Audit Your Consultants

by Charles Wendel

A few weeks ago, I was speaking with a young analyst who had been given an assignment at his company, a startup that had become a unicorn. As with many other unicorns, the company was cash flow negative. His job was to look at major cost areas and highlight opportunities for further drill downs and cost cuts.

When I asked him if his company used consultants, he named what many executives consider the major consultancy. I know how firms like that one and others like it operate. I told him to capture all the dollars spend on that firm and then conduct an ROI analysis to ensure the company was getting the results it desired. I also told him to be careful, to avoid blowing himself up.

I suggested that he highlight this big consulting form because they had been there for more than a year and he and others were not sure what they were accomplishing other than more than a million dollars in monthly billings. Most consulting firms, particularly those with high fixed costs, base their economics on selling more to each client and extending their projects for whatever reason.

Two stories illustrate this. When I was a junior consultant at a big firm, my partner, about to go on vacation told me a story. He story began with him telling me that a consulting partner leaves for vacation. When he returns two consultants are waiting outside his office to report to him. The first consultant tells him that while we was away the project he headed had been completed, and the client was happy with the result. After that consultant leaves, the second one enters. This one tells him that the client's problems are greater than they had first thought and that the project needs to be extended for several more months. My partner then asked me, "Which consultant made the partner happier?" In other words, keep the revenues flowing no matter what. The second story is simply a comment that a bank chairman made about this big consulting firm: "It like getting gum on the bottom of your shoe. You can never get rid of it."

A few days ago, I met with this young man again and asked him how his analysis had gone. As he expected he found that the total spent on this consultant was huge, way more than he had initially thought. But then he said he hit a wall in getting senior management to assess the numbers and potentially reduce the consultant's role. His boss told him that the senior consulting partner was very tight with his boss, the top dog. His boss was unwilling to bring up the subject because he felt it might put him at risk and make him the unwanted focus of the consulting firm, a firm that works hard to cultivate top management. This young analyst both learned a lesson concerning how corporations work but also came away from this dispirited and with reduced respect for the "leaders" of his company.

My experience is that many employees shake their heads in frustration at their bank management seemingly being hypnotized by a consulting firm, but they have come to know enough not to push against that tide. My bet is that the consultant at my friend's firm began by doing good, high value work and then drifted into the "gum on the shoe phase" of its existence.

Banks should evaluate all their consulting relationships on a yearly basis. But guess what? An internal review will likely fail due to internal politics and turf protection. Of course, I *would* write that you need a consultant to do this work, but most banks will benefit from an independent effort rather than assigning an internal person who may have biases and whom the consulting firm can manipulate and potentially make or break.

FIC works with clients on issues that result in growth and sustained success. Continued uncertainty requires organizational flexibility as financial institutions focus on enhancing profitability while managing changing customer expectations. FIC provides the independent perspective that Boards and senior management require.