The Industry You're Actually In: Professional Services

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Introduction

Most founders of boutique firms answer a simple question incorrectly.

Ask them, *"What business are you in?"* and they'll say something like:

- "I run a law firm."
- "I own a consulting firm."
- "We're a marketing agency."
- "We're an architecture firm."

Those answers feel obvious. They're also incomplete—and that incompleteness is expensive.

What founders are describing in those responses is their **domain**: the area of expertise they practice. Law. Consulting. Marketing. Architecture. Accounting. Engineering. IT. Research. Creative services. These domains explain *what* a firm knows and *who* it serves. They do **not** explain the business the firm is actually in.

Here's the corrective truth most founders have never been taught:

Your domain is not your industry.
Your industry is professional services.

That distinction sounds subtle. It isn't.

The industry you operate in determines how your firm is expected to make money, how it should be priced, how it should be staffed, how it should scale, and how it will ultimately be valued at exit. When founders misidentify their industry, they inherit the wrong rules. They make decisions based on tradition, peer behavior, and domain-specific norms instead of economic reality. The result is predictable: lower profit today and lower valuation tomorrow.

This isn't a judgment. It's a pattern.

Across boutique firms of every domain, the same mistakes repeat themselves—not because founders lack intelligence or ambition, but because they are solving business problems using the wrong frame of reference. They think like practitioners when the market evaluates them like owners of professional services businesses.

Founders who eventually break out of this trap do so by changing one thing first: **identity**.

They stop defining themselves by *what they practice* and start defining themselves by *the business model they operate*. When that shift happens, decisions get clearer. Constraints disappear. Economics improve. Profit rises—not because the firm suddenly became better at its craft, but because it finally started operating by the right set of rules.

This essay exists to make that identity shift explicit.

We'll start by defining, in plain language, the difference between a domain and an industry. Then we'll explain why the official industry classification system places your firm squarely inside professional services—regardless of what you call yourself. Finally, we'll look at how this industry is evolving across Era 1, Era 2, and Era 3, and why understanding your true industry identity today is a prerequisite for higher profit and better outcomes tomorrow.

If you've ever felt that your firm "should" be more profitable than it is, this is the place to start.

II. Domain Is Not a Business Model

Let's clarify a term that quietly causes more damage than almost any other in boutique firms: **domain**.

In plain language, your domain is **what you know**.

Law. Accounting. Management consulting. Architecture. Engineering. Marketing. IT services. Research. Design. These are domains of expertise. They describe the subject matter you've mastered and the problems you're qualified to solve for clients.

Domain answers one question—and only one question:

What are you an expert in?

That's it.

What domain does **not** explain is how your firm makes money, how it scales, how margins behave, or how buyers will ultimately value the business. Domain tells the market *why* you're credible. It does not tell the market *what kind of business you're running*.

This distinction matters because most founders unconsciously treat domain as if it were a business model. They assume that because they are a "law firm" or a "marketing agency," the rules of running that kind of firm are unique, fixed, and largely non-transferable. They look sideways at peers in the same domain and copy norms—pricing conventions, staffing ratios, delivery approaches, and growth expectations—without ever questioning whether those norms are economically sound.

That's the mistake.

A business model explains something very different. It answers questions like:

- How is value monetized?

- What are the primary inputs and costs?
- What scales, and what doesn't?
- Where do margins come from?
- What risks does the buyer underwrite at exit?

Domain does not answer those questions. **Industry does.**

This is why founders who stay anchored to domain identity tend to over-index on craft and under-invest in mastering the mechanics of the business they're actually operating. They become excellent practitioners inside firms that are structurally underperforming. Not because the work isn't valuable—but because the firm is being run according to inherited assumptions instead of economic reality.

Here's the uncomfortable truth:

When founders confuse domain with business model, they make business decisions based on tradition instead of economics.

And tradition is rarely optimized for profit, scale, or exit.

Before we talk about eras, technology, or what's changing in the future, we need to get the present-day classification right. That requires stepping out of domain language entirely and looking at how the economy itself categorizes firms like yours.

That's where industry—and professional services—comes in.

III. Industry Is the Business Model

If domain explains *what you know*, then **industry explains how you make money**.

Industry is not a branding choice. It's not how you describe yourself on a website. It's the underlying **economic logic** of your firm—how expertise is turned into revenue, costs, profit, and enterprise value.

In simple terms, industry answers this question:

What kind of business model am I operating?

For firms like yours, the answer is professional services.

