



**Beyond Strategy Consulting and I-Banking --
The New SHG “Virtual Business Development Team™” Model**

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Abstract

Traditional approaches to both corporate strategy consulting and investment banking are clearly not working. Especially for young, high-growth companies, too often they are very expensive and time-consuming, yet fail to produce either good investments or practical strategies that can be executed quickly. As an alternative, SHG has developed its own new “Virtual Business Development Team”™ model. This approach (1) leverages the broad experience of its Senior Advisors, (2) achieves sharp improvements in speed and execution, (3) work much more effectively with internal management, and (4) shifts the compensation for our strategy and business development services toward a “pay-for-performance” model.

Introduction – Drinking The Consulting / I-Banking “Kool-Aid”

SHG and its associates are proud to have done outstanding work for many leading corporate clients for more than a decade. However, it is probably fair to say that until the late 1990s, most of this work was performed in the classic strategy consulting mode that was first pioneered in the 1950s and 1960s by leading consulting firms like McKinsey, Bain, and BCG, and later refined by strategy boutiques like Monitor Group and Braxton in the 1980s and early 1990s.

This classic approach has been enormously lucrative for these firms and its leading practitioners.¹ Indeed, it still provides the foundations for a strategy consulting market that now approaches more than \$20 billion a year in the US alone. Since several SHG Senior Advisors are veterans of such august institutions, it might be unseemly for us to bite this hand too hard. Furthermore, in some (increasingly rare) situations where market and competitive conditions are stable enough to afford the time and big budgets that this approach usually requires, it may still be the way to go.

However, by now we know that not only is the classic approach to I-banking advice often not successful,² but the classic mode of providing strategy advice also has many shortcomings, not only for high-growth companies in a hurry, but also for mature companies in crisis. For example:

- **Long-Term Therapy.** The classic approach is typically very slow. In the canonical McKinsey/Monitor mode, it often requires clients to sit still for multi-month projects that are undertaken by engagement teams heavily populated with bright young MBAs or college grads with almost no practical business, industry, or line management experience. By the time they come up to speed, the world has moved on.
- **Separation of Rewards From Results.** The classic approach also relies on engagement teams that earn handsome per-diems and expenses whether or not their ideas are ever implemented. They also encouraged to linger around, since the only thing they get paid for is for their time.
- **Who Owns the Problem? Consultants Vs. Managers.** Practitioners in the classic style frequently lose sight of the fact that, ultimately, the client has to implement what they come up with. Such consultants have a tendency to think that victory is a matter of “getting the right answer.” Sometimes this leads them to go off on their own in search of brilliant analysis – whether or not the client is ever able or willing to act on their recommendations.

¹ Monitor Group’s Dr. Michael Porter, McKinsey & Co.’s former partner Tom Peters, BCG’s Bruce Henderson, and Bill Bain of Bain & Co. were several of the most important contributors to the classic strategy/ organization consulting model.

² See the SHG White Paper, “So You Want to Buy a Company?” (SHG, January 2002), at www.sagharbor.com.

This artificial division of labor between consultants and clients tends to produce a mood of mutual distrust and disdain. Client team members often come, quite justifiably, to resent the high-priced, arrogant outsiders who get access to senior management than they do, and who presume to tell them what to do after just a few weeks in the industry. The result is poor teamwork, limited skills transfers, and poor syndication of project results – all of which adds up to spotty execution.

- **Distraction From More Urgent Business Concerns.** In the effort to deliver lofty insights into long-term strategy, the classic approach often diverts senior management from more urgent, if less “high-falutin,” concerns – like the need to deliver reference customers, negotiate deals with channel partners, or present strategic investors with clear statements of value.

A Much Better Approach – SHG’s “Virtual Business Development™” Model

To provide a more responsive way of working with corporate clients, SHG has developed a new range of “virtual business development” (VBD) services. These services are targeted at companies that *value* the ability to call on SHG’s experienced group of Senior Advisors for strategic counsel and insights, but prefer *to pay for advisory services* primarily for specific, measurable results *on the margin* -- for example, specific new customers or channel partners that produce actual revenue, new investors who bring real dollars, or new senior managers who actually sign on to help run the company.

