Worth the gamble?

Despite the risks, **Michael Anglin** argues that there are plenty of benefits to be gained from companies entering in to a shared risk contract

Typically, you'll find that change management programmes are used in situations such as mergers, acquisitions, buy outs, CRM programmes, redundancy or 'rightsizing' and the implementation of new business strategies.

Linking change programmes to specific business results and being paid accordingly can be risky from both the consultant's and the company's point of view, as there are often many factors affecting the success of the programme.

The promise of being accountable for results could be used by consultants to secure a contract, but are they able to deliver? Entering in to such an agreement can be very costly to both parties in time and money if the service provider can't deliver the goods.

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Therefore, there are many components to consider. In any relationship you need to understand what the key drivers are and what each party really wants to achieve, apart from the numbers. It requires a creative 'thinking outside of the box' approach. Also, ask yourself how you would feel about paying the consultant more than you would have done on a straightforward fee basis.

The terms and conditions before entering in to such an agreement must be precise.

But why enter in to such a contract?

When it works well there are many benefits to be realised by both parties. Because the consultant's financial remuneration is dependant on the outcome, this type of contract creates a dynamic win-win liaison that bears little resemblance to the normal client/supplier relationship where daily rates, consultant availability and the consultant's need for client approval can often drive in appropriate decisionmaking.

Most blue chip companies use consultants to assist them with change management. Even when some bottom line improvements are seen, many are never quite sure whether the financial and emotional investment made was worth it.

This comes as no surprise, though, if clear targets have not been defined for the assignment. Most companies know when they need help, often they are just not sure what they need or how to measure it.

Take, for example, the insurance broker that looked to establish whether to expand its London based direct sales operation back in 1999, or set up an additional centre elsewhere in the UK.

The latter was favoured. However, there were two problems.

First off, they hadn't set aside any consultancy budget. Secondly, there was a distinct lack of management time and expertise.

The solution was a shared risk deal where the consultancy suggested provided its services at no up front cost for the duration of the set up, but took a share of profits when revenue started to come in.

Once the two companies looked at the reality of making such a commitment to each other, the real work began. It became quite a task ironing out the details and forming the agreement, let alone building a relationship marked by trust, harmony and affinity, but within two months the two organisations entered in to a shared risk agreement.

If a consultancy can install its own management team, recruit and train the sales advisors, set the culture and values and implement a management development programme, that will leave ample space for the partner to undertake what it does best. In this case, industry specific knowledge based training was provided by the broker.

The arrangement lasted for three years, and the end result for the client was that they had rapidly expanded their business, fully deploying a consultancy but paying for it through profits as opposed to daily rate fees with no guarantees.

Within two years the client increased market share to become the number one provider of its type.

However, if you are thinking about entering a shared risk contract, you'll need to ask yourself these questions:

– Why do you need a partner?
– What would be the basis of a shared risk contract?
– How do you expect productivity to be affected?
– Can you cope with the increased sales?
– What difference will this make to your employees?
– How will this affect your customer loyalty and retention?
– Are you open to forming such a close and intimate relationship with another company?
– And having found the ideal partner, can they deliver?

There are enough stresses and strains to the implementation of new business strategies. You will have your targets, want to motivate staff and prove the whole project to be a success. So given that criteria, then perhaps a shared risk contract could be right for you?

Next month: Is there a secret to motivating and retaining your staff? A good place to start is to help them to love their job. ■

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