Professional services is an industry defined by a very specific set of characteristics:

- The firm sells **judgment and expertise**, not physical products.
- Value is created through **problem-solving, analysis, design, and decision support**.
- Clients pay for **access to expertise**, delivered through people, processes, and increasingly tools.

- Revenue is historically tied to **time, access, or engagements**—not units produced.
- Cost structures are driven primarily by **inputs required to deliver expertise**.

This industry definition applies regardless of domain. A law firm and a management consulting firm do not share subject matter expertise—but they share the same economic DNA. They both sell judgment. They both deliver work through engagements. They both wrestle with utilization, pricing, leverage, margins, and founder dependency. They are evaluated by buyers and investors using the same mental models.

This is why calling yourself a "law firm" or a "marketing agency" is descriptively true—but economically incomplete.

Industry determines:

- What good pricing looks like
- What healthy margins look like
- What scalable delivery looks like
- What risks buyers see at exit
- What norms should be followed—and which should be rejected

When founders misunderstand their industry, they often default to false assumptions:

- "That's just how firms like ours operate."
- "Margins are capped in our space."
- "Buyers won't pay more for this type of work."
- "This is normal for our domain."

Those assumptions usually aren't domain truths. They're **misapplied industry rules**—or worse, inherited habits that were never designed for modern professional services firms.

To remove ambiguity, we need an external, objective reference point. Something that doesn't care what founders *call* themselves—but classifies firms based on how they actually operate.

That's exactly what the industry classification system does.

IV. Why the Government Classifies You as a Professional Services Firm

To remove any remaining ambiguity about the industry you're actually in, it helps to step outside opinion entirely and look at how the economy itself makes this determination.

In North America, that system is called **NAICS**—the *North American Industry Classification System*. It is the official framework used by governments, economists, regulators, lenders, investors, and acquirers to classify **every business** operating in the economy.

NAICS does not care how you describe yourself.
It does not care what your website says.
It does not care what your peers call themselves.

It classifies firms based on **how value is created and monetized**.

Here's how the system works, in plain English:

- **Two-digit NAICS codes define industries.**
  There are 20 of them. These represent fundamentally different business models.
- **Four- and six-digit codes define subcategories and domains.**
  These specify *what kind* of work is done inside the industry.

Industry comes first. Domain comes second. Always.

Your firm is classified under **NAICS 54: Professional, Scientific, and Technical Services**.

Not sometimes. Not loosely. Categorically.

That places your firm in a different industry than the other nineteen two-digit NAICS sectors, including:

- Agriculture, Forestry, Fishing, and Hunting
- Mining, Quarrying, and Oil and Gas Extraction
- Utilities
- Construction
- Manufacturing
- Wholesale Trade
- Retail Trade
- Transportation and Warehousing
- Information
- Finance and Insurance
- Real Estate and Rental and Leasing
- Administrative and Support Services

- Educational Services
- Health Care and Social Assistance
- Arts, Entertainment, and Recreation
- Accommodation and Food Services
- Other Services
- Public Administration

Your firm is **not** classified in any of these industries—not because your work is more important or less important, but because your **business model is different**.

Manufacturers sell units.
Retailers sell inventory.
Software firms sell licenses.
Schools sell instruction.
Hospitals sell care.
Construction firms sell physical outputs.

Professional services firms sell **judgment and expertise**.

That single fact determines the industry classification.

Only after a firm is classified as a professional services business does NAICS then specify *which domain of expertise* the firm operates in—law, accounting, architecture, engineering, management consulting, marketing services, IT services, scientific research, and others. These domains show up as six-digit codes *inside* NAICS 54. They describe specialization, not economics.

This hierarchy is intentional.

It reflects a core truth that many founders overlook:
the business model dictates the industry, not the subject matter of expertise.

When founders resist this classification, they are usually resisting what comes with it—the realization that their firm will be evaluated, benchmarked, priced, and ultimately valued according to professional services economics, not domain folklore.

But the market does not negotiate on this point.

Buyers, lenders, and analysts don't ask what you *call* your firm.
They ask what industry you're in—and they already know the answer.

V. The Nine Domains Inside NAICS 54 (And Why They All Share the Same Model)

Once a firm is classified as part of **NAICS 54: Professional, Scientific, and Technical Services**, the classification system then does something important—but often misunderstood.

It specifies **domain**, not industry.

Inside NAICS 54 are **nine domain groupings**, each representing a different area of expertise—but all operating under the same professional services business model:

- Legal Services
- Accounting, Tax Preparation, Bookkeeping, and Payroll Services
- Architectural, Engineering, and Related Services
- Specialized Design Services
- Computer Systems Design and Related Services
- Management, Scientific, and Technical Consulting Services
- Scientific Research and Development Services
- Advertising, Public Relations, and Related Services
- Other Professional, Scientific, and Technical Services

These domains look different on the surface. They attract different talent. They serve different client needs. They use different language to describe their work.

