Private Equity and Boutique Consultancies: A Primer

Introduction

Why is Private Equity investing in consulting?

Private equity (PE) is a form of investment where funds provide capital to privately held businesses, often taking ownership stakes, in order to drive growth, improve performance, and ultimately generate returns through a firm sale or IPO.

If you go back twenty years, private equity involvement in consulting was relatively rare. At first glance, consulting firms have no assets, they have few barriers to entry, and they rely on the most unreliable of resources: people.

However, more recently, two things have happened. First, consultancy has proved itself a resilient economic bet. The growth rate of consulting revenues has averaged 11% over the last thirty years and the low operational costs mean that most businesses are very cash rich. Operating margins of 60% and EBITDA of 25% are not unusual. As consultancy and consultants have become more ubiquitous, confidence in their businesses has grown.

Second, private equity has a LOT of dry powder. The FT estimates that venture capital and private equity between them have around $2.6tn in cash or low risk securities that investors want invested. The lack of great investment opportunities matched with the increase in investor funds over the last twenty years means new markets and opportunities have been exploited.

For PE, and PE-backed businesses, buying a consultancy can generates several opportunities to grow value:

1. Investing in organic growth: if a good firm is in a growing market, has a secret sauce, or has obvious weaknesses that can be fixed then investment can help accelerate their growth. A common example might be a good firm that has a strong service but has never really built their sales or marketing capability. Raising investment to do so will likely lead to higher growth.

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3. The size multiple: bigger firms are valued more as a multiple of EBITDA. Thus, a £10m consultancy might hit an average of 7x, where are a £100m consultancy might hit 10x. Thus, using PE investment to acquire other suitable companies can generate value even if other synergies are discounted. This is why one strategy for success for PE is a 'roll-up' where they buy several aligned consultancies and merge them into a larger firm.

Why do consultancies look for investment?

The 'build to sell' model of consulting entrepreneurship has been increasingly popular as M&A markets have heated up over the last twenty years. Dom Moorhouse started Moorhouse consulting in 2004 and less than five years later for around £20m. An average multiple of 7.5x EBITDA means that many founders want to get a big payout and leave.

However, some do not. Some enjoy the growth journey and ask 'why would I leave a job I love?'. For these hardy types, there is also the promise of a more significant payout down the line. Investing in people, buying other companies, better sales and marketing capabilities, or a more professional leadership team can accelerate the growth of a consultancy that is already successful. It may mean a smaller ownership slice, but, the theory goes, of a much bigger pie.

Private equity (PE) can be a transformative opportunity for consulting firms, offering not just financial backing but strategic guidance to achieve ambitious goals. For boutique consulting firms, engaging with a PE partner can unlock resources and expertise that might otherwise be out of reach, enabling them to scale operations, diversify offerings, or solidify their market position.

It's a bit more complicated than that....

From what I've written above, you might be forgiven for thinking that PE is a no brainer for an ambitious consultancy. You get the money, buy another couple of firms, rationalise the back-office, cross-sell to each-other's clients, and all over a sudden you've trebled your revenue, achieved higher margins through economies of scale, and your multiple has risen from 7x to 10x because you're so much bigger. Trebles all round!

Unfortunately, it isn't that simple. Failure rates of private equity investment are high. PE-backed firm failure is four times higher than firms not backed by PE and around 45% of sub-£100m deal investments fail[1].

There are lots of reasons for these failure rates. First, with the amount of dry-powder available, there is intense competition for the best firms. This means that many investors pay more than they should and, as a result, fail to get the returns they hoped.

Second, some private equity use leveraged debt to invest in firms. This means that investment comes from debt which is secured against the future cashflow of the consultancy. Whilst this has tax advantages (interest on debt is tax deductible) the cyclical nature of some consultancy's revenues means that consistent debt repayments can be difficult.

Third, in my experience, there is huge variability in the extent to which Private Equity teams understand, let alone add value, to people firms. Consultancy expertise is what economists call a 'credence good': a service where the seller knows more than the buyer about their problems and solutions (think doctors, psychologists, or consultants). Credence industries are characterised by high levels of trust – something that accountants and bankers struggle to fit onto a spreadsheet[2]! Trust between the firm and its clients and employees is easily broken when, say, cost cutting is initiated. As one successful CEO told me: 'trust takes decades to build but can be destroyed in seconds'.

