PHYSICIAN HEAL THYSELF

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Management consultants must demonstrate they can add value if they are to survive the downturn.

Paul Epstein ran his first consulting business, a marketing firm, 10 years ago. After four years, he went corporate and worked as a brand and product development executive. Then the business bug bit again and in 2007 Epstein decided to hang out his shingle as an innovative consultant.

Two years later, Epstein, founder and chief executive of Sydney consultancy 360 Innovation, is staring at the prospect of the deepest recession in living memory. But as agent 86 Maxwell Smart would say: "And loving it!"

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Epstein is not fazed by the downturn. A healthy client list including Tourism Australia, brewer Lion Nathan and biotechnology company Novogen bodes well for 2009

"We believe now's the time to reinvent the organisation and to innovate," he says. With just two employees - himself and business partner Kev Babakian - Epstein believes 360i is nimble and flexible enough to weather the storm ahead.

As is fashionable in management consulting, the firm has a range of proprietary programs and processes. "We do it because clients expect and respect good, solid processes and frameworks," Epstein says. "We're offering more than our collective experience. We have upfront products - that's our intellectual property."

Although confident about the firm's prospects, Babakian, whose advertising-agency background is in brand strategy and design, adds that nothing is taken for granted.

The firm generally targets multinational companies such as former clients Asteron, Kimberly-Clark and Pfizer but its business strategy also ensures that it has exposure to potential success stories.

"I work with a lot of online business start-ups with the scope and potential to make it big and it may as well be pro bono work," Babakian says. "The pay-off for us is that we learn a lot about new industries and we have the relationship with these businesses before they make their impact."

"If we stuck to one particular direction and one industry, we'd be starving."

The management consulting sector is in a conundrum. While some firms can expect to play an important role assisting businesses to steer through the current maelstrom, others will find themselves as susceptible to the downturn as any other business.

It is an irony not lost on the national president of the Institute of Management Consultants, Martin Farley. he acknowledges that some of his member firms will be hit by the downturn.

"If clients see expenditure [on consultants] as highly discretionary and take the view that they can do without it - for example, expenditure on training - then that will be the case," Farley says.

"What we've seen as recently as six months ago is businesses succeeding at a rapid rate of growth as a result of increases in price and demand, and these businesses have been able to demonstrate the attributes of successful businesses. But it's when times are tough that the relationship between companies and management consultants really bears fruit."

The prospect of management consultants succumbing to the downturn is not good news for the IMC, which is already seeing a decline in membership. With 700 members, compared with a high of 1150 in 1997, the IMC is losing members who became consultants in the 1980s and 1990s and are reaching retirement age.

"A lot of the management consultant

population came into the industry during previous periods of recession and downsizing are retiring and they're not being replaced at the same rate," Farley says.

Concerned about his sector's prospects over the next few years, partly because many businesses that should be looking to external expertise aren't, he believes the federal government has a role to play.

He would like to see federally funded programs that provide small and medium enterprises with free access to management consultants. The IMC is preparing a submission to the federal government calling for such a scheme.

Peter Fuda, founder and principal of Sydney management consulting firm The Alignment Partnership, was 29 and a former Westpac Banking Corporation executive when he set up his firm in 2001.

He describes TAP, which has a staff of 10, as a boutique firm, "which is another way of saying we're small, but our impact is big." His clients include Telstra, Suncorp and Foster's Group.

Fuda sheds no tears for competitors unlikely to survive the downturn. He believes it is an ideal time for consultants and their clients to review the role of management consultants, and for consultants to adjust to a new market. "There is a far greater imperative for great consulting," he says.

"This is a wonderful opportunity to focus on what is the value offer of using a management consultant. Those consultants who can't do that are the ones who are going to get annihilated."

Fuda sees changes in the way companies use consultants. "One big shift that I'm seeing is that in times of prosperity, scrutiny can be relatively low. But in this environment, consultants are going to be scrutinised very heavily."

He expects chief executives to become more involved in the use of consultants. Human resources managers and general managers of business units who previously had the authority to engage consultants may find chief executives taking responsibility.

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Fuda believes the use of management consultants will favour direct outcomes rather than "activities" such as training and development.

Some "analytical" work such as strategy development, which has been farmed out routinely to consultants, is likely to be taken in-house.

"In the main, right now my clients are saying they're not paying for strategy work," he says. 'They have the experience in-house and they're doing it themselves, which I think is a good trend.

"The CEOs I'm dealing with at the moment want to hear about alignment [of strategy, structure and company resources], execution and returns.

"Hand-to-mouth consultancies that specialise in things like leadership and culture, who are dealing at two or three levels from the CEO, are very vulnerable in this environment." BRW.

For More Information Contact:

The Alignment Partnership
Level 10, 49-51 York Street
Sydney NSW 2000
+61 2 9321 7000

THE ALIGNMENT PARTNERSHIP