The Process of a Consulting Business

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Investment management consultants traditionally think about investment managers in terms of processes used to manage money, results produced, and the reasons for that performance. But these aren’t the only things that consultants need to understand before risking their reputations. Consultants need to know about the stability and the quality of management. They need to know how the firm is growing, managing itself, and exercising discretion over clients’ money.

If a third party were conducting due diligence on you, your firm, or your practice, how would you describe and demonstrate the way you do business? Could you show a due diligence agent a process to grow and manage your business while providing superior services to each client? In the near future these processes will increasingly differentiate broker-dealers, accountants, banks, wealth managers, credit unions, and law firms that are vying for the very same business opportunities. If you do have this process already, perhaps you’ve read far enough. If not, keep reading.

Practical Lessons
The technical side of investment consulting is difficult and requires constant humility and a willingness to learn. Running an effective consulting business, however, should not complicate an already-challenging profession. Getting a business system in place that you can replicate day-after-day, quarter-after-quarter, year-after-year will allow you to focus on the value-added technical elements for which you are paid.

The following is an overview of a business framework developed at our firm for consulting practitioners and financial services companies that want to pass the test of close scrutiny. It’s based on the idea that the work is never done and greater sophistication always can be achieved. We developed this system through our work with financial institutions and teaching, training, and coaching advisors. We have seen it help advisors achieve professional self-definition, efficient resource allocation, sensible business prioritization, and a greater sense of professional responsibility. It has worked for independents as well as those in large organizations. But its ultimate benefit is practical: it has helped improve productivity, business value, and client service while relieving stress on practitioners because they are well-organized and know what to do next.

We readily acknowledge that every firm and practitioner is different. Not every part of this framework will apply to every business. The process is intentionally universal yet adaptable. We encourage you to take what is useful and leave the rest behind.

The Big Picture: You Need Balance for Success
We start simply, so busy advisors and managers easily can start or-

![Figure 1: The Four Elements of Running a Consulting Business](image-url)
organizing and growing their businesses. We believe that all consulting businesses run on four core interlocking elements (see figure 1). These elements are like the pistons of an engine that keep the wheel of business moving forward. The skill with which consultants or organizations can execute these functions will determine the degree to which they can achieve their professional aspirations. These four core consulting business process functions are the following:

1. Creating new business opportunities
2. Converting prospective opportunities into clients
3. Servicing client needs
4. Managing the business process

The first function often is thought of broadly as marketing. You won’t have a business if you don’t identify and create opportunities where you can be of service. In the second function, opportunities or prospects identified are converted into paying clients. This function calls for matching clients’ needs with your capabilities, resources, and service at an acceptable price. The third function requires the technical and administrative services that clients need to meet their personal and financial goals. In other words, this function delivers the service promised to the client. The fourth function keeps the business and its day-to-day affairs purposeful and goal-oriented yet balanced with life’s other obligations.

A consulting business process will run optimally when all four cylinders are firing continually and in harmony—balance is the key. A consulting business process will perform suboptimally if any of the four elements are weak, deficient, or neglected. For instance, you may be technically proficient at asset allocation analysis but unable to develop prospects. This imbalance won’t help you grow your business. You have to be able to do both; indeed, you have to do all four functions.

Each one takes specific resources and skills; I’ll discuss them next, from the bottom up.

**Business Management Function**

Most advisors have little training in business administration and management, yet they want to run their own consulting businesses. They have ambition, the desire to help others, and solid technical skills, but that’s not enough. Safely maintaining your business and its fiduciary role requires the solid organization of the business management function, which must proactively manage and monitor itself.

This means that you must plan your business well in advance, seek outside help when necessary, monitor progress, and make adjustments as you receive feedback from the marketplace. You can’t improve what you are not willing to measure.

You’ll need resources to operate diligently. An independent likely will need the guidance of other professionals for the legal organization of your firm, regulatory filings, contracts, client file structure, etc.; setting up and maintaining books and records, federal and state tax filings, business forecasting and budgeting, etc.; marketing tasks such as branding, logos, paper stock, Web site design, etc.; and risk-management advice regarding property and casualty, errors and omissions, fiduciary liability insurance coverage, etc. If you work for a larger organization these matters likely are taken care of for you.

**Business Planning is a Must**

Most investment consultants do not have business plans: long-term, short-term, or otherwise. This seems to us like running a portfolio without an investment policy statement. Develop a long-term business plan so you can define for yourself what you are trying to accomplish, how it will work, the services you are to provide, your expected clientele, your financial forecasts, etc. Numerous software programs can help you with this important exercise. It is not necessary to do it from scratch although that always is an option. The key is the clarity of your vision. Remember, long-term plans are not in stone; they can be rewritten as your vision changes and grows clearer.

A long-term plan creates the fundamental direction and purpose for your business. Furthermore, it creates the proper and necessary context you will need to make interim business decisions along the way. In other words, when you need to make tactical decisions today or next week, ask yourself which choice contributes to your long-term goals.

