



What Does It Take to Start a Successful Consulting Firm?

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It is probably a safe bet that most I-O psychologists, at one point or another, have considered what it might be like to start a consulting business of their own. Just think of the freedom—working when you want, working with only those clients you like, and not having to answer to anyone. Even if you enjoy working in an academic position, you have probably thought it would be nice having a consulting business to earn more money on the side fairly easily. Well, if that's what you think it would be like to own a consulting business, read on because it is not quite that easy. Although there are tremendous advantages that go along with owning your own consulting firm, it requires a lot of time and hard work. Whether the pros outweigh the cons really depends on you: your lifestyle, what you want out of it, and your commitment to operating your own business.

I sought the advice of three I-O psychologists who have successfully operated their own consulting businesses for a number of years. These experts weighed in on the advantages and disadvantages of having their own business, the KSAs one should have prior to starting a business, and strategies to increase the likelihood the business will succeed.

Let me first tell you a little about the individuals who were kind enough to share their thoughts on this matter. **Rick Jacobs**, one of the founders of Landy, Jacobs, and Associates (LJA), started the business in 1980 on a part-time basis while he worked as a faculty member at Penn State. Their clients were largely in the public safety sector. Rick went full time in 1997, and they sold the company to SHL in 1998. Rick is still working as a consultant for the company today. While he has always remained affiliated with Penn State, he did take a leave of absence (but currently plans on going back). **Lance Seberhagen** established Seberhagen & Associates 27 years ago. He specializes in employee selection, position classification, job evaluation, and EEO, with clients in both the public and private sector. Lance normally operates as an individual consultant but occasionally hires subcontractors to assist him with larger projects, if needed. **Vicki Vandaveer** owns and founded The Vandaveer Group, Inc. over 10 years ago. This business primarily practices in executive coaching, executive team development, and consultation on the people

and cultural aspects of large-scale organizational change—in over 25 countries. In addition to answering my questions, Vicki was kind enough to share with me a presentation she and her CPA (William J. Hickl) gave in 1999 at a SIOP workshop entitled, “Developing An Industrial-Organizational Psychology Consulting Practice.” The presentation included results of a survey of SIOP consulting business owners and was very useful in writing this article.

Thus, each of these experts differs drastically in terms of the size of the business and the types of clients he or she predominantly works with. However, they’re very much in agreement regarding the pros and cons of starting a consulting business, the skills one needs to do it, and how one can be successful.

Owning a Consulting Business: Advantages and Disadvantages

What are the pros and cons of owning and operating a consulting firm? Well, the benefits are probably more obvious than the disadvantages. Owning a business can lead to a great deal of independence. After all, if it is your business, you’re the boss, which means you make the decisions. It is also an interesting and challenging career. It often involves a lot of travel and can lead to meeting a variety of people. It is not easy to run a successful business, so making one work is definitely satisfying, not to mention financially rewarding. There is also considerable variety in the work. Not only are you the practitioner, but you are also a business developer and administrator. Wearing so many hats can be difficult at times, but it’s never boring.

The disadvantages may be less obvious, but they certainly warrant serious consideration. First, it is true that being the owner of a business offers a great deal of independence, but this can also be a disadvantage. Being in charge means you are responsible for generating income, paying the bills, and ensuring projects are running smoothly. It is also true that the client is technically your boss. You need to please your clients and accommodate their timelines if you’re going to be successful. This means you can’t just take off on a whim. The job must take priority.

Second, owning your own business requires a tremendous amount of time and hard work. It is certainly not the path of least resistance.

Third, when your entire livelihood is invested in a consulting business, your income can be very inconsistent (especially early on) and you are frequently dependent on the state of the economy. As Lance pointed out, many I-O consultants, particularly those working primarily with the private sector, are currently dealing with a business slump and it is not easy to deal with such ups and downs. It is certainly feast or famine a lot of the time.

Finally, owning a business can be lonely. This is especially true if you have a small business which may consist of just yourself. Unlike working at a large consulting firm or university, you are not surrounded by colleagues. This will always be an issue if your business stays small. Therefore, one must make an effort to stay connected with colleagues.

