

Z/YEN

BUSINESS PLAN

27 August 1994

## Management Summary

Z/Yen is a risk/reward management firm. We improve client performance by applying innovative risk/reward counselling in strategy, systems, people and organisation.

Z/Yen is founded on five distinguishing principles: investing in our clients, investing in our people, investing in our partners, improving performance by understanding risk and reward, and improving ourselves.

The consultancy and advisory market is at a significant crossroads. While large firms try to find valid ways to meet their clients needs, the documented client trend is towards smaller, more imaginative, more participative advisors, including the increasingly significant independent consultant.

Z/Yen's strategy is to exploit the above trend and meld the best elements of the larger firms approaches with the independents' enthusiasm and personal desire for professionalism. The melding can partly be achieved through thoughtful infrastructure and quality assurance, but culture and differentiation are crucial. The following tangible points clearly differentiate us from the established consultancies:

- \*all staff will participate in profit, e.g. a universal profit related pay system, bonus payments, equity participation, share options;
- \*Z/Yen is willing to take stakes in clients and develop innovative fee/reward structures for our work, particularly by capitalising time;
- \*Z/Yen Partners will be a mutual organisation operating a broking system for fee-based assignments. Full participants share in its profits and each others equity.

Initially, Z/Yen markets will be determined by the experience, inclination and contacts of founders; growing companies, niches (e.g. charities, banking, health and distribution) and seekers of risk/reward approaches. A recently published market analysis is appended.

The team of working founders comprises highly experienced professionals with over 70 years relevant experience between them, the core skills required to make Z/Yen thrive, a shared vision and an ability to work well as a team.

The following financial projections are based on the assumptions shown in Table One and are subject to the sensitivities shown in Table 2. The detailed forecasts are appended.

Year OneYear TwoYear Three

Annual turnover (T)£943,000£1,404,000£1,924,000

Net annual profit (PI)£44,600£98,600£226,600

End of year borrowing (BG)£206,900£70,800£21,200

## Z/Yen

### What is Z/Yen?

Z/Yen is a risk/reward management firm. We improve client performance by applying innovative risk/reward counselling in strategy, systems, people and organisation.

### Z/Yen principles

Z/Yen is founded on five distinguishing principles:

#### **1 Investing in our clients**

We actively seek to take stakes in our clients, particularly by investing our time. We believe in the benefits of our work and are prepared to forgo shorter term gains in order to reap the longer term fruits of our labour.

#### **2 Investing in our people**

Our people seek to grow and develop their skills within Z/Yen, for the enlightenment of both themselves and our clients. Our people are committed to the success of our clients; this commitment is reinforced because we give all our people an investment in Z/Yen.

#### **3 Investing in our partners**

We believe our service is enhanced through wider partnership with other professionals who share our commitment to client service. Our partners are committed to the success of our clients; this commitment is reinforced because our investment in partnership is mutual.

#### **4 Improving performance by understanding risk and reward**

We believe that a sound understanding of risk and reward is fundamental to improving performance. We intend to advance risk/reward concepts and apply risk/reward techniques in strategy, systems, people and organisation.

#### **5 Improving ourselves**

We believe that the quality of our work is enhanced by our mutual breadth of view and depth of support. Quality is dynamic. We strive at all times to increase the value that we add to our clients. Innovation is essential to our continual improvement.

## Background

The management consultancy and advisory market is at a significant crossroads. Most large firms are trying to choose between becoming a highly-leveraged organisation using large numbers of junior staff within a structured methodology, or becoming a multi-disciplinary one-stop shop of middling experts.

Firms going down the highly-leveraged route are concentrating on narrow service areas with a large demand for staff numbers, in particular information technology. Specialisation allows them to apply their large numbers and methodologies with some assurance that these large forces can remain under control, but specialisation results in dependence on stable markets and a consequent loss of flexibility. These firms are particularly threatened by the intrusion of large services providers seeking higher margins than their traditional markets provide (e.g. IBM Consulting, Digital Consulting, Unisys).

Firms going down the multi-disciplinary route are pursuing every avenue and fad for profitable services. Their breadth allows them to assure clients that they can care for every need, but at a great cost in consistency and motivation. Duplication and inconsistency result in overhead and quality problems.

Both sides have a point, clients need specialists and clients need multi-disciplinary approaches to their problems, but the real client needs are being ignored. Fads are of little use to a client seeking to improve their business. Clients have been through the meaningless, difficult-to-distinguish fads of "management of change", "change management", etc. Stock solutions are of little use. "Zero-based budgeting", "activity based costing", "total quality management", "business process re-engineering", etc. can form part of a solution, but are never a client's real need.

