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Strategy and planning for growth

What are investors and acquirers looking for?

Buyers ideally want strategies that produce sustained, growing revenues for at least three years and projections of the same for a subsequent three years. Ideally, past growth will be smooth as this reassures buyers about the predictability of future revenue. Generally, revenue *growth* is more important to buyers than absolute revenues or even margins because the former indicates a growing market and safe management. A firm with zero growth can still sell, but will generally attract half the price of a firm with revenues growing at 30% a year. A minimum of 20% EBITDA growth for the previous three years is usually sufficient to drive a good price (see Table 3.1). Double the number of buyers would reject a firm because of low growth compared to low profits (Equiteq 2014), and for every 10% increase in annual EBITDA growth the multiple goes up approximately by a factor of one.

When growth drops or even reverses during a sales negotiation, buyers often pull out or want to renegotiate. The multiples in Table 3.1 are averages and it should be stressed they can be as high as 30, depending on the niche and

Table 3.1 EBITDA growth and valuation multiples¹

<i>EBITDA growth (p.a.)</i>	<i>Strategic buyers</i>	<i>Private equity</i>
No growth	5.9×	6.1×
10%–20%	7.9×	7.6×
20%–30%	9.3×	8.5×
30%+	10.5×	9.2×

intellectual property (IP). In terms of the minimums, according to Equiteq (2017), buyers get concerned by EBITDA lower than 14%. However, this is mediated by the strategic positioning of the firm and the economic climate. I am generalising somewhat here, but typically 50% of revenue will be spent on the delivery of services, 30% on overheads (cost of sales and administration), leaving 20% for EBITDA. Firm owners might be wise to consider investing any EBITDA above 20%–25% into growing revenues.

In terms of strategy, founders with the intention to sell often forget that strategic buyers are generally more interested in filling a *specific* gap in their offering than the revenues or profits of the target firm. The latter are important of course, but more as an indicator that the target's offering is sound and less as an investment opportunity. This is why, when valuing firms, M&A specialists tend to have more qualitative than quantitative indicators.

The gap that strategic ('trade') buyers seek to fill is often quite specific. Examples might include a digital maturity benchmarking service to generate leads for a digital transformation firm; a strategy boutique for distributors to extend the reach of a strategy firm focused on food retail; or an Asian supply chain consultancy to follow the international clients of a similar European firm. Generally, there is a specific gap in the buyers' services, sectors or geographies that the acquisition will fill – most commonly a service which can be cross-sold to the buyer's existing clients. Private equity buyers are less bothered about a specific gap and more interested in a machine that will continue to generate high-margin, relatively predictable growth. To a great extent, your ability to achieve this will be dependent on delivering the right kind of services (high-margin, protected and leveraged) with the right clients (large, repeat business, multinationals, ideally with board-level clients).

Aside from the strategy itself, buyers appreciate a solid strategy *system*. Timetabled, structured and quality processes for competitor analyses, growth plans and strategy formulation will be looked upon positively as well as having a real benefit for your strategising. It is also important to remember that strategy is not just a process; it is also manifested in the assets of the firm which provide competitive advantage. Examples include a business model which maximises innovation (see Elixirr), a culture which attracts and keeps rare talent (see Exellys) or a brand which delivers superior margins (see Water Street Partners). Before unpacking this rather daunting list, let's provide some context to strategy in small consulting firms.

Your strategy

The strategic advantage of small firms

Whilst it is easy to focus on the drawbacks of competing with bigger brands, virtually all small professional service firms have some advantages over larger competitors. They have a lower cost base, because they generally do not need riverside offices in major cities to impress clients. Unlike large firms, which have to be manoeuvred like an ocean tanker, small firms are also more agile, able to change their value proposition and marketing almost overnight. Small firms can also offer a greater level of independent decision-making compared to listed companies which generally results in more focus on high-quality delivery and less focus on sales at any cost. As one founder told me:

When I was at KPMG, it was constantly about upselling and cross-selling. It's nice to be able to focus simply on what the client needs, and that is one reason why we have been so successful.

Finally, and as a consequence of the previous point, smaller firms can also pursue a business model that does not depend upon leveraging young graduates. Although this is certainly an approach that smaller firms can take, many (for example, Evolution Partners) choose to focus on highly experienced hires, supported by IP that provides additional value. When reading the sections below, it is worth remembering these advantages and making the most of them. During the COVID-19 pandemic, it amazed me how many small firms failed to pivot their offerings quickly enough to make up for lost business elsewhere.

Defining strategy: digging your moat

The term 'strategy' is often misunderstood as defining the point that the firm wishes to get to. If only it were that simple! In reality, firms are constrained by their resources, environment and competitors, and must usually make do with the limited choices open to them in order to create a ongoing revenue streams. The closest definition to this I have seen is that strategy is a set of *self-reinforcing choices that provide sustainable competitive advantage*.² The key phrase here is *self-reinforcing*. The options that are available to the small firm must be mutually supportive, so they generate a virtuous cycle by which strengths and uniqueness are continuously improved. This is why there can be different successful strategies in the same market. In the dining market, a successful company can be a Michelin-starred restaurant, a chain of burger vans or a

McDonald's franchisee, and each will have wildly differing strategies. In the consulting world, David Maister noticed something similar over 30 years ago: different leverage ratios had implications for the ways in which different aspects of the firm such as recruitment, promotion, training and delivery reinforced each other.

A good strategy will provide your firm with a competitive advantage – a 'moat' against the competition. From the successful firms I have researched, this might be innovation, service performance, client satisfaction, cost, IP, service performance or even the network/relationships the firm has. Whatever it is, it is important that all your capabilities work together to make this advantage as great as possible.

In my teaching and coaching, I have generally used the questions 'Why?', 'What?' and 'How?' to identify the main self-reinforcing components of a consulting firm's strategy,³ and I flesh these out in more detail in the next sections.

Why?

What is your why?

Being clear on *why* you want to grow a consultancy is crucial if the next few years' hard work is going to be worthwhile. What are your life goals? How does growing a consultancy fit into these? My interviewees tended to give three overlapping answers to these questions, with a different emphasis for each founder:

- **Creative freedom:** entrepreneurs want to create new (successful!) things, think for themselves and have confidence in their ability to do things better outside bureaucratic company structures. Many of the founders were serial entrepreneurs who constantly wanted to do things differently.
- **Financial ambition:** whilst few admitted founding the company for purely financial reasons (there was one exception) it is important to be realistic about the financial gains. After advisory fees, limited success in the earn-out, sharing the cheque with others and tax, an average sale will net the average founder around £1.5 million. Since, on average, it takes 12 years to sell a firm and another two to three for an earn-out, this equates to around £100,000 for each year⁴ on top of the founder's salary. This is considerable, but a fraction of what a Partner at a Big Four firm would earn annually (typically around £800k).

- **Workplace values:** many founders were prompted to start their own firms after leaving firms that were unpleasant to work in. As one founder told me, ‘we felt that if you’re going to work somewhere for the next twenty years you may as well make it as pleasant as possible’. Others stressed being able to deliver quality projects for clients without the pressure of ‘upsell’.

It is well worth writing down your ‘why’ and sticking it near your workstation because this will impact your choices at every stage. What will your exit strategy be and, if selling, your target price? What role will you occupy in the firm? What will the culture of your firm be, and will you choose to grow beyond the ‘sweet spot’ when systems and processes begin to take the place of interpersonal relationships? The ‘why’ will influence all of these choices, and it is to these questions that we now turn.

What is your firm’s why?

Given the cost of attracting clients and employees, loyalty is crucial to the small consulting firm. The companies that really excel in driving loyalty, those that inspire customer tattoos and employees who would work for nothing – from Harley Davidson to Apple, Disney, Google and Lego – are those who start with the *why* and not with the *what*.

The ‘What?’ refers to the facts and features: What do you want to achieve? What income are you aiming at? What growth rate do you need? What are your services? What features do they have? These are necessary questions, are secondary to, and follow from, the ‘why?’ question.

Fortunately, there’s a slew of evidence showing that buyers and employees generally choose on the basis of emotion and then retroactively justify on the basis of logic. This is why your ‘Why?’ is so important. The ‘Why?’ questions concern the emotions: Why do you get out of bed in the morning? Why should anyone care? Why would an employee work for you? Why would I give you my trust? It is much deeper than what you do; it’s about what you believe and how you make people feel.

Consider the emotional quality of successful campaigns:

- BMW: Designed for Driving **Pleasure**
- General Electric: **Imagination** at Work
- Disneyland: The **Happiest** Place on Earth
- Samsung: **Do** What You Can’t
- Apple: Here’s to the **Crazy** Ones, Think **Different**

When the meaningful and ambitious *why* of such slogans is actively translated into company culture, practices, values and marketing (which, to be frank, is rarely the case) it can create an emotional and instinctive bond between the company, its employees and its clients.

This is crucial for you because as a small growing company, you don't have a brand name that is going to inspire loyalty. As Steve Newton, founder of Elixirr said to me, 'one of the steepest learning curves to overcome...is that you're without the power of a calling card'. Yet even though his firm, Elixirr, hires around seven graduates a year and employs only 130 staff, each year they get over 1,000 applications from Oxford and Cambridge – many of whom would choose Elixirr above McKinsey, Bain or Deloitte. A primary reason for this is their culture.

Culture, values and purpose

In my view, creating and articulating a strong culture can benefit a firm as much as any financial, marketing or pricing strategy. The most successful firms I interviewed not only had strong cultures but were great at communicating cultural values in their messaging, brand and marketing. Elixirr's culture emphasises innovation. Solidiance was more aggressive – 'We fight to win', 'We punch above our weight', 'We like rough industries' – whilst Secure State emphasised a fun and a laid back approach. Others focused on being practical and hands-on, being the best in the market, the smartest in the room, the most ambitious for the client or on being honest and frank.

As we discuss in Chapter 8, culture is *especially* important for the small firm. You need to give great consultants a compelling reason to work for you rather than going to a well-known firm or starting up by themselves. In addition, a strong culture means that people know how to behave without detailed rules and prescriptions: this is especially important when the firm scales and the risk of bureaucracy stifling innovation increases.

A great culture, as we discuss later, distinguishes your firm from the vanilla cultures of larger firms. If you examine the espoused values of the large firms, they are loosely the same (integrity, teamwork, diversity, blah blah). This is because they need to play safe and appeal to the mass market. You don't have this problem, and in fact, if you try to compete with vanilla, you're likely to fail. For this reason, it is worth having an honest, frank discussion about what your values are and the type of culture you will create. I emphasise honesty here, because if you are inauthentic you will get found out, and those that

find you out will sometimes post their findings all over the internet. There is no point saying you have a culture which values work-life balance if your high-leverage business model means that juniors are hammered or saying that ethics is fundamental to the company if you do PR for the coal industry. Clients and employees can sniff out disingenuous firms, and you are likely to lose both.

In addition to honesty, there are other basic principles when thinking about the values you prize:

- Don't have a long list. Five is better than ten and three is better than five.
- Think about what you *don't* want on the list.
- Focus on what makes you unique.
- Think about what clients you *love* working with (and those you don't).
- Think about what type of people you want with you (and those you don't!).
- Don't be vanilla.

