Leverage

Idea In Short

Consulting firms are in the professional services business. An important aspect of professional service firm 2 organization is leverage. This is the factor that dictates the the ratio of junior, middle and senior staff i.e. the shape of the organisation.

The skill and experience requirements of the services you provide and engagements you undertake determine the shape of the organisation. A consulting firm's target leverage model is of critical importance to all aspects of business planning. There are three leverage models that you may have heard of:

1. Brains
2. Grey Hair
3. Procedural

Brains Model

In the Brains leverage model, the client engagement is of extremely technical nature. The firm's operating model is based on superior technical competence. It's message is:

> hire us, because we are smart

The projects typically involve bespoke solutions developed by a few highly skilled professionals. While there may be some scope for the junior staff, such as data collection, analysis etc., the ratio of junior to middle or senior staff on engagements tends to be very low. Most strategy development and transformation projects fall under this category.

Grey Hair Model

Grey Hair engagements involve less bespoke activities. Though some of the specifications might be unique, the scope is something that the client might have already seen before. Hence, the client engages a firm with relevant experience as opposed to super-smarts. A grey hair model requires the firm to sell its knowledge and client delivery track record. The messaging is:

> hire us because we have done this before

As there is a degree of pre-familiarity in this work, this model allows for more middle-level and junior staff into the leverage structure.

Procedural Model

Finally, the Procedural project is one that involves a familiar client problem. The solution can be fairly systemized and easily operationalized. While such engagements require bright people, such projects can be staffed by more junior staff that have been trained on the procedures under relatively light levels of senior supervision. An example of such an engagement might be software implementations. The messaging is:

> hire us, because we can deliver this effectively

Such firms can be very highly leveraged. If possible, you should seek to make your engagements as highly leveraged as realistic delegation can accommodate for, but no more 3. The challenge is to match an estimate of your engagements' requirements with the skills and experience available you possess. When staffing an engagement during the planning stage, you should get the leverage right as this is key to protect the margins.

Summary

To summarize, leverage is central to profitability in a professional services firm. Don't skip the thinking, and planning, required to get the leverage right.