- Referrals from trade organizations. (A good option when you are well-known in your peer group.)
- Name listings from professional organizations (such as Society of Louisiana CPAs, Louisiana Bar Association, MEPoL, etc.). (These lists are generic, but you have some recourse to complain about poor service through the Trade Association.)
- Referrals from consultants that you have used in the past. (This is a good source because the referring consultant has a vested interest in your positive outcome.)
- Contacts from sales professionals who represent equipment suppliers. This is a good starting point to develop a list, but beware that you are responsible to validate the consultant's expertise.
- Networking associates, such as Chamber of Commerce members, Rotary Club members, or other community organizations. (This can be a good referral source if the person is more than a casual acquaintance.)

If you don't have a ready list of potential consultants for future projects, then begin developing the list now. You'll be glad you completed your homework when the need arises.

## **SCOPE OF WORK**

Once you have a list of potential consultants, the final stage is to accept the contract. At this point, your major focus is to negotiate the scope of work. The scope of work can include:

- Shared Risk Compensation
- Project Fees vs. Hourly Rates
- Defining Tasks, Milestones, and Time Lines
- Accountability, Exceptions, and Success Points

### *Shared Risk Compensation*

You may think that compensation is not a part of the scope, but if you're asking a consultant to be paid based on a positive outcome, the scope of services is directly on point. So, are you looking for an independent consultant or a temporary partner? The difference relates to the level of risk that you share with the consultant. For example, you can ask the consultant to share in the revenue for the first three years as part or all of the compensation for the project.

If the project fails, the consultant's projected fees will be reduced.

If the project is extremely successful, you and the consultant receive windfall profits!

### *Project Fees vs. Hourly Rates*

Your next decision is how you will measure the compensation for the consultant. Alternatives include:

Hourly fees. This approach shifts the risk of a failed project to the client. Extended projects mean higher fees for the consultant. This may be considered a “win-lose” proposition if the project exceeds initial expectations. The consultant wins more fees and the client loses due to higher costs.

Project Fees. This approach shifts the risk of a failed project to the consultant. Extended projects mean higher costs for the consultant. This may be considered a “win-lose” proposition if the project exceeds initial expectations. The client wins by receiving more services and the consultant loses due to higher costs.

Hourly Fees with a CAP. This approach discourages the consultant from being efficient and encourages the client to take short cuts during the project. This may be considered a “lose-lose” proposition because consulting fees are limited to the agreed upon CAP when a project is extended. Also, the client may pressure the consultant to reduce the time spent on the project to reduce fees, and this may diminish the effectiveness of the consultant's services.

Defined Segment Pricing. A fourth approach is to define segments of the project clearly and to negotiate the fees for each segment only after the previous segment is completed. This approach is considered a “win-win” proposal because the consultant can determine the level of client support throughout the project and adjust the level of service required to complete the project. In addition, the client can monitor the performance of the consultant throughout the project and adjust expectations according to the success of the consultant.

While the above strategies can be modified and combined, the focus should be on determining a fair and equitable approach for both the consultant and the client.

### *Defining Tasks, Milestones, and Time Lines*

When hiring a consultant, the project should be clearly defined by the consultant and the client. The most effective approach is for the consultant to define the tasks, milestones, and time lines for each segment of the project. Once this plan is developed to the mutual satisfaction of all parties, the client should formally agree to the project plan.

- Tasks are the daily activities that will be performed by the consultant, the client's staff, and outside parties who will contribute to the project. An example of outside participation may be a banker who disburses loan proceeds as the project is completed.
- Milestones are identified success points. The success points denote the completion of one segment of a project. Milestone completion typically includes a project status report.
- Goals are the endpoints of a project or segment and are developed to set the tone for the work that will be performed during the life of the project.



To differentiate these three concepts, consider that setting a meeting is a task; building a prototype is a milestone; and increasing new sales budgets is a goal.

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### **ACCOUNTABILITY, EXCEPTIONS, AND PROJECT COMPLETION**

The completion of a project should always be defined so that all parties can identify the conclusion of professional services. The completion of a project should also be accompanied by a status report that identifies which segments were successful and which segments require additional effort. In this way, the client can determine whether to complete the project with internal staff, hire a consultant to continue the project, or postpone the project pending a future event.

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### **CONCLUSION**

All businesses are forced to change in order to remain competitive in the market. The process of change can be accomplished using internal staff or by using external consultants. Once the business owner recognizes the need for change, the next decision is to determine the approach that will be followed to achieve the change. If you are ready to make a change, remember that outside consultants can help you make a smooth and orderly transition. Never let internal limitations keep your business from achieving its maximum potential.