Again, to embed your values into the firm's culture, they need to be consistently and universally demonstrated by leadership and woven into all aspects of the firm, from recruitment and promotion to client selection and branding. Values also need to be reinforced by the traditions of the firm and the competences it prizes as well as the symbols and artefacts of the culture. However, nothing is more important than *behaviour*. Let me illustrate this with an old story.

In 1966⁵ researchers put five monkeys in a cage with a ladder leading to some bananas hanging at the top of the cage. Every time a monkey climbed the ladder, the whole troupe was sprayed with cold water. Eventually, no monkeys bothered climbing to get the bananas. When the experimenter replaced an original monkey with a new one, the new one tried to climb the ladder but was jumped on by the other monkeys. Eventually, the new monkey knew not to try. One by one, each original monkey was substituted with a new monkey and the cycle of climbing, icy showers and learning was repeated each time. Eventually, there were five monkeys in the cage who had never been sprayed with water but who refused to climb the ladder. None of them knew why. The lesson is that consistent behaviour creates norms, and you are one of the first monkeys (in the nicest possible way).

It is worth taking time out to think about your value proposition, culture and values, and ideally get in an external expert to help you both define this and structure the messaging and branding around this. I have put the presentation I use with my own clients at www.joemahoney.com that will help you with this.

What?

Analysing the market

One thing that often surprises me is how few consultancies, small or large, really take time to understand the value drivers of the client: what does success really look like for the client? What metrics are reviewed most commonly? What would a dream consulting project look like for them? In my experience, most consultants are understandably so focused on the project in hand that they often miss out on a potentially bigger, more impactful and profitable project just around the corner.

I can give you the example of a coaching session I held with a very bright polymath, who had been doing strategy innovation consulting for 15 years but had consistently failed to grow his firm. 'Whenever I get a project, the clients are blown away', he told me. 'My work is out of the field innovative and really works, but the services just don't sell'. I asked him why he was selling those services and not something easier. His answer was 'because it works'. When I asked if he'd ever followed up on his failures, he became very dismissive of clients that could not see his value: 'They're just not that bright. They're risk averse and would rather go with a brand rather than something that actually works brilliantly'. Whether he is right or wrong does not really matter from a sales standpoint! Understanding what clients want and the market trends which affect their wants is crucial if you want to sell.

Here are some questions you can ask yourself when researching a niche or service. By researching, I mean talking to potential and actual clients, and also those who once turned down your proposals:

- What are the current and future big challenges or opportunities of your potential clients?
- Of these, which are CXOs aware of and which do they need help with?
- Of these, which require specialist knowledge, skills or methods that you have or can develop?
- Of these, which will clients seek to solve or exploit with high-margin projects?

In order to research these questions, you might also undertake the following (depending on your budget and maturity):

- Read *Harvard Business Review*, *Sloan Management Review* and *McKinsey Quarterly* for the key trends affecting your potential clients.
- Fund external research (or an MBA dissertation) to do a market analysis.

It is important to recognise two things about the answers to questions about your niche. First, what clients really want changes over time. Clients used to pay a lot of money for transcription services for example, but not so much anymore. Second, wording changes. Consultancies used to charge a lot of money for process engineering. They still do, but it now falls under the umbrella of 'digital transformation'. Like skirt lengths and flares, client and consulting messaging are influenced by trends and fashions. Ignore these shifts at your peril.

Analysing the competition

For a *small* consulting firm, competition is not the end of the world. It shows there is client demand, and it can make you raise your game. Indeed, it is possible to be a successful firm without existing in a unique niche because the consulting market is so huge, often geographically tied and often poorly marketed. Clients never know every firm that can offer a service.

Yet, there is an important caveat for the *growing* firm. This is that there is competition and *competition*. It is fine to have firms that solve the same problems as you, but having firms that solve the same problem, in the same way and in the same sector and region as you, is an issue. As a firm grows and needs more clients, it will increasingly find that it bumps against competitors. If the firm is not differentiated enough, this can lead to a low price ceiling as clients play similar firms off against each other. Worse, you may find that to grow any further, you need to take business away from similar consultancies, and low pricing is the most effective way of doing this if you are not differentiated. The best way to assess your differentiation is to speak to current, past and potential clients. As someone that spent a few years buying consulting services in the private sector, it amazed me how similar most proposals tended to be.

For this reason, doing research on the competition is crucial. Firms that do frequent research grow 12 times faster than those that do none, and are twice as profitable.⁶ Of course, there is the possibility of reverse causality (i.e. those that are more successful can afford to do more research), but in my experience many firms over-estimate their knowledge of client markets and competitors. Research has shown that there is only a 25% overlap between who clients and consultants think the competitors are.⁷ This means that it is worth asking clients (and associates) who *they* think the competition are, and also keeping an eye on any press releases – or, in the public sector, tender awards – so you know who you're really competing against.

Competitor assessment should be done as part of your annual strategy review, but also when there are significant changes internally or in the market.⁸ Information on market shifts should be incorporated with feedback from your

clients into continuous improvements as well as more radical changes to your pricing, marketing and service development (all explored later in this book).

In terms of practical advice here, I suggest the following:

1. Develop a prioritised list of your competitors in the eyes of your clients, associates and team. Clients are crucial here, as is their view of your Unique Value Proposition (UVP). You might want to map the competitors on a 4×4 in terms of size and the number of services/markets where they compete. We are consultants after all.
2. Once you have a list of competitors, do a detailed analysis of their services, website and how they do marketing (for example, using sites such as SimilarWeb and SpyFu). This should elicit competitors' paid advertising, key words and social media posts, which will tell you their marketing priorities.
3. For the top 20% of competitors undertake a more detailed qualitative analysis of their website summarising services, markets, UVP, expertise, business model, thought leadership and digital assets.
4. For top 5% of competitors pay an external market research firm (or MBA student) to do a very detailed analysis of pricing, response time, sales process and other 'client experience' measures.
5. Use (2), (3) and (4) to inform your strategy and marketing, both in terms of differentiation (what you can do that is unique) but also imitation (what existing ideas in the market can complement your offering).

As you grow you will find that your competitive landscape changes, as does your ability to compete. As a small firm, there will be many projects that you cannot bid for because of your size or because you cannot afford the time to invest in the selection process. Yet, growth also means that you are competing against the bigger brands and the economies of scale and scope they have built into their systems. Being clear on your differentiation from these brands is crucial both in terms of what you *do* and what you *don't do*.

What is your niche?

It's an easy thing to say 'sell what your clients want to buy', but you would be surprised at how many capable consultants do the opposite. Paul Collins, founder of Equiteq, told me:

Consultants tell me 'I'm really passionate about JIT and lean'. But then wonder why they're getting 500 quid a day and have no demand. You have to morph your subject matter, change your skill set and sell something that is unique.

The 'what' of strategy for consultancies concerns three questions: what is your niche? What is your business model? What is your UVP? We deal with the first of these now and the others later in the chapter.

It has long been known that targeting a specific niche provides a firm with several advantages. As Carman and Lagueard wrote back in 1980,⁹ 'the service firm should not overuse its delivery system and its image by attempting to serve the needs of too many segments'. The first reason is that a niche provides you with competitive advantage in your marketing. An automotive buyer who needs a specialist in supply chain management is more likely to buy from an automotive supply chain consultancy rather than a general supply chain consultancy, because they will perceive them to be more focused on the client's needs. The second is that niche services can attract higher prices. As expertise becomes more specialist, it becomes more valuable. This is why Nurofen Migraine Pain

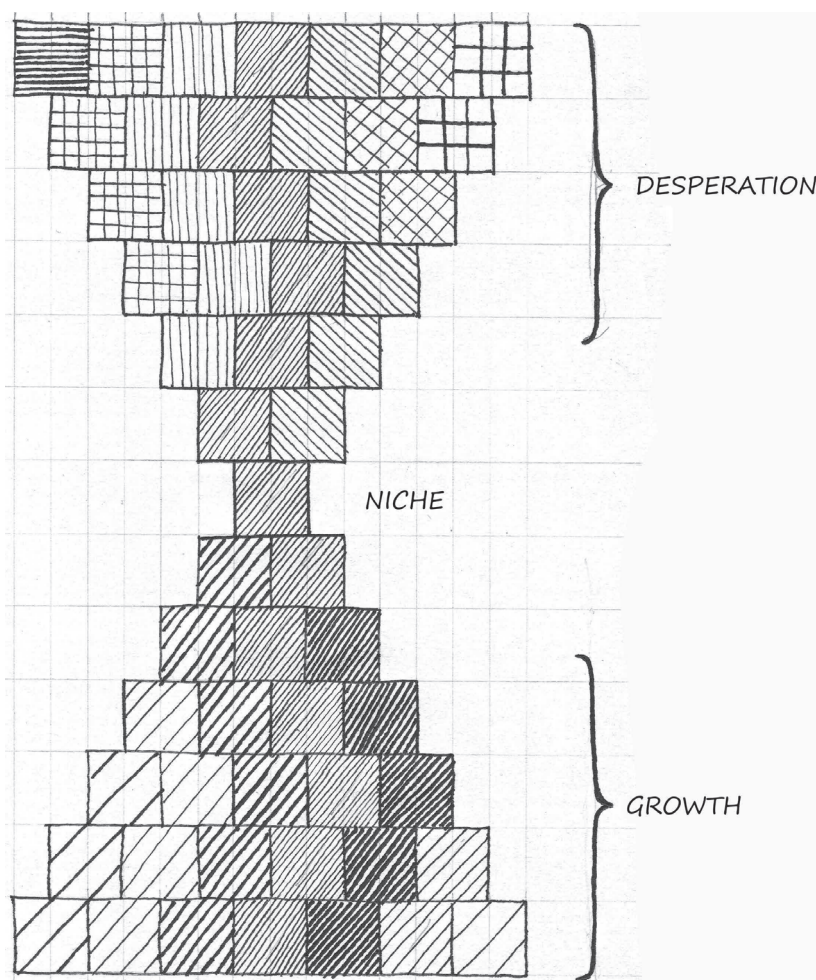


Figure 3.1 From desperation to growth.

or Nurofen Back Pain products sold at nearly twice the price of their standard ‘painkiller’ product, despite being exactly the same thing.

Third, niches can also act as a barrier to the entry of competitors. Solidiance CEO and Founder Damien Duhamel says that ‘we love doing work that is dirty, dusty or rusty because few others want to do it’. They specifically chose business-to-business (B2B) consulting in the engineering sector because it was more difficult for people to gain in-depth knowledge about that: ‘if you are doing consulting about selling ice-cream to customers then everyone can understand that market. But if you’re doing concrete pipes and drill bits between companies, it’s a lot harder to understand’. Finally, the most important reason for developing a niche is that it allows you to accumulate expertise more quickly than if you are spread over several sectors or services. This, in turn, allows you to charge higher prices.

