Richard Hirst – Director, The Cotswold Partnership.

Graduating from Brookes University in 1991, Richard has over 24years commercial experience in businesses ranging from SME to Multi-National corporations, and in sectors as diverse as restaurants, corporate finance, and international motorsport. He has established, grown and sold several businesses of his own, giving him a proven track record of understanding how to generate results in any business. Having recently completed a 12 month contract with Pirelli Motorsport, Richard gives his views on the stages every business, and consultant should consider in order to gain the most from working together.

Maximising the return from a business consultant.

I established the Cotswold Partnership as a direct result of selling my own business, Wyse Leasing.

Over the 11 years since I established Wyse Leasing, I had encountered almost every challenge possible; how to employ staff, motivate staff, set targets, review staff, dismiss staff, taking steps of growth, training, marketing, finance, increasing sales, cutting costs, relocating premises, product development, new IT infrastructure, appointing senior board directors, buying businesses, merging businesses and eventually selling the business. Wyse had been through recessions, heightened regulations, legal battles, and I seem to remember at least 2 events which were 'the end of the business.' The mix of sleepless nights and celebrations were never equally balanced, and yet the business was still sold for several million in 2009.

In almost every situation I mention above, it was my first time. There seemed to be no right or wrong answer, and no book that could understand the dynamics of my own business. As with every decision maker, with hindsight, I made some poor choices. Yet, these choices were always made after consultation with my other shareholders and directors, who had also never encountered the challenges before. So, I suppose you could say they were my 'best guess' at the action to take.

Having completed the sale of Wyse, I started being asked informally to give my opinion on certain business situations. The individuals asking were also attempting to make their 'best guess', yet through the experience gained with Wyse, I found that I could take most of the guess work out of the decision. In many situations I could highlight the possible 'domino effect' that decisions would have, and steer those asking, away from danger.

As I was asked more for my opinion, I formalised my role as a consultant, and as the projects increased in number, so they grew in complexity. In this increased number, the majority of businesses were engaging a consultant for the first time, and it was clear that some had no comprehension of how a consultant could benefit them. For this reason I decided to give a brief outline of how best to make the most from the investment, and make the process of working with a consultant a pleasurable and highly profitable experience.

Stage 1

Prior to any discussions or detailed analysis, the first stage of any consultancy is to establish where the business actually is. For this, the financials are the starting point. It is the financials that underwriters will be looking for an understanding of the business, and will almost always form a strong part of any due diligence process.

Whilst many think they can be contortionists when it comes to numbers, underwriters have learnt to understand the 3rd dimension of figures, and will usually deconstruct and reconstruct them in order to make an accurate assessment. In this regard, greater transparency instills greater confidence with external accountants, auditors and underwriters, when performing any level of due diligence.

Usually, the minimum financials needed will be 3 years of audited, and monthly management accounts up to the current month – or as near as can be generated.

This information can then be broken down to show trends, areas of improvement, areas of decline, areas of risk, and areas of security. They can show clearly where the business has been, where it is now, and should no action be taken, where it will go.

Stage 2

Once the consultant has a clear interpretation of the business, it is then appropriate to have a meeting with the senior management of the company.

This is the essential first step of engagement, and will set the tone for the entire relationship between those advising, and those being advised. It is not just the content of the dialogue in these meetings that will be essential, but also the dynamic between those present.

There is always a reason for a consultant to be invited into a business. This can be for a clear, definable challenge, or for a wider reaching problem that has to be resolved. It is the first step for those responsible for the business confirming that they need assistance – very much like the sick man finally meeting a doctor.

For those being advised, there is a need to accept that they can't be good at every element of business, and won't have experienced every challenge that a business may face. They must accept that a consultant is rarely going to tell them anything they wouldn't already know, as the majority of business is about applying common sense. What the consultant should be aiming to do is enable the decision makers to ask better questions, and as a result make more informed decisions. As such, the most successful consultants will apply their experience to generate information and offer solutions which take into account all the external and internal variables that the business holds.

I can apply one example that might help in understanding this concept.

I attended a meeting with the board of directors of one business, which had an issue relating to escalating costs and stagnant sales. The simple answer was to cut costs, to which the MD made clear that he intended to achieve by making sweeping redundancies across the company. This was his PLAN.

