Five Awesome Benefits Of Keeping Your Consulting Firm Small
Commando Consulting Newsletter, February 2016
A Monthly Practice Management Newsletter
For Boutique Consultancies And Solo Consultants
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Do you know that the old saying of “give a man a fish, he'll eat for a day; teach him how to fish, and he'll eat for a lifetime” is not from ancient Chinese proverb and it has nothing to do with the Torah or the Bible.

It was coined in 1885 by Anne Isabella Ritchie, the daughter of the English satirical novelist William Makepeace Thackeray. Nevertheless the innate wisdom of the phrase is valuable. A slight, and somewhat satirical modification is that if you build a man a fire, he'll be warm for a night; set a man on fire, and he'll be warm for the rest of his life.

Anyway...

It’s also true if we say that if you do things FOR your clients, you improve their businesses today, but if you do things WITH them, you improve their businesses forever.

And this reminds me of the cartoon strip Family Circus by Bill Kaine. A little boy is holding his homework out to his mother.

She looks at him, a bit annoyed, and says...

“You misunderstand. I’m a homework consultant, not a homework subcontractor.”

That is, she can work WITH him to get the homework done, but she won’t do it FOR him.

Sadly, most consulting firms are in the “doing it FOR them” not in the “doing it WITH them” business.

The other day I had an email interaction with the CEO of an IT consulting firm. He was looking for someone to do marketing and sales for his firm. I'm looking more for a salesperson that actually makes the calls and meets with customers and sign contracts. Sales and marketing I can do it myself but I hate it and I don’t want to have nothing to do with this part of the business.

I see that you are more like a consultant and I assume you will just tell me what to do and I have to do it but that’s what I try to stay away from. I’m good on IT and I love it. I’m a firm believer that everyone is good at something and they should do what they are good at and what they love. Sales and marketing is not my dream so I need somebody to take over 100%.

And this is the type of client most consulting firms chase. Since they have large headcounts, they try to keep their staff busy by taking on “Done FOR you” type projects. More often than not, they give away their intellectual capital during the pre-project interaction, and by the time the purchase order is signed and down payment is made, all they have to offer is manual labour.

And to perform all that manual labour, they need lots of people.

But here is the problem...

Look at their revenue per employee.
No, never mind revenue per partner, which is a fashionable indicator used to assess consulting firms. It’s fine if everyone at the firm is a partner. Otherwise it’s meaningless.

So, revenue per employee...

McKinsey & Company: $488,235
Boston Consulting Group: $433,333
Bain & Company: $380,702

Now, McKinsey has about 500 partners who get paid way over $1 million. They have equally generous perks.

But McKinsey and the other big firms create their leverage through using armies of junior associates who do the donkeywork.

This is fine and dandy, but someone has to coordinate this army of worker bees. And this coordination takes up hell of a lot of resources and manpower.

Well, if you have a chance to become a top dog senior partner and are willing to take on the associated politics and the stress, good on your sport and go for it.

Otherwise, you may not like it.

So, as I look at the big picture, I realise that a premium-calibre consultancy is better off staying small and agile.

Plus add to this the great work/life balance mystery that is almost impossible to find in large consultancies that have the habit of working their worker bees to the ground and then dispose of them.

Why?

Because many of them are publicly traded, and once your firm is public, it’s shareholders and Wall Street analysts who rule the land. Taking care of people goes to the back burner or even down the toilet.

But let’s stop at the premium-calibre concept for a second.

For some consulting firms, prestige is all about headcount, location, gross revenue and other forms of cachet.

For some other firms, it’s all about what people keep after all costs are paid (profit per person) and lifestyle.

I know some people who’ve worked at prestigious consulting firms and they’ve told me what sort of crazy hours they had to work and live out of suitcases at four different locations in four different hotels within one week.

So, my conclusion is that the big consultancy model is a swell ship for the partners but a hell ship for the worker bees.

The reality though is that staying small is a failure in many people’s eyes. Although don’t tell that to those consultants who run their one-person (all right, maybe with a V.A.) operations out of their spare bedrooms and gross $2 million or more year in year out.
I guess, these “small operators” don’t give a rat’s arse about what others think of them. “Small” operators have realised that the more collaborative (doing it WITH clients, that is, assisting clients to do it for themselves) the work they do and the more their clients’ people are involved in engagements, the more clients put on consultants’ help and support.

With that in mind, let’s walk through 15 reasons why you may consider staying small.

1. **Brainwork (Diagnosis and strategy) scales better than brawn work (Implementation).** Most consulting firms are strategy-light and implementation-heavy. Buyers tell them what they want, and consultants click their heels, yell out a loud “Yes, Sir!” and get to work. They don’t diagnose the situation don’t bother to second-guess their clients on strategy, they just get on with the proverbial ditch-digging work. And since implementers are a dime a dozen, these firms always leave big piles of money on the table. And when there is a lot of this low-level implementation work, they hire more people. This is like putting on 10 lbs of body fat in order to gain 1 lb of muscle. Yes, the 1 lb of muscle makes you stronger, but you will look silly with all that fat.