Thus, while growing consultancies rarely start or end with a niche, they do often focus down on a niche before growing sustainably. Typically, an hour-glass shape forms over time (Figure 3.1): initially a firm will often (though not always) need to say yes to things that are outside their core focus, because there isn’t enough business, and they might be experimenting with the market’s responses. This is the start-up phase. As time goes on, repeat business and a growing reputation allows the firm to specialise more, and thus accumulate and codify the expertise necessary for leverage to occur. As Roger Carlile, founder of Ankura, told me, ‘you’ve got to get smaller in order to get bigger’. This is the basis for the growth phase. Once a high-value, high-growth niche has been defined, the scale phase sells that niche heavily and then develops offerings strategically (i.e. the same service in adjacent markets or adjacent services in the same market). This doesn’t mean that you need to focus on one single service. Complementary services that allow cross-selling, follow-on sales, or

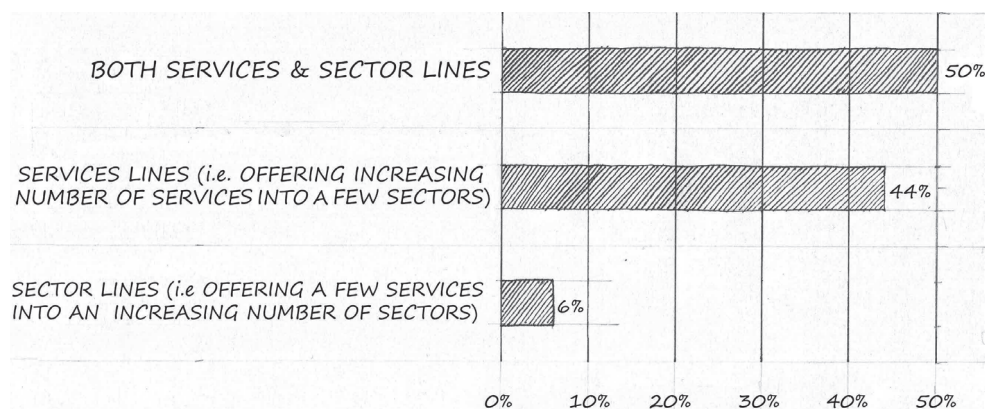


Figure 3.2 How the sample consultancies grew (service vs. sector).

protect against cyclical demand make total sense, even for a small firm. More on this later.

In terms of identifying *what* niche (or niches) a firm should focus on, the usual advice for small firms is to look at the overlap of what one loves doing, is great at doing and can get paid well for doing. I can only give advice on the latter here. Niches have ten different variables, which we discuss throughout this book. These are:

1. Service offering
2. Sector specialism
3. Market focus
4. Buyer role
5. Client/project size
6. Geography
7. Business model
8. Culture and values
9. Pricing model
10. Method/approach

Areas which are traditionally the highest paying for consulting work are listed in Table 3.2, but these change and are highly dependent on the country and the economic cycle. For example, a US list would include healthcare, but a UK list would not. Another caveat is that it is possible to carve out a profitable niche in pretty much any *sector*. I have seen highly profitable consultancies that specialise in, for example, public sector digital transformation or higher education strategy work. The same is not true for the *service* offered: it is extremely difficult to make high margins doing process or standard HR work, though there are some exceptions. Later in Chapter 5, I argue that the logic of moving into new markets and services is as important as the initial niche in which the firm begins.

Table 3.2 The highest paid consulting sectors and services

<i>Sectors</i>	<i>Services</i>
Banking and Finance	Strategy
Energy	Finance
Technology	Mergers and Acquisitions
Pharma and Biotech	Digital and Technology

It will also help growth if your firm, initially at least, focuses on one (ideally CXO) target buyer role. Research by Hinge¹⁰ found that high-growth consulting firms were 55% more likely to specialise in serving a specific role in client firms.

In terms of focus, many advisors argue that it is better to be in the painkiller business than the vitamin business. In other words, clients will pay more to move away from pain than they will to move towards future benefits. Personally, I haven't seen much evidence to support this. Clients pay well for advice on innovation, strategy and M&A and less well for cost-reduction services; I think that marketing a sense of hope and possibility is actually more attractive to many clients than talking about specific pain points.

The other market feature worth noting is that, in my experience, there is an increasing gap between the pricing of high-value work (important work that clients cannot do for themselves) and low-value work (discretionary work that clients could do, but don't have the people to do it). As I emphasise in the next section, this is one of many good reasons for taking a high-quality/high-cost niche positioning rather than the opposite. This is a trend that I feel the growth of AI-based services will exacerbate.

Before we get off the subject of niches, I want to finally stress that the niche of your firm is also highly relevant to the multiple of EBITDA that you will be paid (covered in Chapter 9). For investors, the *category* of your firm is important. For example a training firm will attract a typical multiple of 5–6 times EBITDA, a consultancy will attract 7–10, whilst a software firm will attract a multiple of 10–20. As Greg Alexander of Capital 54 told me, his firm was initially categorised as a training firm and he worked hard to get it marketed and positioned as a consultancy in the minds of buyers.

Compete on quality not cost

Sarah Matthew, founder of Virgo Health, told me of her philosophy when she first started out: 'we were determined that you focus on doing the best job you can possibly do and looking after your team and everything else follows'. This sentiment was echoed by the majority of my interviewees – the importance of focusing entirely on quality in the pursuit of growth. To this end, a statement from 40 years ago that 'a low-cost strategy is not a viable one for the Professional Service Firm'¹¹ is still valid today, though with some caveats. With few exceptions, all consultancies should seek to compete on the quality and the perceived quality of their work, except when the consultancy has a cost advantage over its competitors. When a smaller consultancy competes on prices, several bad things happen.

First, and most obviously, margins are lower. This hits partners in their pockets, but also means there is virtually no cash flow for growth, training, decent salaries or investment in company assets. Second, low-cost services tend to be the lowest skilled and the most commodified of offerings, and thus not only suffer from low transaction costs (clients can easily swap one provider with another) but are also most likely to be replaced with internal, automated or outsourced alternatives. The race to the bottom is not simply between low-value consultancies. Third, successful bids will suffer from a variant to winners' curse: underbidding for work that is likely to result in poor quality delivery and reputational damage, if not disputed fees. Finally, working with low-cost consultants on highly commodified projects and worrying about cash flow is unlikely to be the reason you gave up a comfortable job with a pension.

Now, high quality doesn't necessarily mean highest price (that is usually reserved for McKinsey & Co.), but there are exceptions to doing high-cost work. For the very new consultancy, with no clients in hand, it may be worth doing a few selected low-cost engagements¹² to get experience and testimonials, but this does not mean delivering low quality! Additionally, if you are venturing into a new, promising client or service area, expect to develop useful IP and skills from low-cost engagements. Low-balling can even be a strategic way of potentially influencing a larger purchase down the line.¹³ Additionally, you can compete on cost if your own costs are lower than the competition, if you have particularly efficient leverage, if your standardised work is done in a low-cost country or your use of technology decreases operational costs. Even then, you might ask if low-cost work is really what you want to spend your time doing.

While we're on the topic of quality, it is also worth stating something that few founders like to admit: that quality of delivery often diminishes at two points. This can first happen when work is no longer delivered exclusively by the partners, and second, when partners stop directly reviewing the deliverables. As we discuss later, this is where productisation/commodification and culture are essential, but even with these in place, it is likely that the sheer effort that start-up founders put in, in order to delight every client, is unlikely to be replicated by salaried staff. This said (another heresy coming) a drop in quality is not *necessarily* a bad thing in a growing firm if that quality was achieved by unsustainable utilisation rates. In pursuit of more leveraged, commodified services, a growing firm may need to sacrifice quality achieved through over-work for more predictable, systematic methods and outcomes.

Your Unique Value Proposition

"We have great clients, and we have great consultants. Sure. Who's gonna say we have crap clients and consultants?". Paul Collins has seen hundreds of

firms sell and seen many fail. Most small consulting firms will tell you that they have great people. If they only have one person, the solo practitioner, they will generally tell you how great they are. You may read about the founder's dog or scuba diving qualifications but, do excuse my bluntness – *no one cares*. The time-pressed potential client certainly doesn't care and won't understand why you are telling them. Slightly better are the consultancies that tell you what they do – the services they provide and their features. The trouble is that the 'so what?' question still remains unanswered because you haven't told the client what the service means for them. If car manufacturers sold their cars through descriptions of what service is provided, the ad copy would generally read 'gets you from A to B'.

What is important to stress is what the service will do *for* clients. What value and benefits will they receive? This is as much about delivery and client perceptions of your value as what services actually do. This is your value proposition. If your value proposition is not at least relatively unique, you are more likely to end up competing on price, which can mean a death spiral of deteriorating quality and prices.

There are very diverse and often conflicting understandings of value propositions. My definition is more abstract than the specific services that are offered and encompasses the entire purpose, culture and personality of the firms:

Why should clients select your firm?

At a superficial level, this is about the 'elevator pitch' and the strapline that is usually mentioned when discussing value. These are important, not necessarily because they will win you clients, but because they provide a clear, short vision of why clients would select your firm rather than the competition (Figure 3.3).

At a deeper level, your UVP will reflect the convergence of your culture, brand, leadership style, services marketing and people. Your value proposition is not set in stone and may shift in response to major changes such as recessions, changes in corporate form, expansion or simply in response to significant market changes. Ironically, your UVP also does not have to be unique. It simply needs to be rare enough that most of your clients won't encounter the same statement. The UVP is 'the tip of the spear': the information clients need to know why your firm is different.

It should be stressed that developing a serious UVP necessarily limits your market. It means that you are no longer vanilla. You are cookie dough gelato, and some people won't like it. Since you are not competing with everyone, you should embrace this as a good thing. You are now more exclusive and expensive. You know who your clients and potential employees are and understand

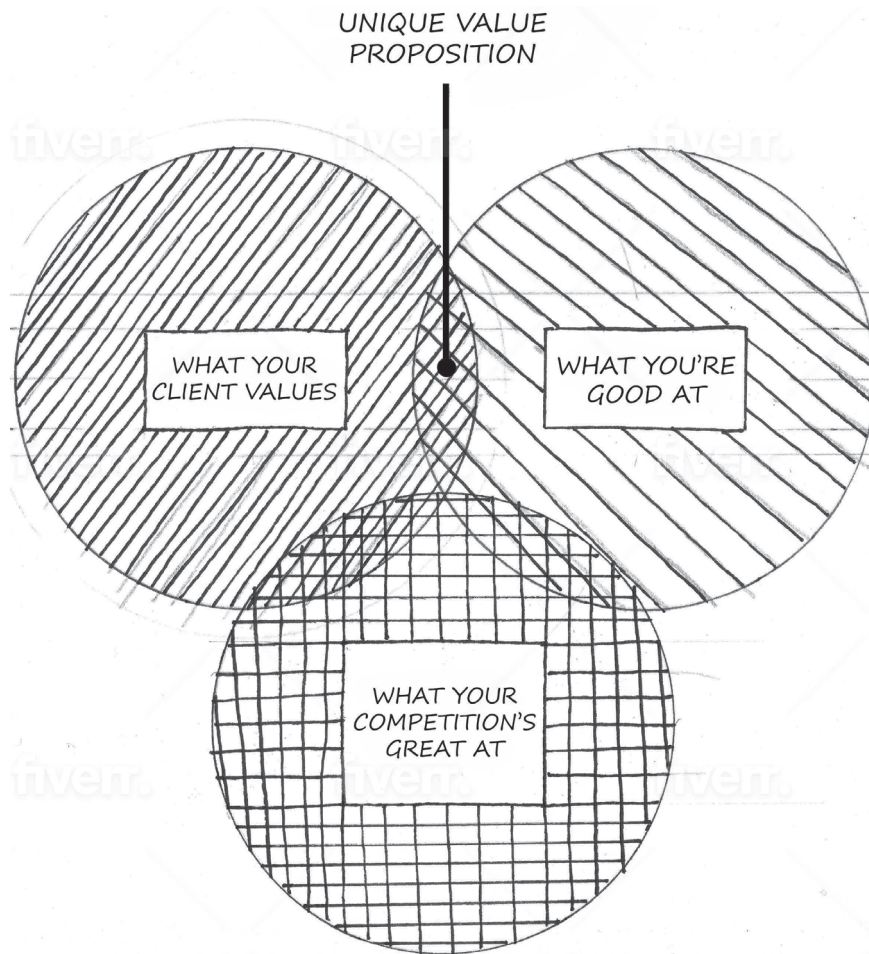


Figure 3.3 Your unique value proposition.

the value you bring them. For this reason, as we shall see, it is important to know what you won't do, who you won't work with and who you won't employ (no matter how 'good' they are).