This guide is intended to demystify private equity and help CEOs understand when it is suitable and when it is not. Those who follow me know that, generally speaking, I'm not generally a fan of private equity getting involved in consulting. However, I have seen many exceptions, and some of these are detailed below. It's also the reason why I have partnered with Chiltern Capital. They are not only experts in people firms, but unlike most equity investors, they put their own money and time into the companies they partner with.

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[1] https://www.fnlondon.com/articles/smaller-private-equity-deals-more-likely-to-fail-20160209
[2] Ironically, they are both credence goods.

Chapter 1: Pre-Deal Foundations

Private Equity vs. other options

Consulting firm owners, like the clients they serve, eventually face critical strategic decisions.

The choice of private equity over other options should pivot on the interests of the owners. For most boutique owners, the short-term choice is to continue growing organically – either because they're enjoying the ride or because they haven't generated enough revenue for an exit to meet their needs.

Let's look at some of the options available and understand when PE investment makes sense:

Organic Growth

For many, the preferred choice is to continue growing organically. This approach allows the owner to retain their control of the firm, and simply invest profits to expand capabilities, hire talent, or enter new markets. However, organic growth often means slower growth (not necessarily a bad thing!) especially in the post 100 employees phase. Most founders are in the organic growth phase either because they do not yet want to take equity out of the firm or because the firm is not sellable. As Paul Collins of Equiteq fame once told me 'everybody exits, you've just got to make sure you don't leave on a stretcher'.

For those who do sell, selling to a strategic 'trade' buyer can unlock significant value, as these buyers often pay premiums to capitalise on synergies or strategic benefits. For the seller, the transition can offer expanded resources, access to global networks, and opportunities to scale services beyond what was previously possible. However, the integration of two organizations is rarely seamless. Cultural clashes and changes to governance or employee roles can disrupt the very strengths that made the firm attractive in the first place. CEOs must weigh the financial and strategic benefits against the potential erosion of the firm's identity and independence.

Strategic Buyers

Additionally, unless the founder has done great work on their succession plan, strategic buyers often insist on an earn-out where the founder works for the new company for a period of 1-4 years. This is often accompanied by targets which, if the founder does not hit them, decrease the total value they receive for their sale. In this phase, the founder is just another employee, and I have encountered several founders that actually left during the earn-out phase, losing much of the value they received, because they hated working for the new owners.

A firm which I helped sell some time ago was owned by two founders who were not only sick of the firm, but also sick of each-other. They wanted a strategic buyer, a quick transaction, and a minimum earn-out. Both were exhausted and didn't really want to work again. Fortunately, we'd managed to find a buyer that was happy with their needs and they both left £10m richer.

Management Buy-Outs

I spoke to a owner of a successful consultancy today who told me that he wasn't really bothered about taking money out of his company. His focus was the culture of the firm and his employees. Most of his profits went towards employee benefits, treats, travel and other perks. He was happy running the company, because it gave him time to watch rugby and walk his dogs, and when he couldn't run it, he wanted to create an employee owned trust (EOT). His strategy wouldn't be for everyone, but it worked well for him.

Flotation

Private Equity

Another route to growth involves borrowing money to fund expansion. Debt can provide the capital needed to invest in technology, acquire competitors, or broaden service offerings—all without diluting ownership. For firms with stable cash flow and a clear vision, debt can be a powerful enabler. But leverage comes with its own risks, especially in industries where revenues can fluctuate. The pressure to meet repayment schedules during lean times can strain operations, and lenders may impose restrictive terms that limit the firm's flexibility.

Private equity represents a different type of partnership. Selling a stake to a private equity investor offers a blend of financial resources and strategic expertise. Many private equity firms specialize in helping businesses scale through operational improvements, technology investment, or acquisition strategies. For founders, this option provides liquidity—an opportunity to take some chips off the table while retaining a stake in future growth. Yet private equity investment often comes with strings attached: a need for aggressive performance, a heightened focus on financial metrics, and, in some cases, an eventual sale or IPO. The alignment of values and vision between the consulting firm and the private equity partner is critical to ensure success.

