Do Premium Consulting Firms Really Need Designated Rainmakers?
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Dynamic Innovations Squad
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Blog entry

"Nothing lasts forever, even cold November rain." ~ Guns N’ Roses: November Rain

For over a decade I’ve seen plenty of consulting firms hire salespeople to boost their sales, but all they’ve achieved is bloated costs of sales and high attrition of salespeople. In many cases cost of sales increased more than sales, let alone net profits.

Yes, gross revenue has gone up, sometimes pretty significantly, but when we look at meaningful indicators like, gross profit per team member...

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\frac{Sales - Cost of Sales}{Headcount}
\]

...we often can see a significant decline.

And when partners realise the loss, they hire more salespeople creating further increase in cost of sales and attrition.

Talking about a consulting firm, we can’t call them salespeople. They are rainmakers, account executives, practice/business development managers or some other fancy title holders.

But the expectation is the same.

Due to lack of marketing, firms have to beef up their selling effort, and to do it quickly, they have to resort to cold-prospecting.

So, half of the salespeople are dialling for dollars and the other half are pounding pavements and knocking on doors.

So, since the firm uses brute force to acquire new business, partners don’t want to do any selling. Neither do even the most junior associates.

After all, this is not why they worked their arses off to earn their MBAs.

One of the reasons is that the consulting profession in general looks down on client acquisition. Many consultants regard sales and marketing as something beneath them, so they want to abdicate the dirty work to designated salespeople.

Well, the interesting thing is that screwing the client over during the project through billable (bilkable ?????) hours is fine and most senior partners happily practise it, but acquiring a client is a dirty job; something not to be touched by the firm’s holier-than-thou partners.

So, the idea of hiring designated salespeople on straight commission is pretty appealing.

But this approach comes with two big questions...

1. What can consulting firms achieve by increasing the number of domainless\(^2\) salespeople,

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\(^1\) From G N’ R’s 1991 record Use Your Illusion 1

\(^2\) Salespeople without expertise and experience in the firm’s domain/subject matter area.
especially if they are just anyone?

2. What can firms achieve by offering salespeople better financial incentives? Is that the best way to increase performance?

Well, increasing headcount is hardly the key to the big performance vault.

And as for financial incentives, if money is salespeople’s main motivator, the firm has made a huge hiring mistake.

Former associate professor emeritus of business at Baruch College (1961-1981), Aaron Levenstein, has taught us that...

“Statistics are like bikinis. What they reveal is suggestive, but what they conceal is vital.”

But sometimes statistics can give us some answers too...

Cahner Research’s study found in 2001 that...

- One typical B2B sales call costs $329. This is based on 23,341 responses.
- One typical B2B sale over $35,000 takes 5.12 sales calls to close.
- Over 80% of sales efforts are seller-centred and buyer-ignorant – That is, empty chest-beating and self-aggrandisement.
- The typical B2B buyer takes 4.61 telephone sales calls a week.
- The typical B2B buyer grants 1.81 in-person meetings per week with salespeople.

And since 2001, the situation has got even worse.

Talent acquisition expert Geoffrey Smart reports in his book *Topgrading* that the typical mishire rate is about 50% and for salespeople it’s around 75%.

When assessing the damage caused by mishires, it’s fair to use a 4X multiplier.

That is, if you expect a salesperson to produce what corresponds to a $100,000 income for the salesperson in their first year, then the cost of this mishire is approximately $400,000.

The typical annual attrition rate for salespeople is 43%. In *Making the Number: How to Use Sales Benchmarking to Drive Performance*, authors Greg Alexander, Aaron Bartels and Mike Drapeau report that, on average, 27% of salespeople fail to produce enough even to cover their costs of employment.

And add to all this some research done by Mac McIntosh...

- 25% of buyers buy within six months
- 25% of buyers buy within 12 months
- 25% of buyers buy within 18 months
- 25% of buyers buy after 18 months

So, we’ve seen what a costly proposition it is to try to increase sales by putting more feet on the streets and more fingers on telephone dialling pads.

But there is another insidious aspect of the “rainmaker” approach.
By hiring more salespeople, firm leaders don’t fail to improve their firm’s internal client acquisition capabilities.