Keep in mind that most of these disadvantages do not apply if you are an academic running a consulting business “in your spare time” (like we have any). For instance, if you already have a full-time job as a professor, generating income isn’t an issue and if business slows, you can always fall back on your steady base income. This allows you the opportunity to choose the most interesting projects that have both financial and research rewards. In addition, even if the consulting firm only consists of yourself, you always have your academic colleagues around to keep you from feeling isolated. Rick suggests that there is no greater life than the balance of academics and consulting.

Do You Have What it Takes?

If the previous review of the pros and cons of business ownership failed to deter you from considering this career move, do you really have what it takes to start your own consulting business and be successful? Those interviewed were consistent in their ideas of what personal characteristics one should have to be successful.

Experience. Never even attempt to start your own consulting business unless you have experience with consulting. Lance suggests working for at least one consulting firm a few years to learn the practical aspects of consulting and to see how a business is run before going off on your own. Owning a business will require you to learn a number of business skills and therefore, you need to first be proficient in the technical aspects of the job to ensure you have time to learn your new role. If you don’t know the ins and outs of consulting, it is unlikely you will be able to succeed with your own business.

Highly organized. Owning a business is a balancing act. Multitasking and planning are keys to being able to attend to all the matters that you have to deal with. As you grow you have payroll, rent, all sorts of pressures to generate money, personnel issues, and so forth. You also have to balance multiple roles. So if you have a hard time getting your journal reviews in on time, you’re probably not cut out for business ownership. However, if you are extremely organized and skilled at multitasking, you may just thrive as a business owner.

Business development. To run a successful consulting business, you have to be able to generate business. You need to convince clients to hire you and/or sell them on your products. If you are uncomfortable with the idea of selling yourself or your business, then this career path is probably not for you because this is a crucial aspect of the job.

KSAs. In their SIOP workshop, Vandaveer and Hickl (1999) identified two lists of KSAs that are required to be a successful business owner. The first set of KSAs are required to be a good consultant. For example, you must be knowledgeable about psychology, understand a client’s industry, be a skilled negotiator, and manage the client relationship well. Hopefully, you will acquire those skills through gaining consulting experience before venturing off on your own. The second set of KSAs are required to be a small

business owner. Many of the business ownership KSAs will only be obtained by having your own business, but there are some things you need to have coming into the situation. For instance, you need to have a basic understanding of business economics, small business finance and accounting, have strong leadership and management skills, and have a high tolerance for ambiguity. Lance also suggests you need to be flexible (such that you can travel to any location and perform any task needed to complete a project successfully) and have knowledge of contract law. It also helps if one has an affinity for adventure. One thing is for sure, it is not for the faint of heart!

Getting Off to a Good Start

So, you think you have what it takes to make it in the business world? The sad truth is that up to 65% of new businesses fail in the United States within the first 5 to 8 years of operation. Businesses fail for a variety of reasons. As Vicki suggests, it may be inexperience and the inability to keep on top of things, poor management of money, lack of planning, misuse of time, undercapitalization, or a weak marketing plan. How can you avoid these pitfalls and increase the likelihood your business will succeed?

1. Ensure a solid foundation. What you do before you even start your business could determine the success of the business. First, get experience consulting. Second, don't venture out on your own until you have sufficient capital and/or at least one or two solid clients who can support you for 6 to 9 months. Third, be sure you are qualified to practice psychology in the state you plan to operate from. This would involve ensuring you are compliant with any licensure laws that may be in effect.

2. Get the aid of professional advisors. This includes a good attorney, banker, insurance agent, and CPA. These individuals will help you determine what type of organizational structure is best for you (e.g., sole proprietorship, partnership, corporation) and help you address tax and liability issues. Vicki suggests that finding a CPA who really understands small business is crucial to business success.

3. Develop a business strategy. Determine your business strategy early on. What clients will you primarily work with (e.g., public or private sector)? What services will you offer? Will you sell products? If so, what kind? Each consulting firm seems to have specialty areas of emphasis and may choose to focus on one particular industry. Also, do you want to keep the business small or do you hope to grow into a fairly large company? Rick suggests shooting for a small or large consulting firm. When you're small, you can have more fun, and when you're big you can get backers and partners (thus reducing your burden). Being in the middle does not result in the best of both worlds, but rather makes things more difficult. If you're in academics and intend to continue in that vein, but want a consulting business on the side, Rick suggests it is probably best to stay small.