You also need shorter-term plans that can serve as interim action plans. We recommend that consultants create simple annual business plans that describe goals for the calendar year and how those goals are to be achieved. The shorter-term goals should be consistent with and contribute to the success of the long-range plan.

Regular meetings with the key decision makers and staff also are important. At our firm, for example, we have weekly abbreviated business meetings that deal with the business at hand and monthly in-depth strategic meetings that set the tone for the future.

**Creating New Opportunity Function**

When developing the plan to market your firm, use a variety of methods to reach out to your target markets. Don’t limit your set of approaches to only the ones that you are comfortable with. You may have to stretch or get specific training (e.g., in public speaking) to give yourself the best chance to build a pipeline. But don’t rely on a single approach.

Marketing a consulting business is an interesting exercise. It requires achieving a delicate balance between actively and aggressively competing in the dreaded “numbers game” while not appearing to be too sales-like (which can tend to tarnish your brand image as an objective
professional). There are two main considerations in creating a pipeline of new investment consulting business opportunities: 1) sourcing new opportunities and 2) the marketing tools needed to communicate with potential prospects.

We have found that the most effective and reliable ways to source new opportunities are the following:

1. Existing clients making capital additions to their accounts
2. Existing clients introducing you to a pre-qualified prospect
3. Existing clients referring you to a pre-qualified prospect or serving as a reference
4. Conducting seminars
5. Personal or center-of-influence networking
6. Credibility marketing
7. Selective professional promotions

The first requires that you “know your client” and are prepared to help them consolidate their assets under your care with a powerful and integrated recommendation. The second and third require that you become comfortable regularly asking your clients for referrals. The fourth requires not only the ability to speak comfortably in front of a group but also the ability of your firm to organize the logistics of the event so it goes flawlessly. The fifth is much like the second and third: You must be thinking of who you know or should know to tell about your firm so they in turn can tell others. The sixth really means getting your name out in public as an acknowledged expert so your target market sees you in that light (e.g., write articles, be quoted in the press, get out press releases about developments at your firm, try for television or radio spots, etc.). The seventh could be classified as client appreciation. These could be events you hold or sponsor, or thoughtful gifts (e.g., a relevant book) to clients you are genuinely appreciative of. This could and should include holidays, birthday, religious, or bereavement cards.

There are no magic bullets to successfully marketing your firm; constant effort applied in multiple ways will work over time. Success requires continuous commitment. Marketing your firm has to be a regular feature of your weekly business activity; each and every week.

With respect to the “tools of the trade,” marketing is going electronic. This may or may not work well for your business, but we are finding it a necessity in today’s difficult and expensive travel environment. So marketing tools now include web-cast presentations made to distant prospects and a corporate Web site rich in content, well-organized, and easy to navigate. We invite prospects to visit our offices so they can do their own due diligence and see our operation in action. And of course we still have the tried-and-true, on-the-road laptop presentation.

To a lesser degree, we still use hard-copy collateral material as leave-behinds, including pitch books (useful for center-of-influence networking) and brochures (for introductory meetings).

**Prospect Conversion Function**

The rubber starts to meet the road when someone says to you, “I/We need help. I/We have a problem that I/we cannot solve myself/ourselves.” Asking for help is a big deal, and what you do next may have a huge impact on this prospect. Once prospects ask for help, they need to see and feel a controlled, deliberate process of caring for them and their needs. Nothing should feel rushed. Their nascent trust should be treated with the utmost care. They should know that you will be applying all your resources and expertise. You will learn that proceeding in this cautious manner actually is the beginning of the close of the sale.

We like to think of the medical model when discussing how this function should work and the resources you might need. It is a business model that society already accepts as part of our medical system: “Doctors diagnose first and then prescribe.” The prospect conversion function in an investment consulting practice is analogous to the medical model. Clients accept this model as part of what professionals do, so investment consultants always should follow it.

The following four distinct steps and associated skills make up this prospect conversion function:

1. Collecting all data necessary to put you in a position to make good professional decisions
2. Evaluating the data and the case issues, then determining how to solve the client’s problem
3. Documenting your thinking in a report of findings and/or a proposal
4. Being prepared to implement your recommendations once the client is ready to go

You can collect data on a legal pad during an interview, get client statements, and/or use a questionnaire. Document the facts for your records and preserve them in the client’s file. Get all the data you need to conduct whatever research and analytical studies are needed so you can consider your client’s options and determine which approach or approaches you will suggest. You may need optimizers, cash flow planners, or other needs-based software tools to help you make reasonable projections or to test scenarios. You may need to consult with other advisors (e.g., accountants, attorney, insurance professionals, retirement plan specialists, etc.). You must be well-enough prepared after thoughtful analysis to document your understanding of the case in a written report or client proposal and be able to sit face-to-face to explain your findings and recommendations. The written report should be personalized and professionally prepared.