And without internal client acquisition capabilities, consulting firms fail to qualify as businesses and become glorified hobbies.

It also means is that this hobby-business has no inherent value, so it can’t be sold.

Now I know some people rebut me saying they’re doing great work.

Great but, that’s not enough.

Think about it...

Plunk a new McDonald’s on a street corner, and several of the local high-end restaurants with multi-Michelin star chefs go bankrupt within a year or two. Hey, there must be a reason why world-class chefs renounce their Michelin stars and decide to go starless.  

What we see here are two extremes.

McDonald’s huge emphasis is on the business side of food. It sells barely edible food-looking substances using a systemised and highly automated peddling machine.

Michelin star restaurants are the opposite. They offer artisan-made culinary masterpieces to people with refined palates and even more refined wallets. Sadly though, but most of them are hopelessly useless at communicating their offers to their markets.

So, as a result, many McDonald’s stores open on the ruins of bankrupted Michelin-calibre restaurants.

McDonald’s is the living example that proves that even if the food is borderline road kill quality, with the help of a good business system and good marketing, it can run rings around high-end restaurants with more Michelin stars than stars on the night sky.

When thinking of business development, which is really the continuum from first outreach to the market to repeat ad referral business with perfect clients, we can think of it in two ways...

1. Individualising business development by using an army of rainmakers that results in a short-term individual performance. But what are missing are long-term results and teamwork.

2. Institutionalising business development by using a highly automated business development system that results in long-term firm-wide performance.

And here we have to look at profitability.

Many consulting firms choose the rainmaker approach because they think this is a faster way to revenue. The more feet they have on the streets, the sooner they can make more money.

The problem lies in Pareto’s 80/20 rule tells. That is, 80% of those rainmakers bring draught not rain. Hey, some of them don’t even make enough to cover the cost of their employment.

And then add to this disaster we have the annual 43% attrition of salespeople.

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3 The Curse Of The Michelin-Star Restaurant Rating
How can you run a business and make sales projections for subsequent quarters or years of half of your business development people turn over every year?
The situation goes from disaster to catastrophe.
Now back to McDonald’s.
It sells crap in a consistent and predictable manner. And that beats selling great food in a haphazard manner.
So, the goal is to sell great services in a consistent and predictable manner

**So What’s Wrong With The Rainmakers Approach?**

The biggest problem with the rainmaker approach is that by relying on thick-skinned, rejection-proof salespeople, consulting firms fail to build business development into a strong institutional competency.
And without a strong ability to acquire clients consistently, predictably and reliably, a business is worth nothing. Not a sausage. After all, it’s just a glorified hobby in the mercy of some investors.
And equally big problem is that when sales salespeople quit their firms, they take their clients with them.
Don’t fight it. It’s pointless and there is nothing you can do about it.
Well, the only thing you can do is create such a great work culture that no one wants to quit. Ok, it’s not easy, but I think it’s a worthwhile goal.
The typical B2B sale can take somewhere between nine months and three years to complete and involves over 20 people on the buyer’s side alone.
In the typical rainmaker approach, human effort is supposed to cover this continuum.

However, why invest human effort at the beginning of the process when automation can take care of all the heavy lifting?
And while digging through this maze, taking their risks, investing their times, efforts and money, salespeople don’t get paid a dime. Only once they’ve completed the sales equation and money has exchange hands is when they get paid.

So, why do so many consulting firms play this rainmaker game?
Tom Peters calls it autocorrelation: Businesses in the same or similar industries are looking at their competitors and automatically imitate what they do regardless whether or not it works.

One of the farms I’m a silent partner at (i.e. marketing guy and butcher) is about to rendezvous two of their Black Angus cows, so they’re looking for a suitable Black Angus bull in the vicinity to do the honours.
But unlike in the world of humans, in the farm animal world, the girls have to pay the boys for sexual favours. The owner of the cow has to pay the owner of the bull for every “shot”.
The going rate for a shot, officially called a straw, is anywhere between $15-$700.
What is the difference? Mainly bloodline and heritage.\(^4\)

Obviously, those bulls’ owners do something more than merely mimicking the competition. This is why they can demand such high prices.