It's up to you how you define your UVP, but I personally like the version that provides a strapline followed by a sentence or two of description:

Prof. Joe O'Mahoney helps small consultancies grow faster and better. His trusted, research-based method for growth helps your firm learn from the mistakes and successes from over 100 successful consultancies: maximising margins and revenue whilst decreasing risk and worry.

Breaking this down, we can see that UVP answers:

- What do you do brilliantly and (relatively) uniquely for your clients?
- How do you do it differently from others?
- What benefits will the client gain?

Figure 3.4 emphasises that the value proposition of a very small firm will bring together the benefits of the firm's services with its strategy and branding. However, it should be stressed that the value of each service is not the same as the value proposition as a whole. As we can see in the examples above, the value proposition is more general, aspirational and market-driven than the details of what your services achieve. This is important because it allows you to shift the value proposition by tailoring the language to suit the current market: from process re-engineering to digital transformation; from quality improvement to Agile; from downsizing to rightsizing.

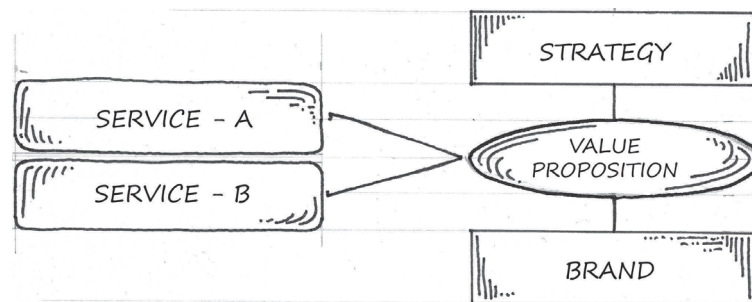


Figure 3.4 Early value propositions.

When the firm is small, its value proposition will be virtually the same as its services. However, as the firm grows, it is likely to develop many more services grouped around more than one value proposition (see Figure 3.5). It is worth noting that not all services map to all propositions, although it is likely that all your value propositions will be related (in order to maximise cross-selling and consultant synergies). Note also that an increasing number of value propositions should be represented by your overarching *strategic* value proposition, which is, in turn, driven by your strategy, and influences your brand and marketing efforts.

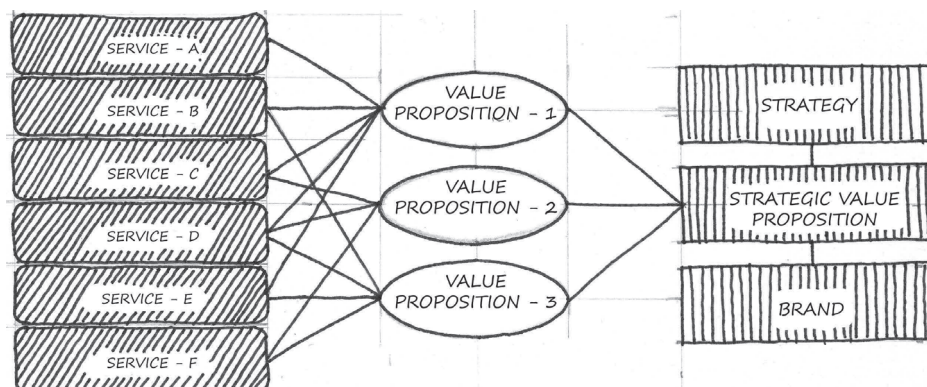


Figure 3.5 Later value propositions.

Here are some examples of a strategic value proposition from the firms I have studied or coached:

- Quick Release: ‘Solving your product data challenges today, and future-proofing your tomorrow’.
- Dartmouth Recruitment Consultants: ‘Recruiting excellence from classroom to boardroom’.
- Ducker Frontier: ‘We deliver the insights you need to capture growth and mitigate risk’.

Visit their websites and each has a short paragraph underneath, expanding on the value that is delivered to the client, how it is achieved and what makes the firm different. The potential client is left in no doubt about the benefits of working with the firm and what sets it apart from the competition.

If you would like access to a workshop presentation on developing your UVP, I have one at joemahoney.com that is freely available.

Leverage

Leverage refers to the ratio of consultants to partners. David Maister saw it as central to the strategy of the large professional service firm. Whilst leverage is still important, especially to larger firms, it is less important now than when Maister was writing, for a few reasons. First, the increased levels of digital technology and the growing use of off-shore centres of expertise mean that the value of teams is based less on the people visible on the project and more on other assets. Second, consulting firms, and to a less extent, clients, are increasingly fond of value-based pricing. Whilst this does not mean that team costs do not need to be tightly managed, it *does* mean that many consultancies are rightly focused on the value they deliver for clients rather than the cost of the resources that deliver this value. Strategically, as we discussed above, it is better to be best rather than cheapest in class. Third, clients themselves are sick of being charged a fortune for 23-year-old MBA graduates with no work experience, and are not afraid to make experience a criteria in their procurement exercises. Finally, service models are changing as consultancy business models change. Joint-ventures, equity investments, shared IP development, expert panels, associate teams, and many other variations on the traditional model mean that a simple ratio of juniors to partners often seems an out-moded method of measurement.

Still, leverage is far from dead. In large firms, some service lines are still heavily dependent on large teams which generate profit per partner in part through their leverage ratios. Yet, a precise leverage ratio is difficult to establish and

Table 3.3 A simple dichotomy of leverage strategies

	<i>Low leverage</i>	<i>High leverage</i>
Service	High-quality, bespoke services usually for strategy or innovation projects. Outcomes tend to be open and hard to measure. Task complexity tends to be higher.	Standardised, repeatable services usually aimed at implementation or operational projects. Outcomes tend to be more specific and often measurable. Task complexity tends to be lower.
Finances	High day rate, high-margin work, but for shorter projects. Costs are higher due to high salaries.	Lower day rate, lower margin work, but for longer projects. Costs are lower due to lower salaries, but can be nudged upwards through investments in IT.
Knowledge management	Knowledge is generally passed through person-to-person relationships. Interpersonal networks are important.	Knowledge is embedded in IP which forms a great part of the standard operating procedure of these companies. IT systems are important for this to be effective.
Employees	The 'brand' of the company and the people within it are important. Top influencers, MBAs, client names and awards signal quality in the market. Focus on expertise, innovation and brilliance. Utilisation rates tend to be lower. Employees tend to demand and be given higher levels of autonomy.	Employees must be able to follow standardised processes. Graduates are not uncommon here, though unlikely from top-flight MBA courses. Utilisation rates tend to be higher. Employees tend to have less autonomy, even up to the middle management level.
Training	Partners are central to mentoring and developing employees on a one-to-one basis. High investment in talent development.	People are trained on the process, usually through IT systems or in groups. Lower investment in talent development.

perhaps a distraction in firms which are either too small to have mature services and more than a handful of teams. I would argue, however, that having a clear idea of what type of firm you *will become* is a crucial part of your strategy and will influence your decisions on who to hire and how to manage. This remains the case even if you don't have enough employees to have a stable leverage ratio!

Whilst most firms fall somewhere between the extremes, it is useful to look at the two opposing strategies for leverage strategies presented in Table 3.3. A low leverage firm such as Water Street Partners demands very high fees per consultant, generally for short-term, high-end strategy and M&A work. As their fees are high, they need to provide, and signal, the highest quality consultants possible: consultant CVs tend to be outstanding and will include well-known markers of quality education and employment, but a higher salary will be needed to attract this talent.

The type of work in high-leverage firms tends to be relatively tailored, high value and innovative. There is, after all, no point paying a fortune for talent who will learn by reading a manual! Skill development, therefore, is at a premium, and tends to be done through partner mentoring rather than outsourced training courses.

Firms with higher leverage ratios on the other hand tend to work on relatively standardised projects (e.g. implementation) where juniors do not need high levels of senior interaction to do their job well. To some extent, the job can be done by following instructions. This type of work is more standardised and commodified, with lower day rates, but projects tend to be larger (albeit with lower margins). The higher numbers of reports per senior mean that significant development time with partners is generally substituted with standardised training programmes delivered by HR or third parties. In terms of talent, astounding CVs which justify astounding fees are not necessary, and creativity is much less valued than someone who can simply follow instructions. This is not to say that their hires do not need to be bright, but with strengths in process rather than innovation.

For firms that rely upon the leveraged model, managing the mix is crucial, especially once they move beyond the 25–35 employee threshold. Before this, partners can often directly mix and manage across the organisation and rely on personal stewardship rather than IP to manage delegation. Beyond this point, however, leverage becomes increasingly important, both in minimising costs and for providing a guide for strategic decision-making in the group. Managing leverage in the project or proposition is still very important if costs are to be controlled and quality is to be maintained. Figure 3.6 shows that if leverage is high on what should be a low leverage project, then quality will suffer. Figure 3.7 shows that if things are the other way around, then profit margins will suffer.¹⁴

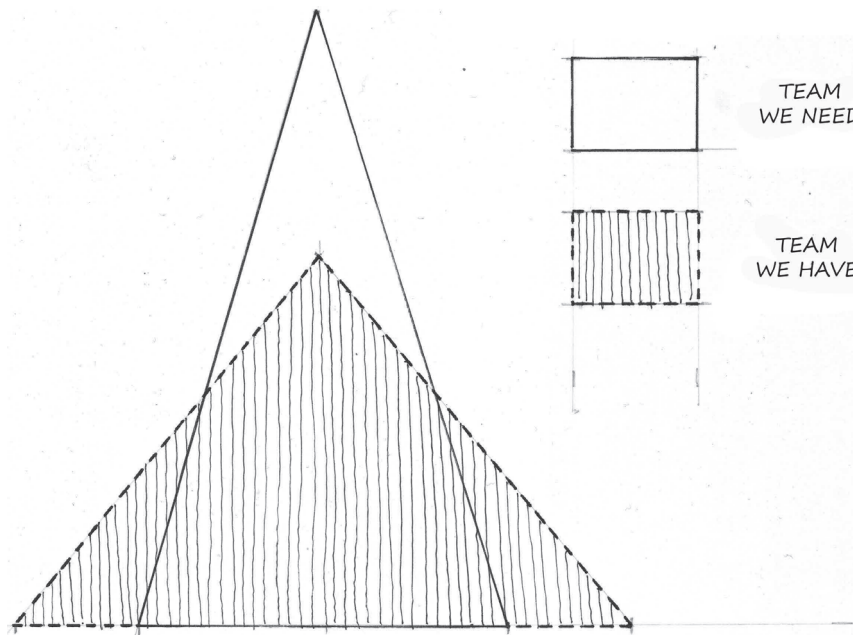


Figure 3.6 Too few skills: quality will suffer.