Clients do have conflicting priorities, e.g.:

- \*specialists who see the whole picture;
- \*theoretical rigour combined with practical advice;
- \*high quality advice at little cost;
- \*in-depth industry expertise provided independently and objectively;
- \*enthusiasm, vigour and youth with a few grey hairs;
- \*quick, unobtrusive guaranteed solutions good for the long term;

In general, there has been a documented trend (client surveys, growth rates, etc) towards smaller, more imaginative, more participative consultancies. Recent examples of this trend include the rapid rise of CSC Index, Cobra, Merchants, Dent Lee Witte and Kinsley Lord to name a few.

The trend towards the smaller firms is further evidenced by the ultimate smaller firm - the independent consultant. Independent consultancy is one of the most rapidly growing sectors. Although difficult to estimate, the Institute of Management Consultants (IMC) represents their interests and grew throughout the eighties and continued to grow throughout the recession. In short, clients are prepared to seek out real value in consultancy advice.

## Strategy Overview

Z/Yen's strategy is to exploit this trend and meld the best elements of the highly-leveraged, multi-disciplinary and independent approaches. This melding consists of:

- \*highly-leveraged firm concepts of strong financial management, teamwork and structured approaches to work;
- \*multi-disciplinary flexibility and communication;
- \*the independents' enthusiasm and personal desire for professionalism.

This melding is achieved by:

- \*structure: a participative structure with the concepts of partnership taken in spirit from the large accountancy practices, without the unlimited liability;
- \*reward: aligning reward with delivery, e.g. giving most of the benefits of work to those who find and perform it well;
- \*infrastructure: using information technology and telecommunications to reduce fixed overheads while increasing communication and information sharing;
- \*differentiation: using the fundamental risk/reward approach to provide a strong impetus and brand which fosters an environment for successful marketing to take place at the individual level;
- \*direction: providing a consistent internal message broad enough to motivate a variety of professionals;
- \*innovation: encouraging an environment where ideas have opportunities to flourish;
- \*quality assurance: strong use of quality management systems, peer review, advisory boards, client input, professional standards and operational reviews.

Culture is important. Many of the above phrases could be seen as 'truisms' in consulting. The differentiation using 'risk/reward management' rather than 'consultancy' is a solid approach for marketing, but still just a slogan in the early stages. Two tangible points are worth highlighting as clearly different from established consultancies:

- \*all staff will participate in profit, e.g. a universal profit related pay system, bonus payments, equity participation, share options;
- \*Z/Yen is willing to take stakes in clients and develop innovative fee/reward structures for our work, particularly by capitalising time.

In addition, Z/Yen believes that the independent market is a fruitful area for developing its services, finding new work and finding a fruitful role for "leveraged staff" where full-time employment by Z/Yen is inappropriate for either party. In order to use the independent market successfully, a mutual organisation which we are calling Z/Yen Partners is an approach we are eager to use to try to exploit this hitherto neglected sector. We envisage a three level approach:

- \***level one:** a pool of central services (e.g. financial/management information, marketing, networking) which can be bought for a membership fee and bureau fees for services used;
- \***level two:** a broking system for fee-based assignments. This would help to increase utilisation of Z/Yen partners for tangible fees (e.g. "sellers" receive 10% of fees, "buyers" pay 15% of fees, "brokers" get 2.5% of fees and "management services providers" get 2.5% of fees);
- \***level three:** a mutual organisation which shares in the profits of the "broking" business. Participants would become legally associated entities. Adherence to Z/Yen ways would be stricter at this level (e.g. use of Z/Yen information and quality systems) and participating firms would be penalised on exit. Early participants would get disproportionately high equity percentages in the mutual (as the deal becomes increasingly attractive to new entrants as the mutual gets

larger).

### **Markets, marketing and promotion**

Initially Z/Yen's markets will be determined by the experience, inclination and contacts of founders. These markets are summarised below:

- \* concentration on growing companies;
- \* niche markets - charities, banking, health, sales/service companies, distribution;
- \* international/global businesses;
- \* any organisation proactively seeking risk/reward approaches.

In year one, the emphasis of promotion will be on achieving name recognition and key elements of our message to the market. The following activities will all be required:

- \* PR;
- \* articles/reprints;
- \* large flesh-pressing functions;
- \* mailshots;
- \* partner referrals.

Highly focused marketing drives will probably be beyond our capacity and need in year one, but will come to the fore thereafter. Although Z/Yen Communications is associated only by name, successful publication of the book would be a suitable PR vehicle for Z/Yen's commercial activities.