Accordingly, SHG’s VBD services have at least four key characteristics that distinguish them from “classic” strategy consulting:

- **Senior Teams -> “Fast Therapy.”** SHG’s Senior Advisors are all experienced senior people, with at least a decade or more of practical business experience – including extensive experience working as line managers for mainstream corporate enterprises, in addition to consulting.³ As a group, there are very few practical business problems – especially in the Internet, wireless, telecommunications, and enterprise software industries -- that SHG has not tackled before, from business and financial plan development, product and corporate marketing, sales force incentives, competitive pricing, channel management, and HR strategy to software management, customer support, and financial valuation.

We also have accumulated an extensive network of contacts throughout these industries, as well as among potential investors (angels, VCs, private equity funds). We pride ourselves on our reputations in these communities. This means that we can deliver value to our clients very quickly. Finally, we

³ See the SHG Team Biographical Sketches on the “About Us” page at www.sagharbor.com.

have also accumulated a great deal of practical “deal-doing/negotiation” skill, permitting us to assist our clients in live-fire deal sessions, suggesting creative approaches to working through negotiations.

- **Pay For Performance.** The great bulk of our rewards for VBD come from success fees, structured as a share of new investment raised, customer/channel partner revenue raised, or compensation packages for senior managers recruited. Ordinarily we also expect that a new client will pay a small monthly retainer to cover part of the direct and “opportunity” costs associated with providing these services. But as the draft SHG Model Referral Agreement⁴ indicates, most of our fees are contingent on measurable performance.
- **Strong Relationships With Client Teams.** Compared with the often mutually antagonistic, untrusted relationships among clients and outside consultants that characterize classic consulting, VBD is much more likely to produce win-win relationships. Since we earn our keep only if our efforts produce results, we have a vested interest in making sure that clients buy into our advice and are able to execute successfully. This also automatically converts us from external “critics” who have a vested interest in demonstrating that they are “smarter” into “partners” with an interest in **coaching clients** to be successful.
- **Clear Focus on Priority Problems.** In contrast to the classic approach to advisory work, SHG’s VBD approach necessarily compels us and clients to focus on business development needs that, for many companies, are the most urgent. Along the way, as part of the relationship, we also provide our clients the benefits of our counsel – and we may even identify some projects that are best suited for the old KoolAid!

Summary -- The Need for a New Approach to Strategy Development

All this is not to deny the importance of competitive strategy. But the fact is that after fifty years, the conventional approaches to both strategy consulting and I-Banking have both compiled very mixed track records indeed.

This is true for many reasons. Perhaps most important, for most businesses in this day and age, success depends much more on adroit execution than on sheer strategic brilliance alone. And as any consultant who has labored long in the corporate vineyards can testify, the business world is littered with brilliant conceptual strategies that proved impossible to implement. In other words, at least in the short run, most companies are really playing golf, not tennis. They could exchange many of their “most secret strategies” with their competitors without affecting their competitive positions. On the other hand, many of the

⁴ See the SHG Draft Model Referral Agreement, “Services” page, www.sagharbor.com.

world’s most successful businesses have been built by entrepreneurs who may lack MBAs, but do have an intuitive knack for business development and the “art of the deal.”

All this is bound to be a little disconcerting to the “business intellectuals” in the audience, the armies of corporate strategists, B-school professors, I-bankers, and strategy consultants who like to rationalize every corporate move in terms of rather abstract concepts like “market potential,” “experience curves,” “industry attractiveness,” “sustainable advantage,” and “strategic options value.”

But today, many businesses, old and young alike, are crying out for a more productive relationship with strategy and financial advisors. As the pace of innovation and the intensity of global competition have picked up in recent years, this demand has, if anything, increased. We hope that SHG’s new “virtual business development” model will do its share to meet this demand !

For more information, please contact us at Info@Sagharbor.com, or call us at 631-725-5202. The draft SHG model referral agreement described above, sample proposals, information about our public clients and examples of our work are all available at our Web site, www.sagharbor.com. We look forward to working with you on this new “win-win” basis!