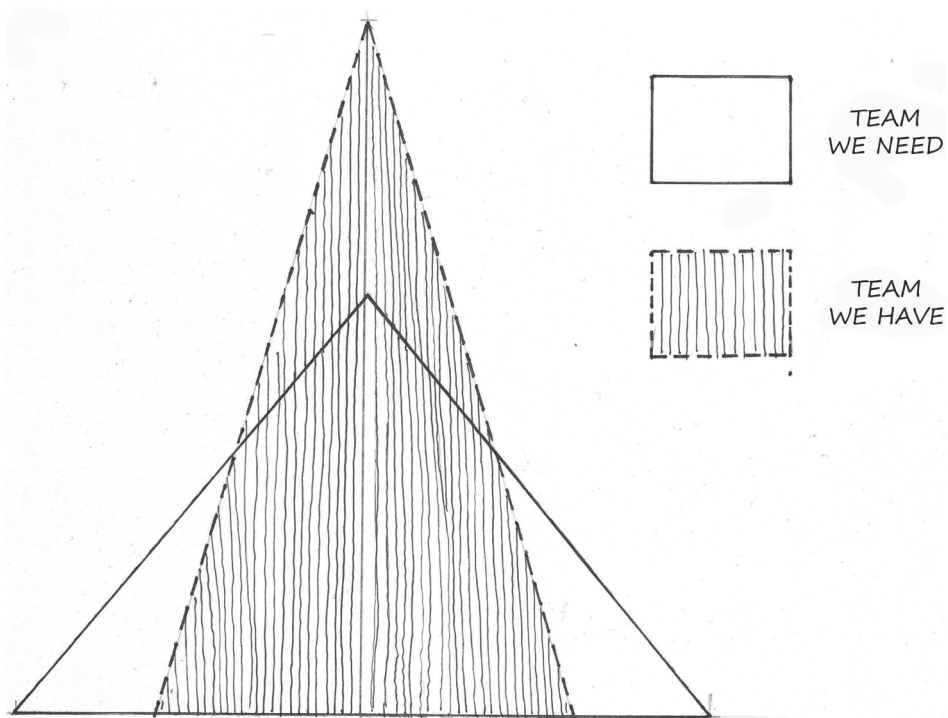


Figure 3.7 Too many skills: wage bill is too high.

In medium-sized firms, managing leverage effectively on the project, and the firm as a whole, is a skill that managers should be taught about and actively reflect on, post-project with reference to the project margins achieved.

Utilisation

Utilisation refers to the percentage of billable time for any consultant. It is a strategic as well as an operational metric. High-leverage firms tend to have high utilisation rates because the work is more commodified and there is less need for employee development and tailoring of services (see Table 3.3 above). Whilst I have anecdotal evidence that utilisation rates over 85% tend to lead to higher levels of turnover, it should also be noted that slight increases in utilisation, especially for juniors, can also have a tremendous impact on margins. In an average firm, which breaks even at 50% utilisation, a 15 percentage point increase on this will allow them to make 20% margins. For this reason, measuring and managing utilisation is crucial (Figure 3.8) so you have a clear view of who is under-utilised, and who may be feeling the stress of being over-utilised.

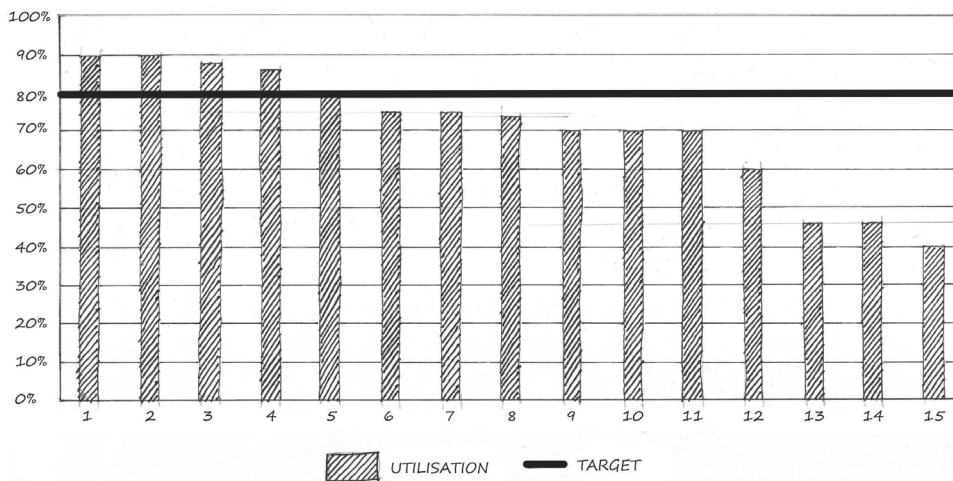


Figure 3.8 Target utilisation tracking.

As detailed above, utilisation must fit with the firm strategy: lower leverage firms tend to provide consultants with more time for IP development, research and training (Figure 3.9). Even in these firms, however, utilisation should be managed effectively. This can be achieved by:

- Using a PSA (see Chapter 7) to measure and record utilisation trends over time.
- Making one partner responsible for the firm hitting utilisation targets.

- Ensuring that pipeline visibility is apparent for one to two months ahead.
- Using employees on the bench before using contractors (although there will be exceptions).

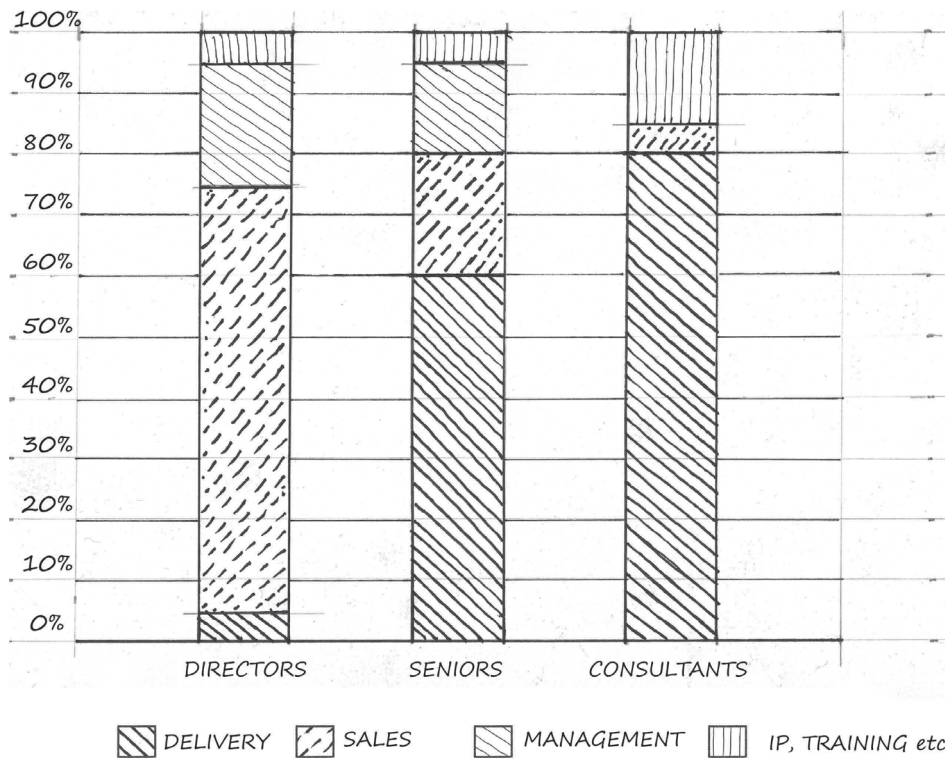


Figure 3.9 Common utilisation targets for different grades.

How?

Business models: move over Maister?

Let us assume 'why' and 'what' are defined, for now. You've got your niche, culture and value proposition sorted, but a fundamental question remains – *how* are you going to win? The answer to this is your business model, which I define as *the way you organise to achieve competitive advantage*.

David Maister, the don of consulting insight in the 1980s and 1990s, defined three business models with different forms of leverage: Brains, Grey Hair and Procedure. Brains and Procedure were, he argued, polar opposites in terms of client risk, fees, leverage, competition with other consultancies and customisation. Grey Hair projects are in the middle (Table 3.4).

Table 3.4 Maister's classifications of consulting companies

	<i>Problem focus</i>	<i>Solution focus</i>	<i>Typical staff</i>	<i>Cost</i>	<i>Leverage</i>
Brains	Complex, relatively unique, one-off problems.	Innovative. Diagnosis intensive.	Intelligent, creative, younger.	High	Low
Grey Hair	Uncommon for the firm but common in the industry.	Expert.	Experienced, older experts. Many partners.	Medium	Medium
Procedure	Common.	Standardised. Execution intensive.	Mostly junior.	Low	High

Whilst I use these simplifications occasionally later on, I would argue that these models have been mixed up considerably by digital technology. Consider Exlirr, who amid the COVID-19 pandemic began publishing daily insightful data-driven presentations about the virus and its impact – most definitely fitting in the Brains box. Yet consider that the value provided was driven by their technologies: APIs to external databases, powerful data analysis software and semi-automated presentation software. It seems to me not only that the Brains, Grey Hair and Procedure models are much more converged now than they were 20 years ago, but also that ‘Procedure’ doesn’t really capture the huge transformation offered by digital to the average consultancy. The early versions of technology that Maister may have seen (for example, ERP) might have fitted with commodified work and low-cost pricing, but this is no longer the case.¹⁵

Moreover, as the ‘built to sell’ model of consultancy growth has gained in popularity, buyers are less keen on investing in firms where the brains or grey hair can walk out of the door after the earn-out period. They now look for IP, such as digital products, but also internal processes and procedures, that shift the asset base of the firm from people to the firm.

There are also other trends that have disrupted Maister’s classifications: the younger age of consulting firm founders, the propensity of buyers to value digital assets and internal processes over key individuals (especially those coming up to retirement), the decline of the ‘master-apprentice’ form of consultancy, the market shift away from strategy and towards digital and the ubiquity of information that was previously the preserve of top firms. I could go on, but let us now focus on more innovative business models which I’ve seen work.

Innovative business models

Despite everything I've written above, it should be noted that the traditional cost-plus, leveraged business model for consultancies is alive and well. Many consulting firms (successful and otherwise) have at their heart a team which costs the partners X and is sold out at 3X or thereabouts. The key to the cost-plus business model is providing systems, resources and training which allow juniors to be safely leveraged to do more valuable work. In other words, the value of the people you offer is increased, and thus the price can be increased.

