

The Consultancy as an Asset

Building Intellectual Property to Drive Value

Why buyers value IP

First, let's be clear about intellectual property (IP). I do not simply mean the products (proprietary tools, methods and services) which your firm offers clients, but also the internal processes and systems which you use to run the firm. I define IP as the *codified knowledge which adds business value*.

Without IP, your firm is simply a body shop, and the value of the firm is, give or take, the salaries of the people in the firm (providing these salaries match the value of those people). If you are the buyer of this type of firm, you are typically buying either/both the rare skills of the individuals or the client or market connections that would be useful to your firm. Either way, this tends to result in cherry-picking by the buyer and a relatively low price multiple for the firm as there are no assets beyond the people in the firm. For buyers, strong IP doesn't just de-risk the purchase and help guarantee income, but also provides them with a quick way to offer their own clients your consultancy's services. Imagine you are a strategic buyer with 500 clients - strongly packaged IP, especially if it is independent of people, provides you with an immediate proposition for 500 additional revenue streams!

Beyond driving a higher sales price IP is crucial for the profitable growth of firms because it enables differentiation from your competitors, leverage and scalability (allowing you to use junior resources in the place of more expensive senior ones), more consistent delivery (less variation), better training and use of consultants, and superior accumulation and sharing of experience and knowledge. It also de-risks the firm from key individuals who, if they left, would otherwise take the value with them. When asked what IP *should* achieve for the firm, buyers gave the following preferences, in order of importance: adding to future scalability, differentiating the services of the firm, improving the visibility of the firm, and revenue generation¹. The position of 'revenue' in last place indicates the power that good IP has to drive scale for firms.

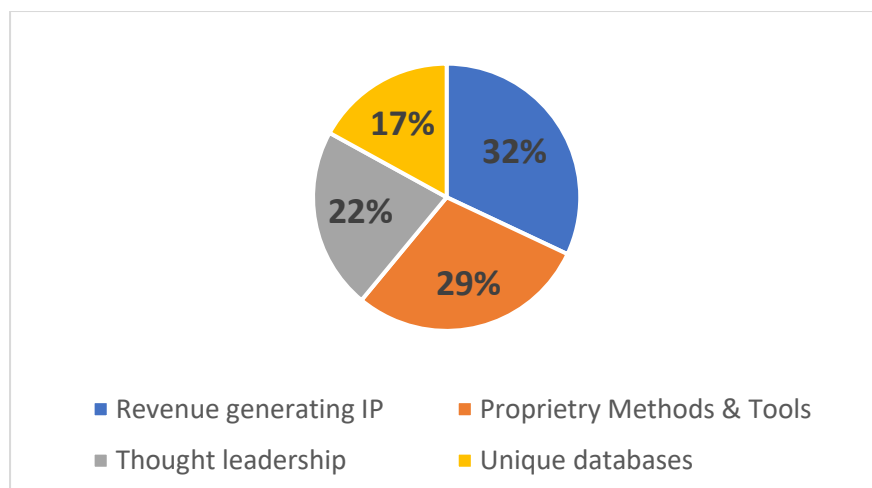
For most firms, however, the development of external and internal IP will drive the business value detailed above. Unsurprisingly then (though this often surprises founders themselves!) IP is one of the most important qualitative measures buyers cite when looking to acquire consultancies. For buyers, IP (including systems & processes as well as services & products) considerably reduces the risk that, after the earn-out period, the value of the firm will walk out the door. This said, nearly 50% of buyers report that they find it hard to *understand* how the consultancy's claims to IP actually link to its bottom-line² with typically only between 20-30% of firms clearly communicating the value of their IP.

Figure XXX highlights the buyer preferences for types of IP, and this loosely matches the value that each brings to the firm. Below, we detail these in turn, and then examine what managing and creating effective IP looks like for a growing firm.

¹ Equiteq (2019) *The knowledge economy global buyers report*.

