

Using Consultants

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I. Background

Before selecting a consultant or service provider it is important that as a potential client one understand the fundamental differences between services and solutions and how solutions are derived. Services are the skills, tools, and methods used as part of a successful project to attain a goal or solution. Services in and of themselves are not solutions but used correctly, in the right combination, and with experience can lead to a solution.

A solution is a set of specialized services in the form of a project or engagement that results in some direct benefit such as identification or generation of revenue or profit, identification or realization of cost reduction opportunities, avoidance of risk, or visibility to information. Recruiting firms, staffing agencies, and third party transaction processors provide services, while consulting firms and implementers provide solutions.

From a provider perspective there can be overlap as staffing agencies and consultancies may provide both services and solutions. Services and solutions provide revenue for professional firms as both services and solutions provide valuable services for companies.

A company may not have the skills within their organization to support its service requirements for particular projects or in order to meet daily processing requirements so it must explore options for obtaining these skills. A company obtains services by hiring temporary or full-time employees, retaining a consultant, or through the hiring of a service provider (outsourced transaction provider). Many consulting firms and all of the staffing firms provide professionals with skills (service delivery) needed to deliver necessary services of their clients.

However, a consultant or consulting firm, as opposed to a service provider or staffing firm will primarily be retained to provide solutions to problems and not services as defined in this paper. With some exceptions, solutions will cost more on an hourly basis than services because of the additional inherent value in skill sets, training, and experience provided.

II. What is a Service?

Typical services, examples, and project timing include the following:

1. **Business Research** – Research can be used in marketing or acquisition studies and is typically done throughout the project. An example is research for new products, technologies, or researching a new market. Research is used to support other phases of a project such as analysis.
2. **Facilitation** - Facilitation is used to gather information from a group of people through face-to-face meetings or surveys. Results are then summarized to support a position or solution. Facilitation is typically done at the beginning of a project.
3. **Analytical Services** - Data analysis is primarily used in IT systems projects, financial analysis projects such as financial statement analytics, or data summarization services. Analytics is used in presentation of facts and circumstances to support a position. Analysis is done throughout a project.
4. **Documentation** – Documentation includes documentation of process flows, organizational structures, systems diagrams, and dynamic interactions of key parties or transactions. Documentation can be in the form of flowcharts, policies and procedures, diagrams, memos, reports, and surveys results. Documentation is done throughout a project.
5. **Presentation** – Presentation includes summarization of facts or results. Presentation occurs at the beginning of a project to outline and communicate the scope and foundation of a project, during the project to provide updates, or at the end of a project to present key conclusions.
6. **Project Management** – Project management includes both tools and techniques used to meet key reporting milestones and deadlines, budget to actual variance reporting, and the overall success of project objectives. Project management may include an element of change management that supports acceptance of project objectives and conclusions.
7. **Compliance or Validation** – Compliance or validation services include most compliance audits or validating company activities against an external or company derived standard. Examples include completing a special agency audit, regulatory audit, or internal audit. Validation is done during a project and is followed by reporting activities.
8. **Assessments** – Assessments involve taking a snapshot of a current state process, human dynamic, organizational structure, or situation, in the form of a metric or attribute and comparing it against a standard for the purpose of highlighting gaps or best practices. A professional can assess almost anything—a process, function, person or industry. Typical assessments involve gathering and comparing both quantitative metrics and qualitative attributes of a sample of data or condition against a standard. Primary benefits of an assessment include identification of risks, opportunities for efficiency and cost improvements, and identification of practices not used at a company. (There are consultants that consider assessments a solution. This is debatable. But assessment is similar a doctor ordering tests to diagnose an illness. Assessment is only the first step in the prognosis or delivery of a solution and is therefore not a solution.)

9. **Transaction Processing** – Transaction processing includes the processing of routine transactions such as accounting entries, telephone surveys or procurement orders. Recently the increased use of outsourced or offshore customer care and other processing centers are examples of transaction processing services.

Although services provide some value in managing a business, they may not add value to the business in terms of identification or generation of revenue or profit, identification or realization of cost reduction opportunities, avoidance of risk, or visibility to information. Usually companies require only one or more of these services as part of routine business processing or as part of a larger project that could lead to a solution.