Whilst the cost-plus business model is still dominant, there are an increasing number of complementary and alternative business models that complement existing approaches. Many fast-growing consulting firms combine traditional consulting with recruitment, training or venturing services. The splendidly named Wyndham Plumtre, founder of The Upside, told me: 'we see ourselves as a talent incubator. Everything else just follows from that. If you've got great people and invest in them, you will get great consulting and great new businesses from them'.

Let's say you are a standard time and materials¹⁶, leverage-based consultancy. These are examples of analogue ways in which you might add to or even supplant your existing business model (we deal with digital opportunities shortly):

- Use a network of skilled associates rather than full-time employees.
- Place individuals or small teams with client employees to support them implementing their own projects.
- Offer expert one-to-one advice rather than project implementation.
- Provide a research-only service and provide recommendations for implementation work.
- Provide a membership network with access to peers, bespoke research and talks and networking events.
- Provide a benchmarking/maturity service.
- Provide accredited training to clients and other consultancies.
- Develop products and services which are licenced to other consultancies or to clients themselves.
- Design the entire company and its services as a franchise for other consultancies and consultants.
- Develop a powerful network with innovative suppliers and act as a broker and advisor for client access.
- Create a hybrid recruitment-consulting firm where high potential hires are trained, used as consultants for a period and then placed as client employees.

The choice for any (or none) of these is of course highly dependent on the firm, its lifecycle and context. Some of these choices are more fundamentally strategic and some are more tactical, but tactical decisions that are successful will often have highly strategic implications. In my coaching, I often find that what has started off as an experiment for clients has become dominant and, in turn, fundamentally transforms what the firm is and how it operates. The key, as we will see in Chapter 5, is to experiment often in small ways, test ideas with 'safe' clients and go all in on ideas that appear to be winners.

B2B service vs. software vs. platform business models

The business models detailed above do not need to be enabled by digital technology, but they generally are. Digital offers an opportunity to deliver value and thus revenue without consultants, thus creating potentially infinite levels of leverage. Over 80% of the firms I studied used some form of revenue-earning digital offering. Sometimes these were stand-alone services such as video courses, apps or software-as-a-service (SaaS), but more commonly they were digital assets that were used by teams in conjunction with their standard consulting work. This includes databases, algorithms and software which they used to add value or reduce costs for the client.

SaaS or apps have potential to break the time-revenue link in a variety of ways (see Table 3.5), and provide the ultimate way of capturing, codifying and improving the firm's expertise and experience.

Table 3.5 Software business model options

<i>How is the software distributed?</i>	<i>Who owns the code?</i>	<i>How is revenue generated?</i>
Local/On-site;	Proprietary (firm);	Licence;
Cloud;	Proprietary (client);	Usage-based;
Hybrid	Open source	Advertising;
		Support-based;
		Transaction fee;
		Freemium;
		Subscription;
		In-app purchases;
		Tiered

Digital has also enabled an alternative innovative business model based on ‘platforms’. ‘Platforms’ simply act as mediators, enabling interactions between synergistic groups, for example, buyers and sellers (Table 3.6). Platforms pre-existed the internet (think auctions) but have been accelerated by developments in technology (think eBay, Amazon, Uber, etc.).¹⁷ I remember back in 2001, losing a strategy argument at ‘3’, the mobile operator, as to whether we should build our own products and services or become a platform for others – the firm went with the former. I’m biased of course, but it is rare that a firm which specialises in X can do Y as well as the Darwinism of the market.

Table 3.6 Traditional vs. digital vs. platform business models

<i>Traditional business product</i>	<i>Digital business model</i>	<i>Platform business model</i>
Newspaper (analogue)	HBO	YouTube
<i>Encyclopaedia Britannica</i> (books)	www.britannica.com	Wikipedia
Walmart (shops)	Walmart.com	Amazon.com
Harvard University MBA	Harvard Distance Learning MBA	Udemy

Whilst platforms are most common in the software world, some consultancies have followed the model to enable interactions between experts and buyers (consider Co-match, Newton-X, Transparency Lab, Alphasights or GLG). One consultancy I have advised for some time, Digitopia, began as a digital maturity consultancy offering one-off engagements, but realised that with some investment, they could create a platform where, for a subscription, firms would have access to a plethora of maturity benchmarks and indexes which could also be built by others but hosted on the platform (for a cut). This transformation accelerated not only their growth but also their attractiveness to buyers, as platforms tend to be stickier and offer higher revenue opportunities than mere software packages.

It is worth considering however that platforms traditionally have two common challenges. The first is ensuring that producers that use the platform produce sufficient quality not to damage the platform brand. Amazon has increasingly had this challenge as cheap sellers flood the platform and buy fake reviews. The second is the chicken-and-egg challenge of having enough users (for example, clients) to attract producers (for example, consultancies) and having enough producers to attract clients.

This all said, the multiples that are paid for software and platform businesses (typically 20–30 times EBITDA) are much greater than for standard

consultancies ($\times 7$ – 12 EBITDA). For consultancies that have the opportunity, an obvious way to push up the multiple is to incorporate revenue-generating software or platforms.

One innovation exercise I've tried with clients is detailed in Figure 3.10. The choices are detailed by the client and it often provokes a good discussion and some new ideas.

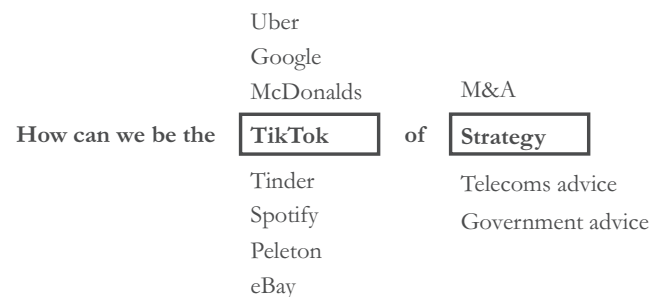


Figure 3.10 Brainstorming innovative business models (example).

Alliances

A few of the firms that I've studied also emphasised how alliances or partnerships with other consultancies helped them grow. These were generally focused on providing a broader or deeper offering to clients where a small solo firm might be insufficient. Alliances or business partnerships often start off as simple mutual introduction arrangements with firms that are working upstream (for example, strategy) or downstream (for example, implementation) from each other or are horizontally aligned (for example, in different markets or functions).

A study in 2021¹⁸ found that alliances and partnerships were likely to fail when there is no clear strategy to the partnership, when insufficient resources are put into the partnership and when there is a lack of cultural fit. Alliances were most successful when there was not only a strong mutual benefit to each consultancy, but also to clients.

To this end, being clear on the purpose and outcomes of, and responsibilities and incentives in, potential partnerships is crucial. A frank conversation with potential partners should be clear on the potential risks and seek to gradually build trust over time through face-to-face time and a willingness to put 'skin in the game'. It is also important to develop the governance mechanisms and agreements suitable for each stage of the relationship. It may be useful to develop metrics by which the success of the partnership can

be monitored and review these regularly to assess whether expectations are meeting reality.

Consultancies which might benefit from partnerships or alliances might answer 'yes' to more than three of these questions:

- Do your clients have common needs that fall outside your scope?
- Are there upstream, downstream or horizontal capabilities that would enable you to offer more value to existing clients?
- Are some great potential clients unapproachable because you are too small?
- Do you often find yourselves working for clients before, after or at the same time as other consultancies?
- Do you know of consultancies which operate in the same sector or service that might offer additional depth or breadth to your offering?

Of course, if you are developing a partnership with a larger firm or even a smaller firm with deep pockets, an alliance may offer the chance to test the waters of a potential purchase or investment down the line.

Networks: good and bad

Network business models provide value to clients based less upon what the consultancy produces and more upon the ideas and the experiences with which they are connected. The most basic example is the associate model which, aside from the recent reversal due to legislation in some countries, has been on the increase for 20 years. Although associate models don't generally deliver increased value (to the consultancy) over traditional consulting (see Chapter 8 for a discussion), other models might. Given the rapid pace of technological development, an increasing number of consultancies are focusing on building strong relationships (partnering, investing, affiliating) with innovative new firms rather than trying to develop innovation in-house. As Stephen Newton (Elixirr) told me, 'you can't out innovate the market'.

Another model for network-based consulting are globally distributed groups of similar small firms that join together to offer clients international expertise. They seek to do this without the hassle of a central office and overhead. The challenge comes, however, when these firms seek to sell. Since they are generally made up of separate legal entities, they often try to form a larger company in order to sell: the spokes on the wheel create a central hub, in order to offer an international consulting firm for sale. Such firms often (rightly) see their international presence as a powerful selling point, but risk underestimating the complexities a buyer would face in taking on such a firm. Whilst not impossible to

sell, this type of organisation is often trying to put the genie back in the bottle – to effectively ‘reverse engineer’ the company which can involve several challenges. One is creating a central body that is both funded by the individual firms and has the power to direct them. An associated challenge is presented by the politics of individual firms relinquishing sufficient controls, finances, practices and even incorporation to allow them to act as an individual entity with a new leader. Network-based consultancies also face further challenges, needing sufficient common IP (both internal and external) to guide the practices of the firms and needing to overcome the fact that different partners are likely to have very different requirements for a sale. This can be complicated further by differing cultures and legal requirements. A final common challenge is that the different path dependencies, cultures – and sometimes founder egos – of different firms coming together often creates a hydra that is difficult to manage centrally.

Capabilities

The final answer to the question of ‘How?’ concerns the capabilities of the firm. By capabilities, I mean *the accumulated knowledge and skills embedded in a consultancy’s organisational systems and routines which give it competitive advantage*.¹⁹ In short, these are the things which improve the performance of the firm in the long term.²⁰

A consultancy which improves its capability improves its value to employees and clients, and can thus increase its quality of delivery and prices. There are six ways in which capabilities are developed. In Figure 3.11, the big square represents a consulting firm. It has valuable inputs in the forms of recruits, suppliers and partners and market information. Its two outputs are project delivery and client relationships, which, in turn, feed back into the value of the consultancy (say with more experienced consultants, client goodwill, testimonials and referrals). In order to turn these inputs into outputs, the firm implicitly or explicitly relies on six capabilities, all held together by management systems.

If these capabilities are cultivated, systematised and improved, they provide the architecture for increasingly high-quality work, happier employees, better clients and higher profits. Of course, these capabilities can often be strengthened with clear processes or even automation, and their relative importance will shift depending on your business model and the maturity of the firm. It is worth examining the future emphasis on capability during the annual strategy review.