4. Create an identity. This involves identifying what your “brand” will stand for—identifying your brand value proposition—then electing a company name and logo, and having letterhead and business cards, and so forth, developed that best represent/reflect that image. These may seem trivial considering how much other “important” work you’ll have to do in the beginning, but this step is equally crucial to a successful business. Keep in mind that clients may infer a great deal based on a company name or logo. These cues can be very important to your business when few people know about you.

5. Cash flow management. Managing cash flow can be tricky, but it’s absolutely essential. Many clients are excellent at demanding that work gets completed at certain times, but these same clients often fail to pay in a timely manner. That makes managing the cash flow even more difficult. One needs to balance the amount of work needed versus demand. As Rick suggests, sometimes you do not have enough work to support your organization, and other times you are working too many hours. It is often difficult to determine how much you can and should handle. One thing you can do to address this issue is to keep overhead low, particularly in the beginning. As Lance points out, you don’t want to buy a lot of fancy furniture and rent a huge place and then find you can’t pay for it. Keeping overhead low makes the business easier to manage when work is slow.

6. Work on getting business immediately. Although you should not start a consulting business until you have enough capital and clients to get you through most of the first year, this does not mean you can wait to generate new business. In fact, this should begin immediately. Let all your colleagues know you are starting a business and what kind of work you do. Start looking for new business as soon as possible to ensure there is enough work lined up so that when projects are completed, you will still have income.

7. Commercialization of knowledge. Those I spoke with indicated that although you certainly need to have technical skills, these are not enough. You need to be both scientific and commercial. This means you should not only plan on making money by billing your time but should also sell products or tools that can be used by the client. For example, a general test of individuals’ standing on a construct may be used to select applicants for many different types of jobs and may also be a developmental tool for employees in many organizations. As Rick said, LJA had a project in public safety testing and it was for both selection and promotion. This allowed them to go to market with a partial solution that could be customized to the client. Such products allow you to more easily increase revenue and can provide a client a fairly quick solution to a problem.

8. Total commitment. Commit to working hard and taking the time to make your business successful. People who start a business because they think it will be easy, and because they don’t want to be told what to do, are doomed to fail. Running a successful business requires hard work, time, and

commitment. Also, do NOT have a fallback plan. Vicki suggests if you have a plan B (e.g., “I’ll just go work for my previous employer if my business doesn’t do well”) you are setting yourself up for failure. Once you decide to go for it, never look back. Losing is not an option. The question is NOT, “Will I be successful?”; the only question is, “How will I be successful?” All the problems and setbacks are problems to be solved—lessons to be learned along the journey. It takes hard work and persistence to start and grow a business successfully.

9. Do a good job. This is a no-brainer, but it’s so important that it’s worth stating. If you do not do a good job, the clients won’t come back and your business will fail. Always do a good job and meet client deadlines. It is the best thing you can do to ensure the health of your business.

10. Do some background reading. Owning an I-O consulting business is very much like owning any kind of business. There are several good books that may help you on your way to a successful business. A few recommended by the experts include, *Managing the Professional Service Firm* (Maister, 1993), *Flawless Consulting: A Guide to Getting Your Expertise Used* (Block, 1981), *The Woman’s Guide to Starting a Business* (Jessup, 1991), *Dumbo* (Aberson & Pearl, 1949), and *Start Your Own Business: The Only Start-Up Book You’ll Ever Need* (Lesonsky, 2001).

Conclusions

Owning a business is rewarding, challenging, and hard work. Vicki, Lance, and Rick all indicated that, if you think this lifestyle is for you, you should go for it! All of them are glad they started their own businesses and even wondered why they didn’t do it sooner.

I have reviewed some of the skills you will need to be a successful business owner and also some issues to consider to increase the chances of success. Whether you are thinking of starting a small consulting business part time while working as an academic, or contemplating throwing caution to the wind and starting a business as a way of life, I hope this article helps you decide if the move is right for you and how you might proceed.