But economically, they are far more similar than most founders realize.

Across all nine domains, firms:

- Sell **judgment and expertise**, not physical goods
- Deliver value through **engagements**, not production lines
- Struggle with **pricing confidence** and value articulation
- Manage **utilization, leverage, and capacity**
- Experience margin pressure when labor is the primary input
- Face founder dependency as they scale
- Are valued at exit using **professional services benchmarks**, not domain-specific mythology

The differences between these domains are real—but they are **second-order differences**. They shape *how* work is performed, not *how the business works*.

This is where many founders go wrong.

By over-identifying with their domain, they assume their challenges are unique. They believe their pricing issues are specific to law, or marketing, or architecture. They assume margin constraints are just "how it works in our space." They benchmark themselves against the loudest peers in their domain instead of against the healthiest professional services firms across domains.

In doing so, they miss the opportunity to learn from firms that have already solved the problems they are still wrestling with—often in completely different domains.

The most profitable professional services firms don't think this way.

They recognize that:

- Domain determines **what is sold**
- Industry determines **how it is sold, delivered, and monetized**

Once that distinction is clear, something powerful happens. Best practices stop being tribal. Pricing discipline becomes transferable. Delivery models become adaptable. Economics become legible.

This is why the most successful founders inside NAICS 54 are not those who obsess over domain differences—but those who master the shared mechanics of the professional services business model and then apply them intelligently within their domain.

And it's also why misidentifying by domain doesn't just create confusion—it creates structural underperformance.

VI. The Cost of Misidentifying by Domain

Misidentifying your firm by domain instead of by industry doesn't just create conceptual confusion. It produces **bad decisions**—systematically, predictably, and at scale.

When founders think, *"I run a law firm"* or *"I run a marketing agency,"* they don't just adopt a label. They adopt an entire set of **assumptions** about how their business is supposed to work. Those assumptions rarely come from economics. They come from tradition, peer behavior, and domain-specific folklore.

That's where the damage begins.

The most costly mistakes we see inside boutique firms stem from a single root cause: founders are making decisions using the **wrong industry norms**.

Cost #1: Lower Profit Today

Founders who identify by domain tend to benchmark themselves against other firms in that same domain. They copy pricing conventions, staffing ratios, utilization targets, and delivery models because "that's how firms like ours operate."

But those norms were not designed to maximize profit. They were inherited—often from much larger, older, or structurally different firms operating in a different era.

As a result:

- Pricing is constrained by what peers charge, not by value delivered.
- Labor is overused because "that's how the work gets done."
- Margin leakage is tolerated because it's considered normal.
- Growth requires more people, not better leverage.

These founders aren't underperforming because their work isn't valuable. They're underperforming because they're running a professional services business while following rules that were never optimized for professional services economics.

The irony is brutal: many founders work harder, hire more people, and take on more risk—only to make less money than they should.

Cost #2: Lower Exit Value Tomorrow

The second cost shows up later, and it's even more painful.

At exit, no buyer evaluates your firm by domain mythology. Buyers evaluate risk, scalability, margin durability, and predictability—using **professional services benchmarks**.

When founders have spent years running their firm according to domain norms instead of industry economics, buyers see:

- Founder-dependent revenue
- Inconsistent margins
- Labor-heavy delivery
- Weak pricing discipline
- Limited scalability
- Fragile forecasting

The founder may still believe, *"This is normal for our domain."*
The buyer doesn't care.

The buyer prices the business as a professional services firm that failed to master its own model. That gap between how founders see their firm and how the market values it is where millions of dollars quietly disappear.

This is why so many exits are disappointing—not because the firm lacked expertise, clients, or reputation, but because it was never operated with the discipline required by its actual industry.

Here's the uncomfortable truth:

When founders misidentify their industry, they don't just earn less along the way—they sell for less at the end.

This is not a branding problem. It's not a positioning problem. And it's not a talent problem.

It's an **identity problem**—and identity always precedes economics.

VII. What the Most Successful Firms Do Differently

Across the professional services industry, a small but meaningful group of firms consistently outperforms the rest. They grow faster, earn higher margins, and exit at better valuations—often while operating in the *same domains* as their peers.

The difference is not talent.
It is not reputation.
And it is not access to better clients.

It is identity.

