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How to Tell If Hiring a Consultant Will Be Worth the Investment

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Corporate leaders call upon management consultants for a number of reasons. Whether the objective is to help clients enter markets and launch products, implement digital experiences that enhance customer engagement, or identify cost-saving opportunities, the intent behind the investment in consultants is typically to increase revenue, lower costs, or both.

Yet fewer than half of consulting-firm clients consistently report to Source Global Research that the value created by their engagements exceeded the fees they paid.

This is unacceptable. And it's hard to imagine any business that would consider acceptable an investment that pays off less than 50% of the time.

As executives at a consulting firm, we know our business depends on delivering real, apparent value. Unless the ratio of satisfied clients improves dramatically, our industry is in danger of settling into a reputation for wasting companies' money. But business leaders and consultants can change that perception of value with a relentless focus on delivering returns on investment (ROI) before and after the engagement.

Defining the value of a potential engagement requires calculating expected returns. The math is the easy part; building the equation is trickier, and it requires an understanding of financial value drivers. Focusing on financial value aligns both parties on priorities so everyone can make informed decisions and respond to business needs together.

The Case for Building the Business Case

A business case is the financial reasoning behind any decision, the lens through which consultants and clients together view market conditions, industry trends, and customer experiences to determine a rationale for one strategic direction over another. It weighs the financial costs—time, labor, materials, and capital—against both the size and the risk of achieving projected gains.

Building this case should be a formal exercise with documentation and mathematical models that articulate an investment's potential returns. With a solid business case in place at the outset of an engagement with a consultancy, company leaders can increase the odds of getting outsized returns.

Without this business case, they risk wasting time and money on a project that never should have started—and the consulting industry continues to experience lackluster customer satisfaction.

Under the guise of "moving fast," many clients bypass this crucial step or turn to consultancies to answer harder, long-term strategic questions for them in a very condensed period of time, rushing through strategy development for the sake of getting quick advice on how they should be investing.

But before signing on with a consultant, leaders should lay the foundation for the business case by asking:

- What are we hiring the consultant to do, and why?
- What are the financial opportunities?
- What are the potential risks?
- What value drivers and metrics will define success?

Running with an Imperfect Model

Answering big-picture strategic questions to build the business case is just one piece of the ROI puzzle. Attaching numbers to words through a financial model is essential to answering the most important question: will the investment be worth it?

An enduring myth about financial modeling is that you need to know every variable ("We have to wait for the data") before you can start to put numbers in a spreadsheet. This is false. You may not have all the relevant variables when you start building the model, but you can document your assumptions, and your consulting partner can help.

Imagine a call center projecting that by transitioning employees to remote work, it can save $50 million by closing two facilities and add $27 million in savings through increased productivity and reduced attrition. The organization could calculate that employee productivity and satisfaction based on internal and external research—employees who spend at least 20% of the workweek remote are 10% more engaged, according to recent Gallup findings—and build those assumptions into its model.

After identifying all of the value drivers and putting numbers down to solidify value assumptions, this call center could then fill in a financial model and engage consultants to help it move 5,000 employees to at-home work, resulting in approximate savings of $77 million—plus an estimated $212 million in additional revenue from customer growth—for a total of $290 million of expected value from the engagement.

While eliminating the real-estate costs of office space might provide tremendous savings, it's important to weigh against the impacts on culture. For a call center, where employees perform with little collaboration, the projected savings may be worth it.

This level of detail in projecting future financial value is essential. Yet too many companies eschew the practice, believing there are too many variables—or not enough data—to develop an accurate picture.

Our advice? For consultants and their clients building new models, start simple, identify the levers that matter and how they relate to each other, document assumptions, and align on decision making. These critical steps will pay dividends in creating a partnership that delivers returns. We can't stress it strongly enough.

Find out how West Monroe can help your organization define the value of your next consulting engagement. And read more: "Demonstrating the financial value of consulting."

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