Each of these capabilities is covered in detail at various points in this book, but here I emphasise how they work together:

1. Leadership capabilities **improve the motivation and understanding of employees to achieve the firm’s strategy**. Leadership capabilities are

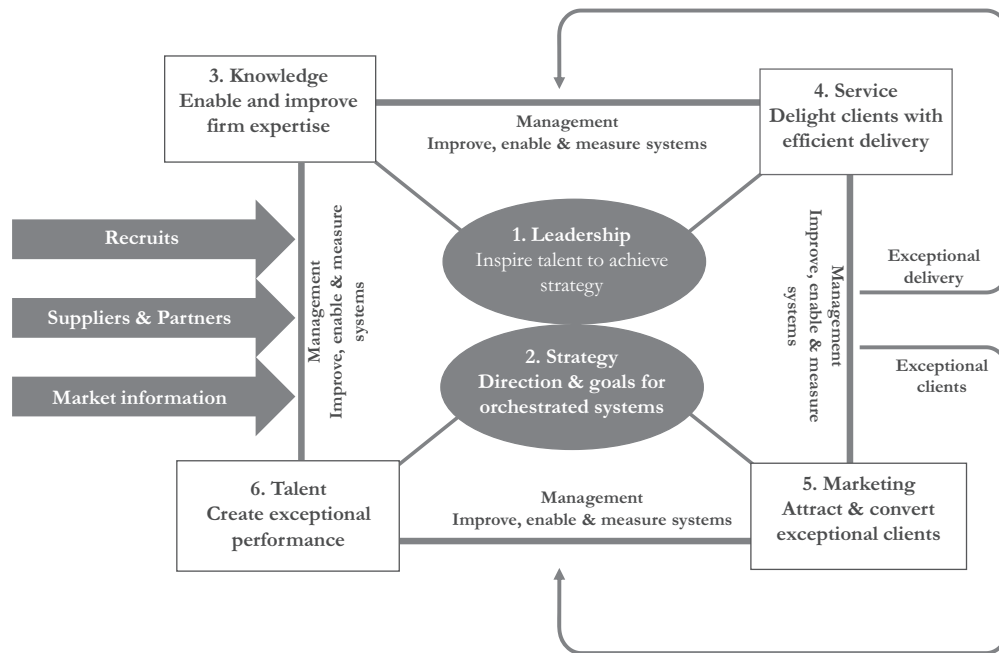


Figure 3.11 The six capabilities of consulting firms.

developed in the senior team through the mindsets and traits (integrity, reassurance, persuasion). The leadership capability is perhaps the least easy to control, change and systematise, which is a pity because it is by far the most important contributor to the success of the firm.

2. Strategy capabilities are not concerned with *what* strategy you pursue but *how* you do strategy. Strategy capabilities help **improve the firm's direction, focus and positioning**. They are the boss of capabilities, in that they drive and co-ordinate all the other capabilities listed here. In the long term, strong strategy capabilities create faster growth, less competition and higher profits. It means developing robust processes around such things as market research, competitor analysis and innovation. It does not mean spending a month or a year creating a huge strategy document that lives and dies in someone's drawer.
3. Knowledge capabilities concern the capturing, storing and sharing of experience, research and knowledge in order to **improve the firm's expertise**. These take experiences from work on a client site, lessons learned, research and innovation, and capture and share them in the firm's methods, databases, training or systems. Knowledge is also to be garnered through experimentation, the firm's external network and stakeholders, research and training. You can't deliver up-to-date expertise and increase your prices if you're not investing in your knowledge.
4. Service capabilities are externally focused. Value here is added by translating the talent and knowledge internal to the firm into products and

services through the creation of solutions which attract clients and solve their problems efficiently. These capabilities **improve the firm's delivery** and can be enhanced through external suppliers such as technology providers, associates, software and database licences, knowledge partnerships, training providers, research suppliers and even clients themselves. These all provide additional value for the firm.

5. The marketing capabilities are the assets which **improve the firm's client base**. It is marketing that builds the bridge between the services you offer and the challenges and opportunities that the client is facing. Marketing capabilities include business development more generally and the capacity to price intelligently.
6. Talent capabilities allow the firm to **improve the value of the firm's people**, both in terms of their own motivation and alignment with the firm, but also in terms of the quality of their work. This capability is a key asset of a people-based consultancy and acts as a signal to the market of the firm's pedigree. Whilst strong HR advice is important, the talent capability of the firm should not be outsourced to HR and should instead be led and driven by a partner.

Different firms place different emphases on different parts of this model, yet even in a firm of one, it is worth examining each box and arrow in Figure 3.11. Ask yourself how you can contribute to the value that your firm adds to its inputs in order to create better outputs.²¹ Managed well, these capabilities produce a virtuous cycle of value which is reflected in the firm's performance.

Table 3.7 Bodies vs. services

	Selling bodies	Selling a service
Invest in.....	Employees	Systems
Fees are.....	Finite	Unlimited
Payments are	Time-based	Value-based
Asset is....	Unreliable	Reliable
Recruits are.....	Highly skilled, expensive	Lower skilled, cheaper
Leverage is....	Low	High
Quality is.....	Inconsistent	Consistent
Knowledge is.....	Tacit	Codified

As we discuss later, certainly for firms that sell for high multiples, these capabilities should be systematised rather than held in the heads of various partners. This gets to the heart of the difference between a consultancy that sells bodies compared to the one that has systems that generate leveraged assets (Table 3.7).

Growth finances: cash flow, investment and borrowing

An interesting divide between leaders who are still growing their firms and those who have sold their firms is that the former often proudly tell me that their growth is funded solely through cash flow and the latter often tell me they wish they'd borrowed or sought investment for faster growth. Of course, the evidence base is biased, but once you know you have a solid firm with great growth prospects, there is an opportunity cost to *not* borrowing/seeking investment for growth.

Let's start with cash flow. If you are going to grow solely through cash flow, then it is important to manage this well because professional services are incredibly sensitive to cash flow challenges. This is because invoices are often paid much later than salaries. As the COVID-19 pandemic demonstrated, three months of losses or one big client refusing to pay can quickly lead to a situation where staff are not paid and bankruptcy is not far off. Strong cash flow management for a consultancy prioritises the following:

- Get paid upfront or as soon as possible. As we discuss in Chapter 6, project or value pricing is best for this.
- Get invoices paid within 30 days ideally. For anything later than 60 days add charges if you can.
- Ensure promptly paid invoices are the responsibility of your project manager and linked to their bonuses.
- With problem clients, usually a 'letter before action' will do the trick.
- Where possible, develop assets for recurring revenue.

As your consultancy grows, a useful metric is cash flow per partner, which can also be written as:

$$\text{Cash flow/fees} \times \text{fees/staff} \times \text{staff/partners}$$

Cash flow can also be maximised by what David Ogilvy described in his Principles of Management:

To keep your ship moving through the water at maximum efficiency, you have to keep scraping the barnacles off its bottom. It is rare for a department head to recommend the abolition of a job, or even the elimination of a man; the pressure from below is always adding. If the initiative for barnacle-scraping does not come from management, barnacles will never be scraped.

As a solo consultant, scraping barnacles often involves attention to your salary (did you really need the new Mac Pro?), but later is primarily concerned with the salaries of others. To some extent, salaries can be mitigated through significant performance-related bonuses, a 'high stepped' three-year salary (low in the first year followed by significant increases) or equity in the firm. More strategically, developing a strong recruitment and development programme will allow you to create better talent at a lower cost.

Alternatives to growing from cash flow are growing from debt or taking on an equity partner (which can sometimes be a strategic investor such as another consultancy). Balance sheet debt these days is relatively cheap and there are usually tax benefits. Equity investment can be a benefit if the investor is providing additional expertise, a route to new clients or partnerships or a potential buyer at the end of the journey. Otherwise, equity investment for growth at an early stage is a more expensive option. I detail the use of private equity to support the exit of one or more partners in the final chapter.

The most significant early investment seen by my interviewees was Roger Carlile, who grew Ankura from nothing to a £500 million business in five years. Roger acknowledges his good fortune in raising £100 million in funding after the first year. He didn't particularly want that much money, but the investors, with whom he had an existing relationship, didn't do deals for less than this. It was a nice problem to have. This injection allowed the firm to recruit 150 employees and buy some well-aligned competitors, even if it also raised significant challenges for building and maintaining the firm technology, culture and systems.

What, who and when?

The strategy and plan

I have put a template for a strategy and plan at www.joemahoney.com. I'm a fan of keeping the strategy short, displaying it publicly and revisiting it

frequently. Again, don't try to be vanilla or everything for everyone. Writing the strategy and plan should be iterative, not sequential and both should be 'live' documents that evolve.

We have already covered much of the strategy *process*, but here is a guide for formalising it. It should be tailored to suit your stage and preferences, but a typical structure may go as follows:

- **Why?**
 - **Values:** the principles and standards that provide the basis for your culture.
 - **Culture:** the norms and attitudes that will guide your activities.
- **What?**
 - **Ultimate goal:** what do the major shareholders want this firm to achieve and in what timespan?
 - **Mission statement:** an inspirational statement of (i) the ideal difference you want your firm to make, (ii) to the stakeholders who you serve and (iii) how you will achieve this.
 - **Niche positioning:** what clients (business and role) will you serve? What need will you fulfil? What will you do? This should link to your marketing strategy and plan.
 - **Unique Value Proposition:** why would clients select your firm above others?
 - **Competitive positioning:** where will you be compared to the competitors?
- **How?**
 - **Business model:** how does the firm generate value, both for its clients and for itself?
 - **Capabilities:** what capabilities must the firm develop in order to support and drive growth?
 - **Competencies:** what key skills and attributes do our people need to have to support growth?
 - **Services:** what services, platforms, software and products will you have?
- **When and Who?**
 - **Three-Year Goals:** revenues and margins; projects and clients; people; capabilities; systems; milestones.
 - **One-Year Goals:** revenues and margins; projects and clients; people; capabilities; systems.
 - **Plan:** to achieve one-year goals detailing activities, responsibilities and deadlines.
 - **Success measures:** how will you quantify progress?

- **Finances and risks**
 - Sales projections
 - Headcount and salary projections
 - Projected capital spending
 - Projected operating costs
 - Investment/capital requirements
 - Projected valuation
 - Risk register

Aside from the strategy and plan itself, the *process* for strategising and planning is probably the most important process in a growing firm. I suggest using the process as a way to engage and motivate employees and key clients. Involve them in the different aspects of the plan and bring the parts together at a one- or two-day off-site event where it can be developed, challenged and brought together. This is more fun and inclusive than a PowerPoint deck and you may get ideas you weren't expecting.

When crisis hits

This book was written during the COVID-19 lockdown. Whilst it has been an awful time, it has afforded me a unique insight into why some of my interviewees and clients did better than others. The lessons here are reminiscent of those following the 2008 recession and the 2000 crash. In these downturns, five things made a difference. In order of importance, these were:

1. **Luck:** some smaller firms just happened to be in a sector (say healthcare during COVID-19) or services (delaying or crisis management) that were in demand. Those lucky 15% actually grew in the recession.
2. **Pivoting fast:** one of the unique benefits of smaller firms is the ability to pivot quickly. A new website and LinkedIn profile can be created in a day and relevant thought leadership written and disseminated within a week. Some firms did exactly this and turned a crisis into an opportunity for growth. Close communication with and research on the changing client market should lead this shift.
3. **Business development:** hunkering down on sales, in some cases, prevented the loss of existing clients. Paying greater attention to the pipeline and marketing intensively paid off for many. One client of mine had great success with shifting their pricing to success fees, whilst another (who had reserves) offered to postpone billing for clients who were struggling. Remember that in recessions, digital advertising costs tend to fall. It is a good idea to try to get an early view of what will happen to the pipeline by

phoning key clients and watching any announcements. If you have non-exec directors, then these should be encouraged to make referrals.