What had not been considered was the impact such redundancies would have both internally and externally. The impact on cashflow, staff morale, competitor action, and customer perception – none of these had been properly considered for understandable reasons – none of the directors had ever been in the situation before.

Within 2 hours, the PLAN had been abandoned.

This is only one example of discussions I have regularly, and not just with the smaller SMEs, but directors of significantly sized businesses also. In all cases, the principal challenge is in overcoming the tunnel vision that most decision makers have, having been immersed in a business or industry for a significant length of time. It is this tunnel vision that creates inaccurate perceptions on their business, the environment in which their business is operating, and the scale of change that can be achieved; The most common response to this assertion being 'but our business is different' – turning the consultants major attributes of neutrality and objectivity, into his biggest flaws.

It is at the conclusion of the first meeting of senior management that a consultant should be able to decide whether he can assist, and add value to the business, or whether his time is best invested elsewhere.

An unprofessional, indecisive or defensive management team will not accept a consultants input, and most likely (as has happened to me in the past) will make every effort to prove their perceptions correct, putting as many obstacles in the path of the consultant so at to render his input almost impossible to provide – much like an uncooperative patient.

A professional, decisive and forward thinking team however, will see the consultant as part of the solution, and will look to maximise the return they can gain from him. It is these teams that offer the greatest reward for all, and it is these that are worth investing the time and effort into; and it is usually these management teams that, once they have seen the rewards, move toward appointing a more permanent position of non-executive director (a role defined by the IoD as being to provide a creative contribution to the board by providing objective criticism – being used by Chairman and MDs to provide general counsel – and a different perspective – on matters of concern, usually concerning Strategic Direction, Monitoring Performance, Communication and Risk).

<u>Stage 3</u>

Having completed the initial meeting, it is now time for the consultant to go to work. Before making any decisions, it is essential that the management team have all the correct information on which to base their decisions. It is the responsibility of the consultant to initially generate all this information, in the form of a diagnostic, or health check. By undertaking this exercise, the directors aren't left in a position where they need a crystal ball to see the future; they can use knowledge and experience to have a much greater appreciation of what may lie ahead, and can make their decisions accordingly.

This will not just look at numbers, but also the internal and external environment.

It is the following areas that will be considered, although the level to which they are explored is dependent on the relevance they have to the business challenge.

Costs (current and trend analysis)

Analysis and percentages

- Gross margin
- Net margin

Main costs assessment

Systems

Cashflow (current and trend analysis)

Cash at bank

Short term Debtors

Debtors over 12 months

Debtor days

Short term Creditors

Creditors over 12 months

Creditor days

Banking Arrangements

Direct Debits

Systems

Management Team

Management structure

- Roles
- Responsibilities
- Decision makers
- Influencers
- Experience

Management perception

- Strengths
- Weaknesses
- Opportunities

- Threats
- Business sales value

Ambitions

- Business
- Personal

Revenue (trend analysis where appropriate)

Customer Base

Number

Profile

Retention

Growth

Revenue Spread

Contracts

Systems (recording, monitoring, reporting, red flagging, procedures)

Product

Pricing models

Average Order Value

Average Margin

Conversion rates/ Lead Times

- Enquiries
- Leads
- Prospects
- Customers

Contracts

Mix

Development

Systems

Marketing

Competitor analysis

USPs

Literature

Communications

Systems

Staff

Company structure / reporting lines

Office environment

Contracts of employment

Job descriptions

Performance assessment

Service record

Absenteeism

Systems

Strategy

Mission

- Growth
- Consolidation
- Exit

Realistic

Achievable

Time based

Communicated

Support

Auditors

Accountants

Solicitors

HR

IT Support

Stage 4

Once the consultant has undergone the necessary health check of the business, it is for him to report back to the senior management with a much more informed assessment of the business. This does not need to be complicated, and can most usually be performed by way of a basic SWOT analysis. This is the headline information, which can be used by the senior management to make informed decisions based on their goals for the business.