Some firms, particularly those with a strong commitment to independence, explore the option of transitioning to an Employee Ownership Trust (EOT). This structure transfers ownership to a trust controlled by employees, preserving the firm's ethos and empowering its people. EOTs can offer significant tax advantages and appeal to leaders who want to leave a legacy of employee stewardship. However, funding the transition often requires the firm to maintain strong profitability, and the governance responsibilities can be complex. This approach is best suited for firms with a cohesive team and a long-term commitment to operating independently.

For others, a hybrid approach may provide the flexibility needed to balance competing priorities. Combining external funding with partial equity sales, or blending elements of employee ownership and private equity investment, allows firms to customize solutions to their unique goals. Hybrid strategies, however, can be intricate to structure and demand careful alignment of interests among stakeholders.

Choosing the right path is not just a financial decision—it is a strategic and emotional one. CEOs must reflect on their growth aspirations, their tolerance for risk, and their vision for the firm's legacy. Each option carries its own mix of trade-offs and opportunities, and no single solution fits all firms. By carefully considering these pathways, leaders can ensure their choice positions the firm for long-term success while honouring the values that built it.

Understanding PE

Private equity firms evaluate consulting businesses through specific lenses, markedly different from other sectors. They're looking for predictable, scalable revenue streams backed by strong delivery capabilities.

Revenue quality stands at the forefront of their assessment. The most valuable consulting firms build long-term client relationships spanning multiple years and service lines. They move beyond project work to establish ongoing advisory relationships and framework agreements.

The people metrics tell an equally compelling story. Top-tier firms consistently deliver annual revenue per consultant above £250,000, maintain utilisation rates over 75%, and retain 85% or more of their staff yearly. New consultants become fully productive within three months. These metrics signal operational excellence and growth potential.

The Growth Story

PE firms invest in future potential, not past performance. Your growth narrative needs to be specific, credible, and evidenced. Consider Taylor Digital's expansion from London to Manchester. They didn't just present a vision - they detailed setup costs of £450,000, mapped out a nine-month path to break-even, and secured key client commitments supporting first-year revenue targets of £2.5M.

Service line expansion requires similar rigour. Bennett Consulting's move into data analytics exemplifies this approach. They hired experienced partners, trained existing consultants, secured pilot clients, and developed proprietary methodologies before approaching PE firms. This preparation demonstrated both market demand and delivery capability.

Understanding Valuations

The valuation landscape for UK consulting firms reveals clear patterns. Scale matters significantly - firms with £5-10m revenue typically command multiples of 5-7x, while those exceeding £50m can achieve 8-10x or higher. Sector focus adds another layer - technology consulting or the financial services sector currently commands a premium of up to two multiple points, with strategy consulting close behind.

Growth trajectories heavily influence valuations. Firms growing above 20% annually often secure premium multiples, while those below 15% face more challenging conversations. This reinforces PE's focus on future potential rather than historical performance.

Avoiding Deal-Breakers

My experience on both sides of PE transactions highlights consistent issues that derail deals. Undefined delivery methodologies represent a major risk.

Client concentration presents another common challenge. PE firms grow nervous when single clients represent more than 15% of revenue, or when the top five clients exceed 40%. Similarly, partner dependencies raise red flags - individual partners managing more than £2M in revenue or holding concentrated client relationships signal succession and scaling risks.

Choosing Your PE Partner

PE firms differ markedly in their approach to consulting investments. Their hold periods typically range from four to seven years, but their operational involvement varies significantly. Some provide extensive resources and actively shape strategy, while others maintain a lighter touch.

Davies Consulting's approach to partner selection offers valuable lessons. They interviewed twelve portfolio companies, asking penetrating questions about growth support, challenge response, and resource provision. This due diligence revealed significant differences in PE firms' practical support and problem-solving approaches.

Practical Preparation

Financial preparation forms the foundation of PE discussions. You'll need three years of audited accounts, but more importantly, you need to demonstrate financial sophistication through robust forecasting and clear growth models.

Operational documentation proves equally important. Your delivery methodologies, quality control processes, and staff development programmes need to be clearly articulated. Technology infrastructure should support scaling ambitions.