**Client Servicing Function**

Once prospects become clients, your challenge turns to taking care of their financial needs and your personal relationships with them; your actions will shape your clients’ lasting image of your business. This
“CONSULTING BUSINESS” CONTINUED

is the most powerful way for you to create future business—by building a referral network of client advocates who believe in your brand of service. To achieve that lofty business goal you need your own standards of client care that will help you develop your service routine and manage the total client experience. You also will need selected technology resources to support these service initiatives. Careful planning and teamwork with your colleagues and support staff are essential to establish roles and responsibilities for these recurring activities.

The servicing function has the following three concurrent and interwoven activities:

1. Client contact
2. Investment policy oversight
3. Portfolio administration

There is no replacement for proactive and consistent client contact. It tells your clients that you care about them, are paying attention, and are delivering on the promise they expect from you. Your specific contact routines should give clients a chance to experience you as something more than merely a provider of reports or information; it is difficult to build trusting relationships in a single interpersonal dimension.

Contact routines should be initiated and arranged with clients so you take the initiative to shape their experience with you. You don’t want to wait for them to contact you. Never be missing in action from the client’s perspective or too busy to take care of their needs. Finally, your communication package should be tailored to individual clients’ preferences, needs, and interests. That is another way of communicating with clients appropriately—don’t treat every client the same way. Don’t be afraid, in fact, to take some risks by having meetings with your clients that have nothing to do with your business and their money. When your clients get to know you as a more complete person, their comfort with you and confidence in you will grow.

While some clients may have a low threshold need for contact from you, that is likely to be more the exception than the rule. Those cases should be worked out individually with each client. For most clients we suggest the following four different types of contact:

1. An initial client-education meeting
2. Periodic reporting and informational mailings
3. Rapport-building meetings
4. Business-building meetings

We encourage advisors to involve support staff early on to educate clients about the material they will be receiving in the mail (whether electronic or hard copy) from your business. This contact not only establishes the confidence you have in your staff to speak directly to clients, but it also defines roles and responsibilities for the client so that their future questions can be directed to the proper staff member (saving you time). This contact also will help clients better understand statements, reports, confirmations, etc. coming their way. You may want to create a reference tool for clients about how to read these reports.

More formal periodic reports, meetings, and calls about economic, capital market, manager, or fund or portfolio developments should be conveyed to clients regularly and will require special resources (including portfolio accounting/performance measurement software). What is regular? That depends on the advisor, the clients, and the minimum standards of reporting established by your firm. We recommend that you contact your most important clients monthly. Certainly your clients will receive monthly custodial statements and should receive periodic performance and investment analysis reports so they can see whether their portfolio is on track vis-a-vis their goals. The level of detail you choose to get into during such meetings with a client depends on the needs and sophistication of the client and the way you choose to position yourself. Remember, sometimes too much information is not a good thing. We strongly recommend you provide clients with executive summaries that tie everything together on a single page, simple and readable.

Policy oversight routines include the following:

1. Product research and ongoing due diligence
2. Asset allocation, portfolio modeling, and structuring
3. Regular investment guidelines compliance review
4. Portfolio rebalancing

This aspect of your servicing responsibility is the most important because it is the basis for the investment experience your client will have with you. Arguably these routines represent what clients believe they are paying you for.

Each quarter you will review your clients’ portfolios. This may need to be done on an advisor or committee basis depending on how your business is organized. Portfolios should be inspected for asset allocation drift versus policy guidelines and the potential need for rebalancing. Portfolio accounting software should assist you in identifying allocation policy deviations. Additionally each of the investments populating client portfolios need to be reviewed as part of your ongoing due diligence.

Returns should be evaluated versus an appropriate benchmark, and once quarterly you should reconsider all the issues that first made you recommend the product for your clients. If possible it is helpful to speak with the manager(s) directly (this is mandatory in our practice). Issues in addition to returns that should be reviewed include the following:

1. Benchmark appropriateness
2. Style orientation (preferably both returns-based and holdings-based)
3. Risk metrics
4. Holdings-based performance attribution (for sector, style, capitalization, maturities, etc.)
5. Manager compliance with investment guidelines

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10. Trading activity

Gaining an intimate knowledge of the manager(s) from this perspective will inform you so you will be prepared for questions from your clients and give you the conviction to know when to terminate or reaffirm a manager from your practice.

Portfolio administration includes many of the less glamorous aspects of servicing that clients rely on you for, including tax harvesting, journaling cash, making (trust) disbursements, etc.

**Summary**

Organizing an investment consulting/advisory practice requires sound fundamentals defined by four core business functions, all of which need to be fully operational every day that you are open for business. These functions infuse your business with the capacity to serve and will keep you well organized and in compliance with high standards of care.

Your internal processes within each business function and the technology resources (licensed, purchased, or outsourced) ideally should be focused on producing an experience for your prospects and clients that speaks volumes about who you are, what you do, and how you can help them. With this in place, you inevitably will achieve your professional objectives.

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