4. **Cost management:** moving quickly to cut associates and cutting all costs that do not impact sales (especially bonuses) put some firms ahead of the curve, so that declining client revenues hit the bottom line less hard. Where (the weakest, junior) employed staff had to go, this was done quickly and fairly. In some firms, salary cuts were made across the board and many placed this burden especially on senior staff. KPIs such as cash in the bank, debtor days and pipeline metrics should be reviewed weekly.
5. **Shifting client relations:** some consultancies not only shifted what they were doing for clients but also how they worked with them. Shorter return on investments made clients feel the work was worthwhile, and greater attention to communicating the benefits of work almost goes without saying. Following up quicker on debtors is also crucial.
6. **Communications:** being honest about the firm's prospects and intentions will stop rumour-mongering. The best firms reassured employees with projected stages of what they expected to happen, and how the firm would react in each of these stages. Communications were used to both clear the air and focus attention on what needed to be done if the firm was to survive.

Some larger firms had also strategically sought to develop counter-cyclical services, which meant they did well in the downturn, but this was relatively rare in firms with fewer than 100 employees.

Takeaways

- Successful consulting is achieved by passionate experts delivering outstanding value to clients. Consistently improve your value by capturing experience, learning and experimenting.
- Your overarching strategy should focus on the 'Why?' of the founder(s). This should be mirrored in the 'Why?' of the firm: its values and culture.
- Move towards a clear, in-demand niche with high fees. Ask yourself how you could treble your fees.
- Defining and pursuing a focused niche based upon market research, buyer research and competitor analysis is a far superior strategy than simply doing what you have done in the past. A niche can be expanded during growth, but this should be done strategically, not (just) in response to chance.
- Your UVP is the foundation of what the firm is. It summarises why clients should buy from you, and forms the foundation for your culture, capabilities, strategy and services.

- Have a vision of the type of firm you will become, but pivot quickly when necessary.
- Develop and update a growth plan detailing dependencies, costs, revenues, clients and hires.

Case study: Solidiance

The power of local knowledge

If anyone has a claim to cosmopolitan man of the year, it is perhaps Damien Duhamel the co-founder of Solidiance. Born in France, Damien grew up in North Africa and in the South Pacific, and studied in Australia, the US, Singapore and Vietnam. I'd list the places he's worked, but there is a word limit on this book.

After finishing his degree in 1995, Damien returned to Vietnam and, realising that the only option local companies had for external advice was to fly in very expensive consultants from large firms, set up a boutique consulting firm that helped foreign companies enter the country. His niche here was to offer himself and an increasing number of local recruits not only as a more cost-effective alternative, but also as an alternative with more significant hands-on knowledge of the region than many competitors. In some ways, it was a trial run of what he was going to create later on a much larger scale.

The Vietnamese firm grew to 18 employees, but after five years Damien decided to make a shift. The limitations of the Vietnamese market and the excitement of the Dotcom boom elsewhere eventually persuaded him to sell the firm in 2000 and join a company (which eventually became Aegis PLC), where he was promoted to lead the Singapore office. Following his success in this role, Damien became Managing Director (Asia Pacific) after two years. Six years later, having deepened his experience, he decided to begin earning profits for himself rather than other people.

Built to sell

As with many successful founders, Damien left with a significant network and with more work than he could handle alone. His first recruit was

Heiko Bugs, who he invited as a partner because their skill sets complimented each other's weaknesses. Damien says jokingly: 'we have this husband and wife relationship...I was looking for someone who was the opposite of me: someone who would say no to me'. From the beginning, the company was grown to be sold:

from day one we positioned ourselves to be in the best position to sell: multi-national clients, barriers to entry, and a pan-Asian presence. We had very strong auditing and proper accounting to ensure our books were good. There was no monkey business.

They expanded offices aggressively, opening two in the 2009 recession, typically using a senior manager to start the office and employing young local experts who would work hard and be keen to learn. They would typically wait until they had three to four projects in a region before opening an office, but of course the cost-benefit ratio was different, whereby some offices (for example, Malaysia) were much cheaper than others (for example, Japan).

Solidiance planned their niche as one that would both provide barriers to entry and be attractive to buyers. Their first principle was to only work for multinational companies in order to have larger revenues and profit margins. Their second was to be pan-Asian, so they could provide a total solution in that geography. Their final principle was to work in B2B in order to create barriers to entry to other firms without the knowledge. This last point is interesting. As Damien explains:

if you are consulting for Haagen-Dazs, everyone understands the market. But if I speak about cement, bolts and chemicals, you are dealing with huge spenders, but they are industries that require deep understanding and that everyone else dislikes. We like these 'dirty' industries – I like to be on the site in a hat and boots. We like it rusty, dusty and rusty.

The company grew out of its own cash and at no point did they take on debt or external investment. As they grew, they allowed more partners to buy into the company, but for 15 years they decided to open new offices rather than take dividends. They avoided taking on non-billable people during growth: 'we never had an HR person; we never had an IT person. We delegated a lot of power to local office managers to make decisions'. They even developed their own ERP/customer relationship management (CRM) system internally which Damien argues was 'a critical part of our success'. The system was designed to be intuitive and needed no staff training.

Solidiance focused exclusively on helping clients grow fast in Asia, growing from two staff and one office in Singapore to 120 full-time staff. Whilst they help many companies (50% US; 20% Japanese; 20% European) strategically expand into Asia, they also have sector specialisms in, for example, automotive, healthcare and construction, and service specialisms in innovation, sustainability and healthcare.

The firm grew rapidly because clients liked the fact that the team was experienced in many different cultures, which provided an advantage over other firms that might fly in teams. As they grew, they established expertise in most key Asian markets. Their clients were exclusively multinationals and the firm focused on delivering high-quality services which resulted in 90% repeat business from their clients. Increasingly, they developed methods and processes for their work, but were also aware that these could often ‘turn off your creativity and innovation’ – using these was a question of balance.

Running and selling a multinational

As the firm expanded, the number of offices increased. However, the firm kept one profit and loss (P&L) account in order to avoid office competition between business units. This was important because clients might approach their local office with a request for a project in a different country. A single P&L helped with sharing knowledge and clients. The centre also took all the ‘red tape and admin’ away from the local offices allowing them to focus solely on client work. Co-ordination was also helped by the founders having significant visibility to and of the local offices. The CRM/ERP system provided the owners with high levels of visibility, and two-hour weekly calls were had with the office managers. However, the centre sought to avoid stepping on the toes of office managers: ‘we gave them freedom to execute, and they came to us if there were problems they could not solve’.

By 2016, Solidiance had grown to 16 international offices, from Abu Dhabi and New Delhi to Yangon and Sydney and increased their size by 25% when they bought China-based consultancy *Technomic Asia*. In 2017, they expanded to offices in the US and EU to better serve their clients in that space, and in late 2018 were bought (though the Japanese prefer the term ‘merged’) by a Japanese pan-Asian consultancy YCP to strengthen their own regional presence. Their case deserves attention as a study in creating value across a region, not just a country.

Notes

- 1 Source: Equiteq (2018) *The Knowledge Economy Global Buyers Report*. Equitq.com.
- 2 Lafley, A.G., & Martin, R. (2013) *Playing to Win: How Strategy Really Works*. Boston, MA: Harvard Business Review Press.
- 3 If you wish to expand the questions that contribute to your strategy, see Watkins, M. (2007) *Demystifying Strategy: The What, Who, How, and Why*. Boston, MA: Harvard Business Review, September. For consulting firms, this may be overkill. In addition, the why/what/how questions are also used in Sinek, S. (2011) *Start with Why*. London: Penguin.
- 4 Note that this is a retrospective calculation of the 'successful' firms. For the new founder, if the opportunity cost, the failure rate and the cost of capital are considered, one can see why it is not a universally popular activity!
- 5 Stephenson, G. R. (1967) Cultural acquisition of a specific learned response among rhesus monkeys. In: J. Kuhn (ed.) *Progress in Primatology*. Stuttgart: Gustav Fischer Verlag, pp. 76–80.
- 6 Hinge University (2019) *Professional Services Guide to Research*. Virginia: Hinge.
- 7 Frederiksen, L. Harr, E., Montgomery, S., & Taylor, A. (2013) *Inside the buyer's brain*. USA: Hinge Research Institute.
- 8 Such an activity could usefully be supported through an MBA project with your local University.
- 9 Carman, J. M., & Langeard, E. (1980) Growth strategies for service firms. *Strategic Management Journal*, 1(1), 7–22.
- 10 Hinge Research Institute (2018) *High Growth Study: Consulting Firm Edition*. Virginia: Hinge Research Institute.
- 11 Scott, M. (1998) *The Professional service firm*. London: John Wiley, p. 23.
- 12 Whenever you give a discount, please charge the full price on the invoice and then show the discount. This avoids the client thinking that you are permanently cheap.
- 13 Readers of *Private Eye* will note the vast number of consultancies providing 'free' advisory work on power government committees and boards: they do not do so for the love of their countries.
- 14 See Chapter 1 of Maister, D. (1993) *Managing the Professional Service Firm*. New York: MacMillan.
- 15 Oddly, Maister also argued that consulting firms grew primarily to keep good people. His argument was that if the firm wants to maintain its leverage ratio AND keep hold of its ambitious people, it will need to promote a certain percentage of those people in order to maintain their loyalty. This creates an 'escalator effect', whereby many of the employees become more senior and eventually want a share in the partnership. In the spirit of having a smaller slice of a bigger (and growing) pie, most founders will accept this but tie the partnership in with sales and margin targets. Whilst this may be true in large firms, I found little evidence of this in smaller firms that were growing. Growth was primarily driven by founder mindset.
- 16 In service firms, it's more accurate to write 'time and expenses', but hardly anyone does, so I won't either.

- 17 Zhu, F., & Furr, N. (2016) Products to platforms: Making the leap. *Harvard Business Review*, 94(4), 72–78.
- 18 Consultancy Growth Network (2021) Alliances Survey.
- 19 Day, G. S. (1994) The capabilities of market-driven organizations. *Journal of Marketing*, 58(4), 37–52. I've amended George Day's definition here.
- 20 I ask my MBA students 'what things can a consultancy do to increase profit per partner?'. They generally reply with: put up prices; increase leverage ratios; sack seniors and employ juniors; cut salaries. I then ask, 'what things can a consultancy do to increase profit per partner *without damaging the firm in the long run?*'. This is a harder question to answer, and one I address in Chapter 8.
- 21 This theory is an extension of the resource-based view of the firm where knowledge is seen as a resource asset, but also a capacity for innovation. Note, theories of PSF strategies tend not to distinguish between client-facing service development or knowledge development, often assuming that the only important knowledge is that which is deployed in client engagements! Moreover, as much of the research on PSF strategy was done pre-2010, the transformational role of digital in every aspect of the supply chain (suppliers, firm, client engagement) is often missed. For example, Hansen's piece in *Harvard Business Review* in 1999 makes a distinction between 'reuse economics' and 'expert economics' (p. 109) that misses two modern developments: first, the extent to which digital allows reuse (databases, rules, codified processes) and expertise (AI and machine learning); second, innovative (expert) service provision is now generally predicated upon the reuse of different internal assets.