Market analysis must go beyond generic industry trends. PE firms expect detailed understanding of competitive positioning, market share by service line, and specific growth opportunities. Your barrier to entry advantages need clear articulation.

Team assessment often determines deal success. PE firms look beyond current leadership to evaluate succession plans, key person risk mitigation, and the strength of your second-tier leadership bench.

Chapter 2: Structuring the Partnership

Having guided numerous consulting firms through PE deals, I've observed that the quality of deal structures often determines success long after the transaction closes. Let me share what I've learned about creating partnerships that endure.

The Governance Challenge

Last year, I watched a successful consulting firm founder struggle with his new reality. After 15 years of autonomous decision-making, he now needed board approval for hiring decisions above £100,000. This adjustment nearly derailed the partnership in its first six months. His experience taught us valuable lessons about governance structure.

Effective governance balances PE oversight with operational efficiency. The most successful structures I've seen typically include a main board meeting quarterly and an operating board meeting monthly. The main board focuses on strategy and major investments, while the operating board handles tactical execution.

Board composition requires careful consideration. The most effective boards I've worked with typically comprise:

- Two PE representatives
- The CEO/founder
- An independent chair
- Two independent directors with consulting industry experience

A mid-sized strategy consultancy I advised last year took an innovative approach. They created a dual-track decision system - operational decisions below £250,000 remained with management, while strategic decisions went to the board. This preserved agility while ensuring appropriate oversight.

Financial Engineering Reality

"You can name the price if I can name the terms." This old PE adage carries profound truth. I recently watched a consulting CEO celebrate a high headline valuation, only to discover the earnout structure made it nearly impossible to achieve the full value.

Equity rollovers represent a critical decision point. In successful deals, consulting leaders typically retain 20-40% equity ownership. This creates alignment while releasing significant value. However, the structure of this rollover matters enormously.

Consider this recent example: A technology consulting firm CEO negotiated a 30% equity rollover. However, the PE firm's ratchet meant his equity would dilute to 15% if certain growth targets weren't met. Understanding these mechanisms proved vital to negotiating fair terms.

Earnouts require particular attention. While they can bridge valuation gaps, they often create operational tensions. A recent client negotiated an earnout based on EBITDA growth but failed to exclude acquisition costs from the calculation. This oversight led to painful discussions when growth opportunities arose.

Debt Considerations

The debt structure in PE deals can significantly impact operational flexibility. High leverage might increase potential returns, but it can constrain investment in growth. One consulting firm I advised had to pass on a major contract because their debt covenants restricted working capital investment.

Successful deals typically balance:

- Senior debt at 2.5-3x EBITDA
- Mezzanine facilities for growth capital
- Revolving credit for working capital

I recently helped structure a deal using an innovative debt approach. We negotiated an accordion facility that could expand based on contracted revenue growth, providing flexibility for expansion without initial leverage.

Legal Framework

Strong legal counsel proves invaluable, but they need consulting industry expertise. A general M&A lawyer recently missed crucial protections around client contract assignments, nearly derailing a £75M deal at the last moment.

Key areas requiring specialist input include:

- Client contract novations
- Staff transfer mechanisms
- Intellectual property protection
- Earnout calculations
- Warranty and indemnity provisions

One successful approach I've seen involves using industry specialist counsel for consulting-specific aspects while employing traditional M&A lawyers for general transaction documentation.

Building Relationships

Technical excellence in deal structure cannot overcome relationship deficits. I recently watched a perfectly structured deal fail because the PE partner and consulting CEO couldn't align on growth strategy implementation.

The most successful partnerships invest heavily in relationship building during deal negotiations. One PE firm I work with requires weekly dinners between their partners and potential portfolio company leaders during the last month of negotiations. This surfaces cultural misalignments before they become costly problems.

Consider creating formal alignment sessions covering:

- Growth strategy implementation
- Decision-making processes
- Communication protocols
- Problem-resolution approaches

Chapter 3: Creating Value with Private Equity

After twenty years of helping consulting firms navigate post-deal transformations, I've learned that the first year determines the partnership's trajectory. Let me share what distinguishes the firms that thrive under PE ownership from those that struggle.