III. What is a Solution?

Solutions are provided by consulting firms and exist in three types of projects that include the following:

1. **Transformation** – Transformations propose a future state design or concept (hence a solution) based on industry or best practice standards. Examples include projects that propose to transform a supply chain process to world-class standards or proposing a new organizational structure. Primary benefits of transformation solutions include costs savings, efficiency improvements, and visibility to information.
2. **Implementations** – Implementations include a category of solutions in five potential areas: people, process, technology, regulatory requirements, or management programs.
 - i. **People** implementation includes organizational implementations, company restructuring activities, or implementation of leadership development programs (e.g. self-directed work teams).
 - ii. **Process** implementation includes installing and communicating new processes such as implementing a new accounts payable process.
 - iii. **Technology** implementation includes projects supporting installation of software, hardware, or information technology solutions such as an automated inventory tracking system.
 - iv. **Regulatory** implementation includes implementation of government requirements such as international accounting standards, environmental standards or laws, or complex risk models.
 - v. **Management program** implementation includes delivery of solutions that require a major change in the management and operating philosophy or strategy of a company. Implementing Demand Flow Technology (DFT), Activity Based Costing (ABC), new business models or strategies, Total Quality Management (TQM), Enterprise Resource Planning (ERP) systems, or a new offshore customer service center are examples.

Major implementation projects usually involve elements of all five areas. An example would be the implementation of a shared service center. The benefits of implementations are primarily efficiency and employee satisfaction.

3. **Special Studies** – Special studies include best practice reviews, complex analytical modeling, and development of reporting tools. An example might be an analysis that supports a conclusion to enter a new market. Typical benefits include visibility to unexploited opportunities for revenue generation, identification of cost savings, and avoidance of risk.

In the solutions described above, each provides tangible benefits to the company that could protect or enhance value.

IV. The Solution Process

Fundamentally, the professional consultant, as opposed to service provider, uses services and skills to “cross the chasm” in delivering a solution. (Refer to **Figure 1** below)

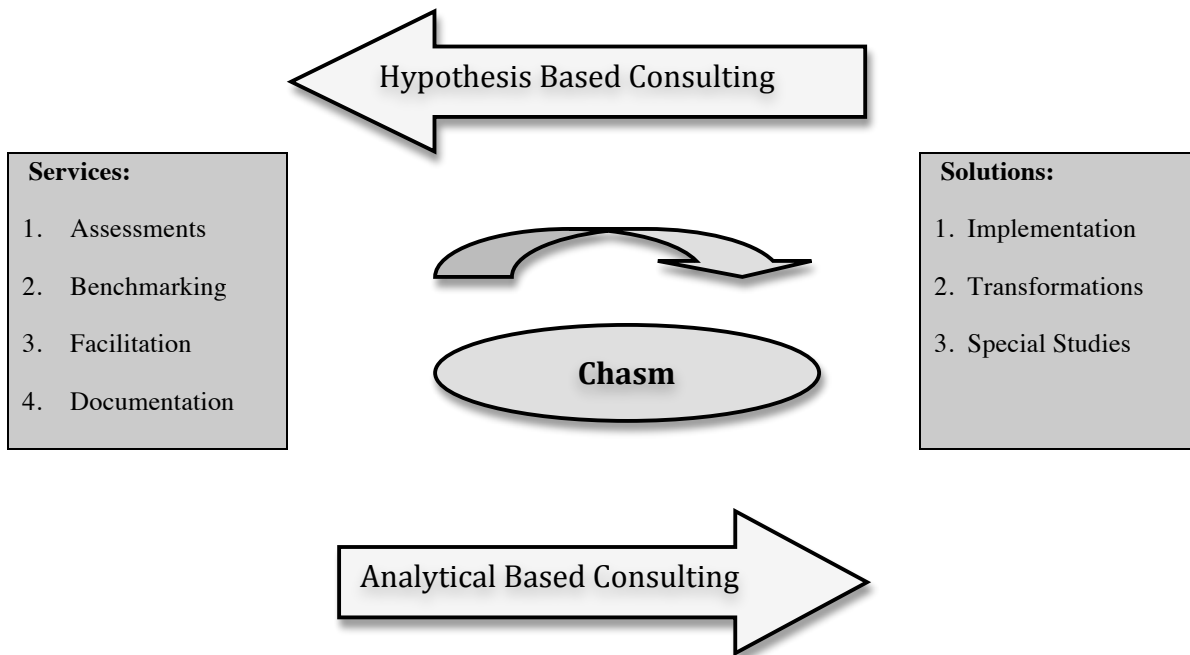


Figure 1 - Consulting Delivery

The chasm is the unknown and is bridged by the true value added consultant who brings the knowledge, skills, experience, intuition, and creativity necessary to analyze and synthesize services into solutions or support a given solution with facts. This is important because conducting an assessment or analyzing a process (using services) does not add value to the firm, unless the chasm is crossed into a solution. There are two primary schools of pure consulting--the classical, hypothesis based method and the analytical method. Both, if done effectively, result in delivering a solution.

