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Would You Pay $170,000 for a Consultant?

By JESSICA BRUDER

Courtesy First Quality Music

Jeff and Eric Sullivan (right) with their late father, Bill, in 2003.

A case study we've just published details the dilemma faced by First Quality Music, which is a family-owned supplier of stringed musical instruments, including guitars and mandolins, along with parts and accessories. Founded in 1970 in Louisville, Ky., the company also makes its own banjos as well as game calls for hunters. The nine-employee operation includes a retail showroom, a small banjo factory and a warehouse that holds inventory for online and mail-order purchases.

As of this spring, co-owners Jeff and Eric Sullivan knew they were hurtling toward bankruptcy but lacked a plan to save their company, which began four decades ago in their late father's basement. They decided to spend $500 for an initial assessment from American Management Services, a consulting firm, but wondered whether they should fork over $170,000 to have the firm develop a full turnaround plan.

Below, you can read what other business owners and management experts think First Quality Music should do. We hope you'll use the comments section to chime in, too. Next week, we'll follow up with a blog post about what First Quality decided and how it worked out.

Matthew Stewart spent 10 years as a management consultant before writing The Management Myth," a critique of his former industry:

“The first thing that strikes me is it’s a story about a family business and every family has a kind of ceiling in terms of how complex a business it can manage. Some families do it better than others, but they all have a ceiling. It seems to me the Sullivans have a pretty low ceiling.

“If the long-term problem is that the family has exceeded its managerial capabilities, then getting a list of solutions from a management consultant — however accurate or perfect a list it is — won’t solve the problem. When the consultant leaves, they’ll still be faced with the task of getting the job done. The long-term solution for these people is probably bringing in a managing partner who has a stake in the business and therefore can’t or won’t want to leave.

Chris Carey is president of Chris Carey Advisors, a consulting firm based in Brooklyn, N.Y.:

“This is the definition of crazy. Each year they keep doing the same things and hoping for a different result. I think they’re smart to bring in an outside resource, but I would make sure the resource is focusing on the entire business, not just operations. And I would make the payment performance-based.”

“I would take the consultant and put him on a fixed rate, less than $170,000, and I’d give him a performance bonus. If you’re a consultant and you have confidence in what you can do, why wouldn’t you take a portion of it that’s performance-based so you can end up with more than $170,000? Take some risk.”

Paul Downs owns Paul Downs Cabinetmakers in Bridgeport, Pa., and blogs for You’re the Boss about what it’s like to run a struggling manufacturing business in a tough economy:

“Maybe they’re going to get a genuine revelation from the consultants, but it’s clear there are a million problems and someone just has to make a list of them and roll up their sleeves and start solving them. The solution is often something very unpleasant. It's firing someone, it's cutting wages, it's abandoning a part of the business that's not working anymore. I don't think that's rocket science. I'm not sure it's worth $170,000.

"It's unpalatable, but you may just need to bring everyone into a room and say, 'Hey, we need to reduce wages by 20 percent, and if you don't like it, goodbye.' It's brutal and it's terrible, but as an employer you have the legal right to set a wage any day you feel like it.

"I would be looking at the Web site. Shut the store and look carefully at whether they want to buy stuff and make stuff. It's possible they want to be making stuff and selling things but probably not. I would be looking to buy complete banjos, probably from China."

Doug Tatum is an associate professor at Middle Tennessee State University and a co-founder and former chief executive of Tatum, a nationwide provider of chief financial officer services that he sold last year:

"They fell flat into no man's land, where their company was too big to be small and too small to be big.

"My gut feeling would be if they went through their entire product line and got rid of half of it they would probably make a lot more money on a lot less sales. It's a pattern you see over and over again. They either have to get really, really big or go back to a small niche area. It's absolutely legal, ethical and also quite good sense to stay small and make money.

"It sounds counter-intuitive, but they need to fire some customers. There are always customers in a diversified line like this that are costing you more than you're selling the product for."