So, imitation doesn’t pay even in the animal world.

**Then Comes Monitoring**

Of course, we’d better monitor our progress, and this area has quite a bit of room for improvement.

The CMO Council reports that...

- Only 37% of companies gather customer insight from customer engagement situations.
- 60% don’t compensate employees or executives for helping to build customer loyalty or satisfaction.
- Only 14% track word-of-mouth on the Internet.
- Only 12.9% of companies have deployed real-time systems to collect, analyze and distribute customer feedback.
- While 74.6% say they receive customer feedback via e-mail, only 23% say they track and measure the volume and nature of these messages.
- Only 11.5% are using a word-of-mouth marketing platform to drive online client advocacy.

And this goes way beyond the role of the rainmaker.

The problem is that when a firm can depend on rainmakers to bring in new business, no one is responsible for monitoring how that new business is progressing as the firm’s client.

There is only a check list with a list deliverables and that list is checked. But that’s not enough.

The statistics above prove that most consulting firms don’t make a concerted effort for business development. Their best practices are to hire more rainmakers and promise them bigger carrots if they bring in revenue. But besides the sales folks, no one is involved in and responsible for generating revenue.

From the partners’ perspective, the advantage of the rainmaker approach is that partners can take themselves out of the rainmaking (non-billable) equation and plop themselves into the client-serving (billable) equation.

So, what is the tragedy in all this?

It’s that conventional wisdom overvalues service delivery and undervalues client acquisition and client relationships.

It’s like saying that China is an industrial superpower because it manufactures some of the best-

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\(^4\) A heritage livestock breed is one that was traditionally raised by farmers before the advent of massive-scale industrial agriculture.
selling products of the world (iPads, iPhones, etc.), whereas the US just an industrial insignificance because it merely invents and sells these products.

Well, if you had a choice, where would you prefer to live? In the industrial superpower of China or in the insignificance of the US?

Let’s just look at McKinsey, a typical consulting firm that puts huge value on service delivery. Gross revenue per associate is just over $500,000.

Many solo consultants clear that or more in net profit. Many of them have one virtual assistant, but many of them have no one else.

I don’t think they make their money by doing more delivery (The euphemism for performing more manual labour). But they are very good at acquiring great clients.

The way I see it is that in a boutique consulting firm, anyone who is not actively involved in generating revenue should be immediately laid off and retained later as a subcontractor for specific projects on an as-needed basis.

I’ve seen far too many consulting firms where the first people they hire right after founding the firm are some delivery people. There is only one glitch.

There is no one to deliver anything to because no one knows how to get the first client.

The Systems Approach

The greatest benefit of the systems approach is that you can keep headcount as low as humanly possible, yet to achieve impressive client acquisition results.

What a consulting firm needs is not headcount but highly systems to generate new business and brainpower to deliver unique, highly differentiated services.

Yes, you need personal attention to client acquisition, but let systems and automation take care of the heavy lifting of sifting, sorting, screening and selecting the best prospects who are pre-disposed, pre-interested, pre-motivated and pre-qualified to give you money and pay attention, consider and act upon to your advice.

Also let your systems gracefully and unceremoniously dump the rest of the prospects.

So, instead of commission-crazed rainmakers (a.k.a. glorified peddlers) pushing prospects forward in the sales funnel, a system can help your prospects to progress in your sales funnel at their own pace.

Some firm leaders may say that buyers’ self-dictated pace to move forward is not fast enough work because associates stay unutilised.

To that I say, they are just plain overstaffed.

And as far as the progress inside the sales funnel goes, there must be synchronicity between the buying process and how people change.

In the behavioural change area, the model developed by Dr. James Prochaska and Dr. Carlo
DiClemente\(^5\) is broadly recognised and applied to how human beings change. So, let’s see the stages of change...