It is at this stage that the senior management, with the assistance of the consultant, can use the information to gain a much better appreciation of the challenges the business faces, in both size and scope. Once these are agreed, clear objectives can be set to address them.

Stage 5

Having established the objectives, the next stage is to place a financial value to each of them. This is essential for both the business and the consultant, so as to create a much clearer appreciation of the success of the initiatives.

What must be appreciated in this phase is the role of the consultant: to effect fundamental change within a business to increase shareholder value. This is crucial to the valuation phase.

For example, a consultant has an objective of raising revenue by £10,000 per month.

The route to achieving this in the shortest timescale would be for the consultant to simply visit new clients and sell the businesses products and services. Whilst sales may increase by £10,000 per month, he has failed to perform his fundamental role. As soon as the consultant completes his contract, most likely the sales will revert to a fraction of the amount he generated. In the short term, the company may have made a profit on their investment, but the longer term impact will be negligible.

In this scenario, an experienced consultant will look at methods whereby the company can better use its current resources to effect an increase in revenues of £10,000 per month. This might require training, marketing, product development, pricing, account development or communication, but should result in a business that will continue to generate an additional £10,000 in revenue following the departure of the consultant. Whilst this approach may take longer, and therefore cost more in the short term, the overall profit generated will be significantly greater.

Through this example it should be clear that, to simply focus on the financial return made whilst the consultant is retained, clients may be compromising the consultant in achieving his/her principal role. It is better not to assume or budget for any immediate results, but to consider the fact that this may happen as a bonus.

Stage 6

Having undertaken the task of outlining the objectives, and gaining a better appreciation of the role of the consultant, it is believed at TCP that we must also provide a platform which helps ease the clients concerns over the cost, and focuses more on the returns generated.

As such, we have devised several payment plans which revolve around a 3 month contractual term.

For those organisations that are completely clear on the objectives they have set and returns expected, and have the cashflow available, TCP will charge their usual daily fee.

This has the highest impact on cashflow in the short term, but will generate the greatest results for the business, as there is no risk to the consultants' investment in time.

Many organisations however are unclear as to the objectives they wish to set and the returns to be made. It is for these organisations that TCP are prepared to discount their daily fees, with a balance of fees being paid in either quarterly, half yearly or annual payments. This eases the impact on cashflow, enabling certain businesses to retain the services of the consultant for much longer than would have been the case had the standard rate been applied. That being said, the longer the period of deferral, the higher the impact on TCP cashflow and the greater the risk to the consultant. This is effectively an investment on the part of TCP and the consultant, and as such requires a return to be realised on this investment.

Should the consultants input be required beyond these points, the company does have the opportunity to offer equity to TCP, in exchange for the deferred payment; the level of equity being set out at the inception of the arrangement.

In all these scenarios, it should be appreciated by the client that a break even position, in most cases, is totally acceptable. Based on the fundamental role, provided the consultant has performed to this role, the business should be able to carry forward the results well into the future after the consultants contract has concluded.

E.G If a consultant has introduced processes and procedures which enable a company to generate £50,000 more profit per annum, and this has required an investment of £50,000 in the year, if the consultant exits at the end of the first year, the company will enjoy £50,000 increased annual profits thereafter.

Stage 7

Having agreed the objectives, performance criteria, resource to be allocated, and payment plan to be used, it is for the consultant to proceed with generating results. It is likely in most cases that progress will be informally monitored as the consultant continues as part of the management team. Irrespective, a monthly report should be provided which will update on progress and give an indication of what the following month's actions will be. By providing such a report, all are kept fully informed, and any concerns can be voiced sooner rather than later, so as to continue to maximise the consultants' performance.

Summary

'If I had six hours to chop down a tree, id spend the first hour sharpening my axe.'

Abraham Lincoln

The role of the business consultant continues to grow in today's organisations, bridging the gap between the knowledge and experience senior management currently possess and that which they require to take the business forward. It is a relatively inexpensive resource when considering the alternative of recruiting a full time member of senior management, and can generate much swifter results. However, the scale of these results is sometimes diminished when the engagement process is not dealt with in a structured and comprehensive manner. It is the aim of the 7 stages above to give that structure such that the management team and consultant can generate the highest return for the shareholders.