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Measure for measure

Every professional-services firm needs to steer between feast and famine, earning fees today versus finding new clients for tomorrow. But you don't have to drown in in paper or Powerpoint to do it. ***Jo Oliver*** *develops a single-sheet solution.*

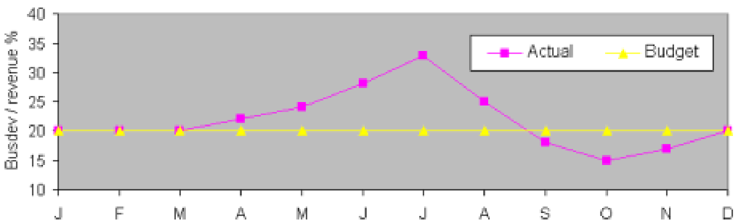
Consider the words of two consultancy leaders:

- The founder of a new London-based marketing firm: 'We had a stonking spring and summer last year. All of us were flat out. Then suddenly we found the work dried up in winter, and I'm having to refocus us all on getting our pipeline of future work filled up again.'
- A central manager in a global consultancy: 'I've trimmed down the monthly reports to partners from 50 slides - mostly spreadsheets - to 20. But it's still far too unwieldy. We need some simple means of spotting trouble early, so we can do something about it before it hits.'

The problem both are describing is familiar to any professional. It's one of balancing a firm's resources between farming and hunting - between delivering chargeable work, and looking for new sources of fees.

At bottom, the balance can be defined most easily as a ratio: the percentage of total revenue spent on all forms of business development at any given time. That includes not only obvious marketing activities like mailshots, brochures and client seminars, but also preparing conference speeches, rehearsing for beauty parades and spending unpaid time with clients and potential clients.

How the ratio signals trouble



A firm aims to spend 20 per cent of its fees on developing new business. Divergence first appears in April as consultants spend more time pursuing new leads. That's bound to cut into earning capacity and, left unchecked, may threaten margins and cashflow. In July, management clamps down to get the firm back on track. It is of course a matter for the firm's leaders to assess what is the right percentage of revenue to spend on sales and marketing activity.

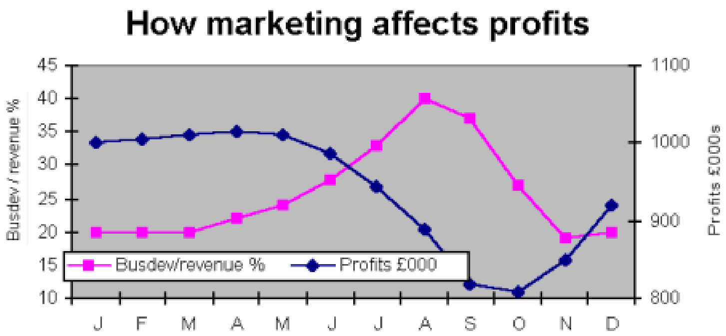
But for any one firm at any given stage of its development and in any particular marketplace, you'd expect the ratio to stay fairly flat over time. Other things being equal, if the percentage going to business development rises, you can expect margin and cashflow problems within a few months as staff do fewer chargeable hours. If the percentage sags, you can expect your pipeline and eventually your fees to follow it down as the flow of work dries up.

A firm chasing market share might want to set a high figure, so as to maximise growth; that's fine, as long as the firm also gives thought to recruiting people to handle the work when it arrives. A firm dominant in a market might want to set a low figure, at least in that market, so as to maximise returns; that's fine, too, as long as the firm keeps a weather eye open for rivals threatening its dominance.

The point is that a graph of the ratio over time becomes a highly visible lead indicator of trouble. Moreover, variations in the ratio between one office and another, one region or country and another, one team and another, serve to provoke useful questions. Why is office A getting fewer bangs for its development bucks than office B? What is partner X doing different from partner Y that is allowing him or her to convert more leads into work for the same cost?

So far, so visible and so helpful. But one other element may add significant extra value: a line, overlaid on the same graph, to show the firm's growth.

What sort of growth to measure depends on the firm, its state of health, its marketplace, and the strategic aims of its leaders. It could be the total amount of fees, or the rate of change in fees. It could be market share, or profits, or the rate of change in either. The point, though, is to allow senior managers to assess over time the relationship between business development, chargeable work and success.



A profit line (right-hand scale) makes evident the lagging effect of changes in business development. At first, past work keeps profits rising despite marketing soaking up more consultant time from April. But profits fall sharply in June and don't turn up until November - three months after management restrains spending. spending.

Managers can then make reliable investment decisions which take account of both the size and speed of the likely returns.

Depending on the size and talkativeness of the market, a lift in business development investment might be followed quite quickly by a surge in fees. The NHS, for instance, talks to itself a lot; so a health consultancy might be able to improve its profile and its fees quite fast. But a consultancy aiming at a more fragmented market - engineering businesses across Europe, say - might find the payback takes longer.

Either way, consistent analysis of this kind will over time allow leaders to make more accurate decisions, and to fix problems early and with confidence. The same model can of course be used at any appropriate level of detail. An EMEA-level management team might need to drill down only as far as a single country. A national team might want to check office-by-office or even individual performance.

The simplicity of the model should deliver two other bottom-line benefits as well. A significant cut in the staff time required to prepare for management meetings. And meetings which spend less time assimilating data and more time debating action.

As US President Herbert Hoover put it in 1958: 'Wisdom consists not so much in knowing what to do ultimately, as in knowing what to do next.'

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