Unlocking PE Resources

Two months ago, I visited a technology consulting firm two years into their PE partnership. Their revenue had grown 40% through a combination of organic growth and two acquisitions. The CEO shared his key insight: "We succeeded because we learned to access PE resources effectively from day one."

Most PE firms maintain deep expertise networks. Leading consulting firms tap these systematically. They leverage:

- Operating Partners: A strategy consultancy I work with pairs each operating partner with specific growth initiatives. Their data analytics practice grew 85% in year one through this focused collaboration.
- Deal Networks: PE firms constantly evaluate potential acquisitions. Smart consulting leaders tap this flow. One client identified three acquisition targets through their PE firm's deal pipeline, completing two transactions within 18 months.
- Industry Expertise: PE portfolios often contain complementary businesses. A healthcare consulting firm I advised gained three major clients through introductions to portfolio companies.

The key lies in proactive engagement. Successful consulting leaders typically schedule monthly sessions with PE operating partners, focusing on specific growth initiatives rather than general updates.

Team Evolution

PE partnerships demand different capabilities than independent operations. I recently worked with a consulting firm that lost three key directors within six months of their PE deal. The reason? They failed to evolve their team structure and incentives for the new environment.

Successful firms approach team development systematically:

- Leadership Enhancement: One client mapped their leadership capabilities against their growth plan, identifying three critical gaps. They hired a COO, CFO, and Head of M&A Integration within six months, transforming their execution capability.
- Incentive Alignment: Traditional consulting bonus structures often conflict with PE growth goals. A successful approach I've seen involves creating a multi-tier equity program, allowing senior consultants to build meaningful ownership stakes based on value creation.
- Cultural Integration: A digital consulting firm I advised maintained their entrepreneurial culture while adding PE-driven discipline. They created "growth pods" - small teams combining existing consultants with new PE-sourced talent, each focused on specific expansion initiatives.

Growth Execution

Accelerating Growth Under PE Ownership

Last month, I sat down with Emma Chen, CEO of Transform Consulting, to reflect on her firm's first year under PE ownership. "We hit our growth targets," she told me, "but not in the way we expected. The real breakthroughs came from completely rethinking how we create and capture value."

Emma's experience mirrors what I've seen across dozens of PE-backed consulting firms. Let me share the practical lessons about what actually works, and importantly, what doesn't.

Reimagining Revenue Growth

When Transform Consulting first partnered with PE, they pursued traditional growth levers - hiring more partners, opening new offices, chasing larger projects. Six months in, they were growing but burning cash and straining their delivery capacity.

The turning point came from a deep analysis of their client economics. They discovered that their most profitable clients weren't their largest. Instead, they were the ones using multiple services through structured engagement models.

This insight led to a fundamental shift in their approach. Rather than pricing project by project, they created tiered advisory programs. Their entry-level program combined quarterly strategy reviews with monthly implementation support. Their premium program added dedicated advisory teams and priority access to specialist expertise.

The impact was dramatic. Average client revenue increased from £280,000 to £650,000 in eight months. More importantly, their cash flow profile transformed - clients paid quarterly in advance rather than monthly in arrears.

But the real breakthrough came from their approach to the mid-market. Instead of delivering custom solutions, they created standardized service packages. Each package combined proven methodologies with fixed deliverables and clear pricing. This not only improved margins but also accelerated sales cycles - prospects could understand exactly what they would receive.

The Operations Paradox

Here's a counter-intuitive insight: the firms that grow fastest under PE ownership are often the ones that slow down first to rebuild their operations. Let me explain why.

Consider Vertex Advisory, a technology consulting firm I worked with last year. Their first six months under PE ownership were frustrating. While their competitors rushed to hire and expand, they focused intensely on their delivery model.

They mapped every step of their client engagement process, from proposal to final delivery. This revealed surprising inefficiencies. Senior consultants were spending 40% of their time on tasks that could be standardized or delegated. Project margins varied by over 30% for similar work.

Their solution was comprehensive but practical. They created detailed playbooks for common consulting scenarios, combining best practices with clear delegation guidelines. They built a small team of delivery specialists who managed project logistics and documentation. They implemented smart resource scheduling technology that matched consultant skills to project requirements.