The hypothesis-based method starts with a potential solution in the form of a hypothesis (or unproven conclusion) of which the consultant gathers data and facts to support or refute the solution (or conclusion). It could be said that with hypothesis based consulting the consultant is beginning with the end in mind. An example would be a client that retains a consultant and insists it should expand its business and enter the European market because of its potential profitability. The consultant would set the hypothesis to be: “Company XYZ should enter the European market”, would gather evidence in the form of studies and analysis (notice that both analysis and research studies are services) to support the hypothesis as true or not true, then report the results to management. In many cases multiple hypotheses can be tested or evaluated in a single engagement. This method is popular with the major strategy-consulting firms.

The analytical method would start with gathering evidence in the form data, facts, secondary research, and first hand observation such as interviews and facilitation, analyzing the data, providing industry insights, and using the results to design one or more potential solutions. This is considered bottoms up approach. The major accounting firms and specialty firms use this method. Both methods are acceptable and a good consultant should be able to do both based on the requirements of the project.

V. Consulting Phases and Tools of the Profession

The three key phases in consulting are analysis (using some or all of the services described above), developing the solution (synthesis of the facts and crossing the chasm) and implementing the solution. The author personally believes that implementation is the most difficult phase because of the human element involved. There are firms that specialize only in implementation of major solutions. Note that implementation is not just limited to the implementation of system solutions, but includes organizational changes, restructuring, and merger integration as well. Moreover, it is possible to have one firm do an analysis or assessment, while another develops the solution, and yet another implements the solution.

Typical tools used by the consultant include the following:

1. **Project Software** – Project software is used to track project time and expenses, milestones, and unresolved issues during the project.
2. **Best Practices** – Best Practices are typically qualitative practices used by other companies or within the industry that are regarded as highly accepted for business use because of the benefits.
3. **Metrics** – These are quantitative values or measures that provide a starting point for setting standards to measure success. Examples include inventory turnover or number of FTE’s per invoice processed.
4. **Methodologies** – Methodologies are the frameworks or guidelines used to complete a project from start to finish. A methodology is not a solution. A methodology or framework is an industry term for recipe or process used by the consultant to arrive at a solution. Examples are The GE Model©, DuPont Method©, Porter’s Five Forces Model©, or the Capability Maturity Model©. Consultants generally use frameworks or models that are proprietary to their firms.
5. **Analytical Software** – Analytical software is a class of software that includes various modeling software. Discounted cash flow models, factory throughput models, valuation software or advanced databases are examples.

A professional consultant should be able to provide many of the tools listed above.

VI. Solution Benefits

If a consultant is retained to deliver a solution, he or she should be able to articulate the intended benefits of the project in terms of one or more of the following:

1. **Revenue Generation or Upside Risks Identification**- This includes new revenue/profit or revenue enhancement possibilities or opportunities.
2. **Cost Savings and Efficiency Management** - Cost savings includes identification of potential savings or realization of actual cost savings. Efficiencies can occur in human capital, tangible assets, or financial assets. The analysis should be supported with payback assumptions.
3. **Risk Avoidance/Risk Management** – Risk Management includes identification of risks to avoid or potential pitfalls and associated management of risks. Risk management can be applied to financial, operational, or strategic risks.
4. **Visibility of Data or Information** – Critical to decision making today is visibility to data and information needed for making key decisions. Providing timely and accurate data creates visibility and transparency, which promotes accountability and better decisions.

Typical benefits of hiring a consultant include the following:

1. **Independence** – The consultant brings an independent view of issues and should not be biased by the culture or politics of the company.
2. **Skills** - The consultant brings knowledge, creative skills, experience, and industry insights gained through similar projects. These skills and experience bridge the gap or “cross the chasm” to arrive at a solution.
3. **Analysis** - A consultant is likely to bring analytical tools, methods, and best practices (services) that might not otherwise be available to others within the company.
4. **Resource** – The consultant’s time and costs are a variable cost that can be managed by the client. A company cannot possibly retain full-time people with all the necessary skills and expertise for all of its special project needs.

Typical concerns of using an external consultant or service provider are cost and loss of knowledge within the company. A reputable consulting firm should be able to provide a cost benefit payback for its work. Knowledge transfer issues and gaps can be closed by using integrated teams of external consultants and internal company resources and by specialized training sessions. Finally, a “good” solution should be practical, sustainable, realistic, and have a likely chance of success if implemented.

VII. Summary

Services and solutions offer possibilities for companies and have their advantages and disadvantages in terms of costs, customer quality levels, ability to deliver a solution or add value, and ability to retain the knowledge within the company. As a potential customer the requirement will be to know what is needed (or have some idea of it) and ask the right questions to determine if what is needed is a service or a solution.

John Kopalchick is President & CEO of Kopac Consulting, LLC based in The Woodlands, Texas. Kopac provides Strategy, Supply Chain, and Finance & Technology consultation to clients worldwide.