### **Staff**

The team of working founders comprises highly experienced professionals with over 70 years experience in the management consultancy and advisory market between them. Profiles of the founders can be supplied on request. The core skills required to make Z/Yen thrive can be summarised as follows:

- \* sales;
- \* PR and marketing;
- \* sound practice management;
- \* imaginative solutions to client and Z/Yen problems;
- \* motivation and willingness to do the less interesting but necessary tasks;
- \* ability to work well as a team.

All working founders have most of the above attributes. No-one has all of the above. All of the above skills are covered by several working founders. All of the working founders share the crucial final attribute in the list.

Recruitment is likely to come mainly through personal contacts in the early stages. Great care must be taken to ensure that the right people are recruited this way; initially the approval of all founders will probably be a requirement, once several recruits are in place a quorum of four to five founders (or senior staff) will be a more appropriate system for approval. Z/Yen will seek experienced, interesting people with many successes and at least one failure. Z/Yen people should be impressive at first

meeting. Z/Yen staff should initially come from credible consultancies; later good raw recruits might be appropriate (not anticipated in year one). Z/Yen partners should be independents who have been successfully trading for at least one year on their own with a known specialism.

### **Competition**

Lots: (but almost certainly none with the approach proposed by Z/Yen) - see recent survey of consultancy market by Management Consultancy magazine (appended).

## Organisation and Operations

### Z/Yen

initially the main trading company and the employer of Z/Yen staff. Structured use of computers and telecoms will allow virtual office/office hoteling. This reduces costs and is visible use of innovation. Central infrastructure will comprise limited space, access to meeting rooms, minimum support service all based at a good city address.

### Z/Yen Mutual Managers

management services for Z/Yen partners (membership, bureau, broking systems, PR/Marketing).  
This entity might manage office services for Z/Yen

### Z/Yen Ventures

initially this will be the vehicle for holding stakes in our clients  
later other new ventures might initiate from this entity

### Z/Yen Partners

the mutual for associated entities - Z/Yen's equity interest in this entity will decrease as the entity grows - however Z/Yen Holdings overall commercial interest will increase through growth in services provided

### Z/Yen Communications

a separate legal entity, initially a vehicle for the book "Zen Things You Always Wanted To Know About Business" by Michael Mainelli and Ian Harris

The suggested legal structure is shown below. All entities would be private limited companies. Founders shares are in "Holdings". Most trading in the first year is expected to be in Z/Yen only. Once other aspects are trading buoyantly, legal and tax advice will be needed to ensure that the structure achieves our objectives and maximises our returns.

### Z/Yen Holdings

|

-----.....

|||

Z/Yen VenturesZ/Yen GroupZ/Yen Partners

|

-----

||

Z/YenZ/Yen mutual managers

Z/Yen Communications (outside the group)



## Financial Plans

The financial projections are based on the assumption that trading in year one will solely comprise Z/Yen professionals giving advice for fees. The projections are based on the critical financial assumptions shown in Table One and Table Two. Table One shows the justification for each assumption.

The financial projections cover three years. The year one figures can be regarded as a budget; a thorough review of objectives and achievements should take place before the end of year one in order to plan and budget into years two and three. The following projections for years two and three are only an extrapolation of projected year one performance.

Year OneYear TwoYear Three

Annual turnover (T)£943,000£1,404,000£1,924,000

Net annual profit (PI)£44,600£98,600£226,600

End of year borrowing (BG)£206,900£70,800£21,200

Table Two shows sensitivity analysis of the year one results to the critical assumptions discussed in Table One. The main lessons to be drawn from the sensitivity analysis are as follows:

- \*fee rates should be maintained at levels that ensure that Z/Yen people are on target for revenue. Each Z/Yen person should see their chargeable revenue target as a critical contribution to the team effort;
- \*the leverage is critical to the business: accelerated use of leverage at the start would protect the business from risk of growth slowing down later in the year. Once a critical mass of work/people is in place this sensitivity will diminish rapidly;
- \*thoughtful cost control (excluding salaries) can provide a significant increase in year one profit.

Next steps on financial planning:

- \*test further sensitivities and scenarios if required;
- \*get financial facilities in place to start to make Z/Yen happen (a £250,000 facility would be prudent);
- \*plan other activities and ventures early in year, once Z/Yen is up and running and heading towards its targets. In accordance with risk/reward principles, use uncertainty/risk modelling for Z/Yen ventures and Z/Yen partners;
- \*revisit objectives and achievements for the core business towards the end of year one before producing a further three year projection.