The results were transformative. Average project delivery costs fell by 25%. Consultant utilization rose from 65% to 78%. Most importantly, they could now scale without sacrificing quality or margins.

Strategic Market Expansion

Most consulting firms approach market expansion geographically. The most successful ones I've worked with think differently - they expand by problem domain instead.

Atlas Partners provides a masterclass in this approach. Rather than immediately opening new offices, they identified three vertical markets where their existing skills could create exceptional value. They started with healthcare technology, a sector several PE portfolio companies operated in.

Their approach was methodical but fast. First, they hired two senior experts from the sector - not as traditional partners, but as sector knowledge leads. These leads spent their first three months purely on knowledge development, creating detailed maps of sector challenges and solution frameworks.

Meanwhile, they leveraged their PE firm's network to arrange workshops with portfolio company executives. These sessions weren't sales pitches - they were collaborative problem-solving exercises. The insights gathered shaped their service offerings and identified immediate opportunities.

Within six months, they had developed healthcare-specific versions of their core services, supported by sector-specific methodologies and benchmarking data. Their win rate on healthcare proposals rose from 22% to 58%. Average project values increased by 85%.

Measuring What Matters

Most consulting firms track dozens of metrics but focus on the wrong ones. The best firms I've worked with concentrate on leading indicators rather than lagging measures.

Take Client Health Scores. Rather than just measuring satisfaction after projects, leading firms track engagement patterns - how often clients access their knowledge platforms, attendance at advisory sessions, interaction with multiple service lines. These metrics predict client retention and growth opportunities months in advance.

Similarly, rather than focusing solely on consultant utilization, they measure capability utilization - how effectively they're deploying their proprietary tools and methodologies across projects. This reveals opportunities for service innovation and identifies scaling constraints early.

The most sophisticated firms also track what I call "value creation velocity" - how quickly they can convert new insights or capabilities into scalable client solutions. This becomes a critical predictor of long-term growth potential.

Looking Forward

The next chapter examines how to prepare for exit - whether through sale to another PE firm, strategic acquisition, or IPO. This preparation should begin well before any transaction discussions.

The most successful consulting firms view their PE partnership as a transformation opportunity rather than simply a financing event. They leverage PE resources systematically, evolve their teams thoughtfully, and execute growth initiatives methodically.

Chapter 4: Building Lasting Value

Three weeks ago, I sat with James Chen, founder of a digital consulting firm, as he signed his second PE deal. His initial £8M stake had grown to £42M in four years. "The secret," he told me, "wasn't just growing revenue. It was understanding how PE firms value consulting businesses differently."

This conversation captures what I've learned from guiding firms through PE partnerships: the path to exceptional value creation is counter-intuitive. Let me explain why.

The Hidden Value Multipliers

Most consulting leaders focus on revenue growth and EBITDA margins after their PE deal. While important, these metrics alone rarely drive outstanding returns. The firms that achieve exceptional valuations - think 14-16x EBITDA rather than 8-10x - take a different approach.

Consider Sarah Thompson's technology consulting firm. When I first met her, she was driving hard for revenue growth through traditional consulting projects. Her firm was growing at 25% annually, yet their multiple hadn't moved. We reorganized their approach around what I call the "hidden value multipliers."

First, they productized their cybersecurity assessment methodology. What started as a standard consulting offering became a scalable service combining proprietary software with consultant expertise. Gross margins jumped from 45% to 68%. More importantly, their valuation multiple expanded by two turns.

But the real breakthrough came from their approach to client relationships. Rather than pursuing project-by-project growth, they created industry-focused subscription programs. These combined quarterly strategy reviews, monthly advisory sessions, and ongoing access to their knowledge platform. Within 18 months, 40% of their revenue was recurring. Their multiple expanded another three turns.

The Leadership Paradox

PE ownership creates a fascinating leadership challenge. You must simultaneously step back from daily operations while deepening your involvement in strategic areas. Most consulting leaders get this balance wrong.