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<th>Buyer’s Thinking Process</th>
<th>Company’s Buying Process</th>
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<tr>
<td><strong>Stage 1:</strong> Pre-contemplation - Blissful Ignorance. At this point people are not convinced they need to change at all. Definitely no change is in the pipeline within the next six months.</td>
<td><strong>Early Stage</strong></td>
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<tr>
<td><strong>Stage 2:</strong> Contemplation - Sitting On The Fence. Convinced but not committed. Change is planned within the next six months. Uncertain whether or not to change. Not considering change within the next month.</td>
<td><strong>Step 1:</strong> “Disturbing” buyers’ comfort with various educational pieces, like white papers, articles, podcasts, videos, seminars, workshops, etc.</td>
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<td><strong>Stage 3:</strong> Preparation - Testing The Waters - Making a plan to make the change within the next 30 days. Some behavioural changes have already taken place.</td>
<td><strong>Step 2:</strong> Your educational pieces open buyers’ eyes to the problems they’re having, and they make mental commitments to change their situations.</td>
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<td><strong>Stage 4:</strong> Action - The change is taking place in the past six months. Already in the process of change.</td>
<td><strong>Middle Stage</strong></td>
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<td><strong>Stage 5:</strong> Maintenance - Forming a habit after the change has been made for over 6 months. Continued commitment to sustaining new behaviour.</td>
<td><strong>Step 3:</strong> Buyers start exploring possible solutions (starts searching on the web).</td>
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<tr>
<td><strong>Stage 6:</strong> Termination - Leaving the past behind and live in the new world with no danger of ever returning to the old habits.</td>
<td><strong>Step 4:</strong> Buyers committing to specific a solutions.</td>
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The inherent problem of the rainmaker approach focuses on Step 6 of the buying process. But by this time buyers have developed their criteria for solutions in their heads, and all they are looking for is a pair of hands to do the heavy lifting on what they’ve thought up.

So, this is why at this stage consulting is a price-sensitive commodity.

It is virtually impossible to offer distinct value buyers have already scoped up the project.

However, since this scoping is based on incorrect diagnosis, the scoping is wrong, leading to often impressive but otherwise dud solutions.

This is similar to self-diagnosis performed by patients who merely order their doctors what to prescribe.

\(^5\) For more on this changing process, you can read *Changing for Good: The Revolutionary Program That Explains the Six Stages of Change and Teaches You How to Free Yourself from Bad Habits* by James O. Prochaska, John C. Norcross, Carlo C. DiClemente
However, steps 1 to 5 of the buying process can be 100% automated.
It takes bit of upfront work but the system is yours and you are not in the mercy of rainmakers coming and going, taking their best clients with them.

One more important point.

With this systems approach, your firm has an internal capability to consistently and predictable generate new business. This capability translates into an organisational asset, making your company a sellable entity if you choose to do so.

Some people may say this systematised sales cycle is pretty long. Well, it depends. If it’s automated, you don’t even realise what’s happening in the background.

But if each step requires human effort, even the shortest cycle seems to be too long.

**Summary**

Client acquisition can be either a killing field where your rainmakers are aggressively hunting for clients in pursuit of their next commissions or it can be a watering hole where self-qualified prospects come to you on their own volition in search of solutions and expert advice to their issues?

The problem is that the killing ground approach positions your prospects as hunted animals and, based on my limited knowledge of hunting, hunted animals try to run and hide from their hunters.

But later the hunted become the hunters by not doing business with these aggressive companies.

Client acquisition should be a combination of system- and human-based interactions. Systematising the interest and humanising the commitment.

That is, until and unless buyers make conditional commitments to doing business with us (condition: We can fulfil their buying criteria), we keep them in an automated lead-nurturing system but don’t invest human effort in them.

That is, we don’t make one-sided commitments of meeting them and solving their problems for free.

This is not about being nasty but about carefully screening buyers and accepting only those who fall in your Perfect Client Profile.

Buyers who are meant to work with us appreciate the way we do business, and if they want to work with us, they accept our idiosyncrasies.

Now look at your whole client acquisition process and evaluate how human- or system-dependent it is.

In areas where it’s too human-heavy, which human activities can you replace with automation?

Then try to evaluate the consequences of your rainmakers’ fluctuation? This is hard because traditional accounting fails to account for this, but it’s vital to evaluate it.

The more of your client acquisition you can automate, the fewer people you need, the more you
can to those few people, so you can get top quality rainmakers for your firm. And now your firm has become some serious power to reckon with. What do you think?

With victory on high...

Tom “Bald Dog” Varjan
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