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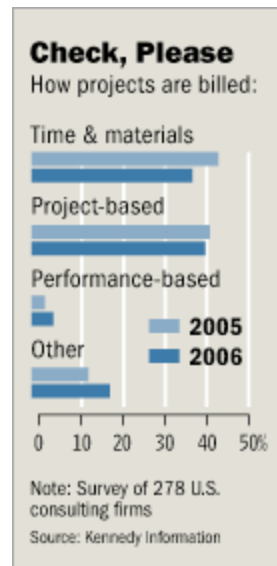
Managing Consultant Lets Clients Use 'Gut' To Set Final Fee

By JACLYNE BADAL
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In the world of management consulting, clients can pay dearly for sound advice -- and just as dearly if advice proves not so sound. It is the way most consulting firms work.

And then there is Trium.

Since it opened in 1998, the small San Francisco firm has offered clients a different kind of pricing structure. It states a figure and takes on a project if the sum is acceptable. After the project is done, dissatisfied clients can pay as little as half the quoted amount. Happy customers pay up to 35% more than the quote.



Trium's approach isn't unheard of in the \$78 billion-a-year consulting business. Mark O'Connor, chief researcher at the Kennedy Information market-research firm, says most consulting firms, including giants such as McKinsey & Co. and Boston Consulting Group, will offer variable pricing, but only at a customer's request. (McKinsey and Boston Consulting say they don't comment on fee structures.) But all told, Kennedy Information says, just 5% of consulting projects are priced based on performance -- and those that are, Mr. O'Connor says, have only small fluctuations in the fee, typically 5%.

Further setting Trium apart from the rest of the pack are its ground rules: While the fee differential at firms offering variable rates is usually determined by objective, quantifiable results, such as reducing costs or inventory, Trium lets clients pay based on their gut reaction. The bonus or penalty can amount to tens of thousands of dollars on projects where quoted prices typically range from \$150,000 to \$400,000.

"This is a great way to put some skin in the game," Mr. O'Connor says. "It's a dangerous strategy,

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but it gets attention."

Trium's top executives -- formerly associated with larger companies such as A.T. Kearney Inc., **Accenture** Ltd. and Bain & Co. -- say they wanted a way to compete with the more established companies they had left behind. "We're bringing the same talent levels, but we don't have a brand," says co-founder Andrew Blum.

Risking part of the fee seems to be working for the firm. Trium now has 30 full-time employees, up from its founding group of four. Co-founder Thomas Miller recalls working on a project for cellphone maker Nokia Corp. with little more than a fax machine, a bit of cash and a tiny back office. Now, the company has offices in San Francisco, New York and Paris and manages about 25 assignments at a time.

Trium serves marquee clients such as **Gap** Inc., **Symantec** Corp. and **Home Depot** Inc., but it doesn't feel like a typical consulting firm. Managers wear jeans, and a dog lounges on an armchair in the waiting area.

Mr. Miller, a triathlete who smiles easily, and Mr. Blum, a former Marine who gives rapid-fire answers, say they want Trium to be a one-stop shop for clients, combining advice on human resources, strategy and operations. And they want a pricing scheme that rewards employees for doing a good job.

Asset-management firm Barclays Global Investors, a unit of **Barclays** PLC, hired Trium in 2002 to help prepare two off-site meetings for the sales force. The sales managers had several tasks to accomplish during the sessions, and Barclays managing director Victoria Klein wanted to ensure they were productive. "It's an expensive proposition" to stage such events, Ms. Klein says.

Trium risked 25% of its quote on the six-week engagement. No numbers or measurements were used to judge performance -- only Ms. Klein's opinion of whether salespeople acquired new skills and left the meeting motivated. "I had held sales-team meetings quarterly for a couple of decades," she says. "I had a very specific standard."

Ms. Klein and Barclays' head of sales chose to pay Trium the 25% performance bonus.

Curiously, most Trium clients opt from the start to pay a fixed fee, to assure budget certainty. Among those who choose variable pricing, Trium says 76% wind up paying more than the quoted price. Only one client in eight years has paid less than the quote.

Benson Shapiro, a professor emeritus at Harvard Business School who studies performance-based pricing, says the strategy is gaining adherents in the construction, advertising and trucking industries, among others. For example, the companies that rebuilt earthquake-damaged Los Angeles freeways in 1994 earned a bonus for finishing early. Commercial-building firm Turner Construction Co. commonly adds performance incentives to its contracts. Mr. Shapiro says advertising firms such as Ogilvy & Mather and Young & Rubicam, both units of Britain's **WPP Group** PLC, sometimes are paid partly based on response to their ads. Ogilvy says it doesn't discuss its fees. Y&R didn't

return phone calls seeking comment.

Mr. Shapiro says the strategy acts as an insurance policy for buyers and sellers, and improves communication. Linking pay to performance encourages consultants and clients to discuss expectations in greater depth than with traditional project-based pricing, he says. That is because both parties have a financial incentive to define success and resolve misunderstandings.

Trium clients say one of the firm's strengths is consistent, one-on-one communication with the same senior-level consultants who negotiate a contract. The collaboration helps projects flow more smoothly, says Stéphane Prunet, chief executive of investment-management firm AXA Rosenberg, a unit of French insurance giant **AXA SA**.

AXA Rosenberg has hired Trium more than 10 times since 2000. The first time, top executives paid 12.5% more than the quoted price after a six-month project that helped align its executive team behind a new business strategy. Mr. Prunet says AXA was impressed with the consultants' ability to engage top executives and change their thinking.

Mr. Prunet, who still uses Trium, says the pricing scheme reduces his risk. Strategy consulting "can be a waste of time or a great thing for a company," he says.

Although Mr. Prunet speaks highly of Trium, he doesn't always pay the bonus. Most recently, he hired Trium for a two-month strategy-and-leadership-development project. The consultants risked 32% of their fee. Mr. Prunet was satisfied with the work, but paid only the sticker price.

Write to Jaclyne Badal at jaclyne.badal@wsj.com¹

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(1) <mailto:jaclyne.badal@wsj.com>

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