2. **You can easily do strategy after 65 (or whatever the retirement age is in your neighbourhood), but long-term implementation work can take a serious toll on you.** It may be fun to travel 4-6 days a week and putting in about the same number of all nighters to get the job done, does that really give you a life? Even if you live this crazy, hectic life under the aegis of a prestigious firm. The firm may well be pretty prestigious, but you’re just a tiny cog in a huge cogwheel and an even bigger cog work. And somewhere in the background there is the cog work master who tells you where to go and what to do.

3. **As the saying goes, you can’t change the wind but you can always fiddle with your sail.** Whatever happens on the marketplace, if you run a small firm, you can turn on a dime. Just look back a few years. Who adapted Google AdSense, AdWords, blogging, Facebook, etc. as a way of getting qualified traffic to websites? No, not the giants. It was the small “spare bedroom” consultants. The giants were too busy planning the next Super Bowl ad campaign.

4. **As a small firm, you can more easily overcome bad business decisions.** Imagine a rowboat and a tanker heading towards an iceberg. You know now that you’ve made a mistake trying to cross the Atlantic in the middle of winter but there you are now and the water is riddled with icebergs. If you’re in a rowboat, you just stop paddling, figure out what to do and Bob’s your uncle. But what if you’re on the bridge of a ginormous tanker? What do you do then? As a small firm you can be innovative, hence demand premium fees. Giants are far too political to be truly innovative. Yes, there are exceptions but that’s
not the rule. Apple and Google have grown big and successful on their merits. Some other companies have grown big on their ability to kiss the appropriate governmental arse and achieve special favours with politicians.

5. **You can keep a flatter hierarchy.** While having a certain level of hierarchy makes sense, you have to be careful not to let that hierarchy grow too thick. As a firm leader, the further away you are from clients, the less you know what’s really going on, and the more you have to rely on what people with no profit/loss responsibility tell you. And they hardly ever tell you as is. Remember, they are too busy protecting their jobs and their power within the firm. And the closer you are to your frontline people, the better and clearer picture you can see about vital leading indicators, like proposal acceptance ratio, on-time engagement completion, client satisfaction, etc. By having a better and more realistic picture of frontline issues, you can better tweak key strategic issues in your firm.

6. **You can recruit perfect associates only.** Since you can keep attrition very low, when you need a new person, you can recruit the best person you can find. When you need a new person, make sure you recruit not hire. Read Seth Godin’s blog post\(^1\) on the difference. Before recruiting, assess how revenue per associate is impacted after recruitment and about how long it takes to fully integrate the new person and bring up revenue per associate up to a higher level than it was before recruiting this person.

7. **By having fewer worker bees, you have fewer managerial headaches.** Note that most managerial headaches arise during implementation. This is one more reason why you should use your clients’ internal people to do the implementation under your project leadership. You should be the proverbial orchestra conductor, but all the instrumentalists should be your clients’ own employees. This approach also makes sure that the improvement process is owned by your clients and they can maintain and further improve the situation. Why don’t large consulting firms do this? For the same reason why pharmaceutical companies have no interest in curing people. They need a large and steady supply of sick people to prosper.

8. **No one in your firm can hide.** I’ve read somewhere that the typical corporate CEO performs a mere 28 minutes of revenue-generating work per day. The rest of the day’s activities are purely political to reinforce power and authority and self-serving, like scheming for promotion, higher salary and better benefits. And if the Big Cheese does that, rest assured the worker bees do the same. But they can’t do that in a small firm with a small headcount. A small team instantly feels when someone is not pulling his weight.

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In a “team” of 500 (he he he), half of the team members can slack off and no one notices the difference. That is, buy the time, they notice it, it’s far too late. In small firms with good culture, peer pressure pushes slackers out of the firm. No managerial intervention is required except for documenting the slacker’s departure.

9. **Small firm’s cultures are easier to maintain.** In large firms culture is replaced with policies and procedures. If you try that in small firms, your best people will quit right away. Many top-tier talents may be prima donas, but most of them value culture and can work by these unwritten agreements. What they passionately hate is rules, regulations, policies and procedures coming down on them from the almighty management mountaintop. Stephen Covey wrote in *The Seven Habits of Highly Effective People*, “When morals are sufficient, laws are unnecessary. When morals are insufficient, laws are impossible to enforce.” Build a culture first and policies and procedures later. Oh, and forget about rules. No one gives a shit about them anyway. And if you have a good culture, you don’t need rules.

10. **You can cherry pick your clients.** As a small firm, you can achieve a pretty high demand-supply ratio. You don’t have to be a one-stop-shop. Actually, being one is not a pretty good idea. It may well commoditise your firm’s offers. Just as you may not want to be a dentist and an OB/GYN at the same time despite the fact that they both work inside body orifices. Yours may be a consulting firm, but I think it’s a great idea to narrow the widespread “we consult for businesses” concept, the very model many fallen politicians follow with incredible greed, zeal and vehemence. Narrow your speciality and offers to be just big enough to be able to differentiate your firm from the competition. When you narrow your speciality, you can find expensive problems more easily and you can demand high fees for fixing expensive problems.