² Equiteq (2017) What buyers of consulting firms look for and how they will determine value in 2018. Youtube. <https://youtu.be/GTc9fURaUxI>

Figure XXX Buyer preferences of consulting IP



Types of IP

The extent and manner of your intellectual property development will be dependent upon your strategy. Although IP offers distinct advantages, if your firm is strategically (rather than coincidentally!) based upon high-end expertise, tacit knowledge of highly experienced consultants, and bespoke creative solutions then the firm will be less dependent on commodified products and services and more dependent on IP that *demonstrates* rather than *captures* experience and expertise (for example, thought leadership).

Proprietary methods and tools not only includes the services and products that are delivered to clients, but also the operations and business development processes, methods and technologies that firms commodify over time (see p. XXX). Table XXX highlights these different categories and highlights examples of each. All these categories help the firm add leverage, value, scalability and efficiency, though it is the first that has the eye of investors.

Table XXX Categories and examples of IP for methods & tools

	What does it enable?	Examples
Delivery	Scaling and standardizing by enabling high-fee work by cheaper consultants.	Peer group networks; Expert groups; Accreditation; Simulation; Licencing; Database access; Research reports; Benchmarking/maturity index; video courses; Apps/Software; Games; Research report/survey; Franchising; Project methodologies; templates; questionnaires; process maps;
Operations	A more effective business infrastructure that continuously improves.	Knowledge management processes (i.e. capture, storage, improvement, sharing); Business plan; People processes; CRM process; Pricing methods; Resource planning; Sales forecasting; Project management methods/tools; Forecasting process; Business model (e.g. partnerships); CRM processes & data; Contractor relationships database;
Business Development	Selling more, dearer, faster, at lower cost to you.	Bid management process; Marketing analysis processes; Case studies; Thought leadership practices; Pitch methodologies; Proposal templates.

IP Strategy

IP is crucial to the value and quality of your firm but a lot of work. For this reason, it needs to be taken as seriously as sales or recruitment, and thus must be led by a partner and linked to your niche strategy. First, whether you are primarily a Brains, Grey Hair or Procedure type of firm will influence the focus of your IP. If you solve relatively unique problems, it is likely that your IP will be numerous but internal and focused on information technology assets. This allows brainy or experienced consultants to combine assets in different ways to apply to novel problems. If you are more of a procedure firm, then your IP will be external (fairly commodified services or products). Crucially, *both* archetypes will (or should) have strong business development and operations IP. The SAS or Navy Seals frequently solve one-off complex problems, but this doesn't influence the systematic rigour of their training, communications, and planning.

Second, the purpose of your firm, whether that is making clients quicker, cheaper, higher quality, or bigger should define your IP priorities and there are considerable risks in not getting this right. I have seen several firms incentivize the creation of IP through appraisals or even bonuses, only to find that a vast amount of time has been spent creating templates, tools, and processes which do not align with the firm's strategy or priorities.

My own recommendation for setting your IP priorities is an annual workshop, led by the relevant partner, which includes input from a selection from all client facing roles and preferably also clients themselves. **A template for the workshop** can be found at the *Consulting Mastered* website, but in brief you should identify IP that aligns with your strategy AND will allow you to achieve any of the following:

- Standardizing and codifying common delivery activities, methods or processes
- Productizing (i.e. making more attractive to clients) existing expertise
- Capturing knowledge that is valuable to the client or to the firm
- Creating, standardising and even automating internal business processes
- Creating demonstrations of your expertise which will attract or convert clients more effectively

For process work, it is important for someone (or several people) to be responsible for, and have a view of, your business processes. They should be responsible for improving the speed, efficiency and quality of the business process they are responsible for and its codification and automation.

Once your priorities have been stated and clarified, these need to be communicated clearly to everyone in the firm - ensuring there is time made available to work on IP, and that the work is somehow incentivized to illustrate its value to the firm.