Grow Your Consultancy's Value

Hi there, my name is Professor Joe Romani. I'm a professor of consulting at Cardiff University, and a specialist in helping small consulting firms grow typically towards some form of exit or equity event. I'm going to take five minutes to talk about how buyers value your consulting firm or alternatively, you could look at it at how to build a great consulting firm because buyers want to build want to buy great consulting firms.

Let's start off with the valuation. What is that based on? Firstly, buyers typically look at EBITDA; Earnings Before Interest Tax Depreciation and Amortization. You could look at margins but EBITDA is more accurate, which is why buyers tend to use it. How do we improve EBITDA? Unsurprisingly, you need to reduce your costs or increase your revenues so preferably both.

Let's look at reducing your costs.

1. **Increase your leverage ratio.** Your leverage ratio is the ratio of partners to juniors. Leverage can be improved by having great intellectual property that we'll talk about in later on. This reduces your costs simply because you are paying junior people to do the work. That's all that would previously be done by senior people.
2. **Automate.** Having professional service automation software, ERP software or CRM software reduces your headcount needs, and very often improves efficiency as well. The great thing is this software is typically incredibly cheap these days, and so is affordable for even the smallest consultancy.
3. **Have strong internal intellectual property.** Intellectual Property internally might mean systems, processes, procedures, templates, etc. that allow junior people to do the work of senior people and allow you to increase your leverage ratio.

Now, let’s look at increasing your revenue:

1. **Intellectual property also contributes to revenue growth.** It does this by breaking the link between earnings and your headcount so great intellectual property will be things like video courses, benchmarking, a network that people have to pay to join, software, a platform, these types of things, buyers love this type of stuff, because it's an asset in the firm that won't walk out as soon as they buy it.
2. **Be in the right niche**. This is probably the most important. It amazes me the number of new consultancy startups that are already in an area that has a relatively low ceiling on what they can potentially earn so no matter what they do, their earnings are still quite limited.
3. **Decent pricing.** Typically, you can improve your revenues by between 10 to 15%, by having a decent pricing strategy. One example of this is that buyers hate time and materials pricing, but most consultancies, use it and I personally think it's quite a lazy form of pricing, and one that doesn't maximize efficiency or revenue earnings.
4. **Sales.** EBITDA is used as the basis of the valuation, and it's the basis of the value in your firm but to really improve value, buyers will typically pay a multiple of EBITDA for your firm, and that's typically between 8 times to 15 times and sometimes even 20 times if you've got your IP right, EBITDA.

So how do you improve the multiple? Well, the first thing you can look at is to improve the capabilities of the firm the capacity of the firm to deliver high quality work. How do you go about this number one is great leadership, recruiting great people to join you delegating properly and having a decent strategy.

Number two is having great people in your firm. By this, I also include our culture and I would call your unique employee proposition, which is which will attract good people, but also keeps them once they're there. And the third way is your management. And I don't just mean the individual managers, I mean, the systems and processes that continuously improve the performance of the organization.

The second way in which you could improve the moat, the multiple that's paid, is to improve the perception of key stakeholders. In other words, clients, buyers and employees. How do you go about doing this? Number one is great marketing. Number two is great thought leadership. What do I mean by great thought leadership? Well, typically it would be several things. One is something that is relatively unique. Number two, it's something that is based on research. Number three, there is a call to action there for the client, the client knows exactly what to do after they read the piece. And number four, obviously, it's something that you can help with. And finally, branding, they also all improve your business, performance in sales, and now coming up to a sale, there's a whole load of things that you can do to improve both the EBITDA, and the multiples that clients will potentially pay. I won't go into that now, but there's a whole load of hints, tricks and tips that you can do to in the short term massively improve those. So this is the basis of the wheel that I use with all of my clients. We go through each one of these and see how we can improve it in to maximize growth and that maximize EBITDA and the multiple of which is paid for the firm.

I hope that was useful. If you want to contact me, please do so either at Joe@consultingmaster.com or go to joeomahoney.com