11. **You directly feel the impact of each client.** In large firms, bad clients can hide in the background, while quietly draining your resources. In small firms, every client had better be a perfect or at least almost perfect client. This makes certain you don’t lose clients to dissatisfaction. My observation is that perfect clients are easy to please and hard to upset to the point of firing consultants. Shitty clients are the opposite. They are never satisfied and keep demanding more and more even outside the scope of the project. And if they don’t get what they want, they often threaten with legal action.

12. **You can take on only sexy, exciting engagements.** No matter how good clients are, if they have mind-numbing dull and boring projects, then you’d better stay away or you risk of losing your best people. Remember, above all, top-talents (operating on the top of the Maslow pyramid) work for impact and professional satisfaction. Interestingly this is why
they get paid the most. The money-chasers (operating at the bottom of the Maslow pyramid) don’t care about what they do as long as they make their money. And they make... their competitive salaries. Nothing distinct, just merely competitive. But top talents don’t want to be merely competitive. They want to become the masters of their crafts.

13. **You can stay closer both to your people and clients.** Spend most of your time with your associates. The better you take care of them, the better they take care of clients, and the more money the firm makes. At the same time, keep nurturing high-level executive relationships with your clients too. Your clients appreciate the direct contact with high level people from their consulting firms. This creates a peer-level match.

14. **Small firms have smaller financial risks and lower levels of stress for firm leaders and associates.** We know that money can cause pretty serious stress in people. Small firm, small stress. Large firm, large stress. Also, running a small firm, the financial aspects of the firm are more manageable than in large firms. Yes, you can suffer small losses but they are hardly ever high enough to commit suicide over. And if you set up the right performance indicators, you can see when a rough patch is coming and can get ready for it.

15. **Small firms can grow in a slower and more calculated manner than large firms pressured by investors’ expectations.** I believe considered growth and long-term success go hand in hand. And I have the same opinion about meteoric growth and flash-in-the-pan success.

**Summary**

When you sell “things”, your company’s size is fairly linearly proportional to your sales. If you want to increase your sales, you have no option but to increase in size. It means bigger infrastructure and more people.

It also means that your firm becomes exponentially harder to manage. It’s mainly the number of people in your firm.

Why?

Because people have eccentricities and idiosyncrasies, and they make them rather unpredictable. Let’s look at this issue in the little scribbling below...
There is an exponential relationship between the number of team members and the effort of managing them.

Total number of connections = \( \frac{N \times (N-1)}{2} \)

N is the number of team members

For 4: \( \frac{(4 \times 3)}{2} = 6 \)

For 8: \( \frac{(8 \times 7)}{2} = 28 \)

A 100% increase in the size of the team (from 4 to 8) and a 366% increase in effort to manage the team.

It means that when you double your team, that new team had better generate 366% more revenue than the original team. Otherwise the whole exercise is pointless.

Well, the only way you can pull it off if you underpay your team members. But you can’t do that because they quit your firm and you’re left high and dry.

In case you’re curious, this whole thing is based on Metcalfe’s Law, which states that the value of a telecommunications network is proportional to the square of the number of connected users of the system.

This law is also very much related to economics and business management.

Now, having seen the number, I hope you think twice before you think about bringing more people on board.

One more thing...

Before you recruit a new person, make sure your firm is optimised for processes and systems. It’s just sad to see that people perform activities that can be automated with a little thinking.

Yes, in a consulting firm, people are your number one assets (their genius and creativity), but also your number one liabilities (their inconsistencies and idiosyncrasies).

Look at it this way...

There is an ideal number of horses to pull a cart. If you stay below or go above that magic number, you compromise performance. I learnt this when I was studying for my horse and cart driving licence in England in the early 90s. I was working at a cemetery and had an opportunity to become a horse-drawn hearse driver, and I needed to update my car driving licence.
Now look at your team...

There is an ideal number of associates that allows you to optimise your cost of doing business and rendering your services.

If you go either below or above that number, your costs increase... often quite drastically.

And now let’s look at another indicator, probably the most important lagging indicator as the function of headcount...

Productivity (profit per employee) requires the optimal number of associates in a consulting firm.

If the firm is either understaffed or overstaffed, productivity will suffer.

This is why tiny artisan type boutique consultancies are much more profitable than either solo consultants or large consulting behemoths.

One good demonstration is a restaurant example with tables. The indicator is guests per table.

Under-utilised: One table: 1-3 people => 1-3 people per table
Well-utilised: One table: 4 people => 4 people per table
Under-utilised: Two tables pushed together: 6 people => 3 people per table
Seriously under-utilised: Four tables pushed together: 10 people => 2.5 people per table.
Very seriously under-utilised: 10 tables pushed together: 14 people => 1.4 people per table.

In the case of one table, the capacity is there but there are not enough guests.
In the cases of two, four and 10 tables, capacity (seats available) is wasted and productivity (guests served) is reduced.
So, when it comes your team, think small. Or at least take some time to optimise capacity to productivity.

With victory on high...

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http://www.di-squad.com/

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