Michael Roberts, who built a successful strategy consulting practice, shared his experience: "I thought PE ownership meant focusing purely on high-level strategy. Instead, I learned that I needed to be deeply involved in three specific areas while completely letting go of everything else."

These three areas proved revealing. First, he spent 30% of his time with the firm's top 20 clients - not delivering work, but understanding their strategic challenges and spotting growth opportunities. This led to two major service line expansions that doubled average client revenue.

Second, he dedicated one day every week to talent development - not through formal programs, but through one-on-one mentoring of future leaders. This created a leadership pipeline that supported 40% annual growth while maintaining quality.

Third, he focused intensely on intellectual property development. Every month, he led a two-day session with senior teams to codify their methodologies and create proprietary tools. This IP foundation later supported international expansion through local partners, dramatically accelerating growth.

The Scale Paradox

Here's a counter-intuitive insight: the fastest-growing consulting firms often destroy value by scaling too quickly. Let me explain why.

A strategy consulting firm I advised was growing 50% annually through aggressive hiring and new office openings. Yet their value was actually declining. The problem? Their delivery model wasn't scalable. Each new client required custom solutions from senior consultants. Growth was consuming cash and squeezing margins.

We rebuilt their approach around what I call "scalable excellence." First, they created standardized solution frameworks for 80% of client situations, allowing junior consultants to deliver effectively. Then they developed a modular delivery approach, combining standard components with customized elements. Finally, they built technology tools that automated routine aspects of their work.

The result? Growth slowed to 30% annually, but their valuation multiple expanded from 9x to 14x EBITDA. More importantly, they generated cash while growing, funding further expansion internally.

Preparing for the Next Phase

The most successful consulting leaders start preparing for their next transaction immediately after closing their first PE deal. Often this involves thinking about the firm differently: how will you build not just higher profits but a significantly higher multiple (on top of the 'size' premium).

These days, there is a huge opportunity for this value to come from productizing, building IP such as databases, SaaS, online resources such as training, or simply productizing your services. This is risky, so you should seek lots of advice before investing[3].

Not through explicit exit planning, but by building what I call "sustainable premium value."

Consider David Anderson's healthcare consulting firm. From day one after his PE deal, he focused on building transferable value. He developed a proprietary database of healthcare metrics that became industry-standard. He created an automated solution design tool that captured senior consultant expertise. He built a training academy that could rapidly develop new consultants.

When he sold to a strategic buyer five years later, these assets commanded a 16x multiple - well above market standard. The buyer wasn't just acquiring a consulting firm; they were purchasing scalable intellectual property and proven value creation systems.

Looking ahead, I see the consulting industry bifurcating. Generic consulting skills are becoming commoditized. The firms that will command premium valuations are building unique, scalable capabilities that solve specific industry problems.

[3] You should also read Eisha Armstrong's *Productization* and *Commercialization* books. They are excellent.

Appendix 1: Questions to ask potential private equity investors

Here are my top 20 questions to ask PE when you're in the market:

1. What is your investment thesis for our firm and this industry?
2. How do you envision scaling our firm? What growth strategies have worked in your previous consulting firm investments?
3. How do you balance growth initiatives with maintaining the firm's culture and identity?
4. What role do you see for the current leadership team post-investment?
5. Do you have experience investing in boutique consulting firms or professional services?
6. Can you share case studies of similar firms you've worked with and their outcomes?
7. What is your perspective on market trends affecting boutique consultancies, and how can you help us capitalize on them?
8. What specific value will you bring to our business beyond capital?
9. How do you approach operational improvements and cost management in service-oriented firms?
10. What support do you provide for client acquisition, geographic expansion, or digital transformation?
11. What is your proposed valuation and deal structure?
12. Are you seeking a majority or minority stake, and why?
13. What is your typical timeline for exiting an investment?
14. How do you typically structure earnouts, incentives, or equity rollovers for leadership teams?
15. What level of involvement will you have in day-to-day operations?
16. How is decision-making divided between the PE firm and the management team?
17. What access do you provide to your network of industry experts, advisors, or potential clients?
18. Who will I be dealing with from your team? Can I speak to firms they have previously managed?
19. Can you provide references from CEOs of your current or past portfolio companies?
20. What are your expectations for an exit, and how does that align with our vision?