Inside **Collective 54**, which serves as a statistically meaningful research base within NAICS 54, the same pattern appears again and again. The most successful firms are not those that doubled down on domain identity. They are the ones that **changed how they defined themselves as businesses**.

At some point, these founders made a deliberate shift:

- From *"I run a [domain] firm"*
- To *"I run a professional services firm that happens to specialize in [domain]."*

That shift sounds semantic. It isn't.

Once founders adopted the correct industry identity, their behavior changed in observable ways. They stopped asking domain-specific questions like:

- "What do other firms like mine charge?"
- "How many people does a firm like ours need?"
- "Is this margin normal in our space?"

And they started asking industry-level questions instead:

- "What does a well-run professional services business look like?"
- "Where is leverage actually created in this model?"
- "What economics do buyers reward in professional services firms?"
- "Which constraints are real—and which are inherited?"

That reframing unlocked progress.

Pricing decisions became more confident and less apologetic. Delivery models became intentional instead of reactive. Hiring slowed down and leverage increased. Margin stopped being treated as an outcome of effort and started being treated as a design variable.

Most importantly, founders stopped feeling trapped by their domain. They realized that many of the problems they assumed were "just how it works in our space" had already been solved—often by firms in entirely different domains operating under the same professional services model.

This is the point where performance begins to separate.

The firms that cling to domain identity keep reinventing problems and accepting limitations that no longer apply. The firms that embrace professional services identity start borrowing proven solutions, adapting them intelligently, and compounding results over time.

This is not about abandoning craft. Domain expertise still matters deeply. Clients still buy judgment. Reputation still matters.

But once identity is corrected, **expertise stops being the bottleneck**.

What determines outcomes is whether the founder has learned to operate the business they are actually in.

VIII. Professional Services Across Eras: What Stays the Same, What Changes

Up to this point, everything we've discussed applies to professional services *as they have historically existed*. But to understand why identity matters even more now, we need to introduce time.

Professional services is not a static industry. It is an industry that has evolved—and is still evolving—through distinct eras. Understanding those eras clarifies both who you are *today* and who you can become *next*.

Across **Era 1, Era 2, and Era 3**, one thing never changes:

Professional services firms sell judgment and expertise.

That is the constant.

What changes—dramatically—is the **primary input** used to deliver that expertise. And when inputs change, business models change with them.

Era 1: Human Labor as the Primary Input

For most of the industry's history, professional services operated in Era 1.

In Era 1:

- Expertise was delivered almost entirely through **human labor**
- Revenue was tied directly to **time and access**
- Pricing models centered on hourly rates, retainers, and time-based projects
- Costs were overwhelmingly **variable**, driven by headcount
- Margins were constrained by utilization and leverage
- Growth required hiring more people

This model worked—but it came with hard limits. When humans are the primary input, scale is slow, costs rise with revenue, and profit expansion is difficult. Many of today's "industry norms" were formed in this era—and they still quietly shape founder behavior.

Era 2: Technology as an Augmenting Input

Era 2 introduced technology into professional services—but as an assistant, not a replacement.

In Era 2:

- Technology improved efficiency and consistency
- Tools supported delivery, analytics, and communication
- Revenue began shifting toward **outputs**, not just time
- Some costs moved from people to tools
- Margins improved modestly
- Labor was still the dominant constraint

Era 2 made firms faster and more professionalized—but it did not fundamentally change the business model. Most firms were still pricing, staffing, and scaling as if they lived in Era 1, even while using modern tools.

Era 3: Artificial Intelligence as the Primary Input

Era 3 is different.

For the first time, **artificial intelligence and data** are becoming the primary inputs in the delivery of professional services—not just augmenting labor, but replacing large portions of it.

In Era 3:

- Expertise is delivered through **AI-enabled systems**, not just people
- Revenue shifts toward **outputs and outcomes**, not time
- Costs become increasingly **fixed**, driven by tools and data, not headcount
- Margins expand structurally, not incrementally
- Scale no longer requires proportional hiring
- The firm's value shifts from labor capacity to intellectual property and systems

This does not mean judgment disappears. It means judgment is embedded—captured, reused, and delivered at scale.

Why This Matters for Identity

The industry is not changing *away* from professional services. It is changing **within** professional services.

Founders who still define themselves narrowly by domain are anchored to Era 1 assumptions. They inherit limitations that no longer apply. They price as if time is the scarce resource. They hire as if labor is the only lever. They accept margin ceilings that were artifacts of a previous era.

Founders who correctly identify as professional services operators—and understand how the model is evolving—see something different.

They see a future where:

- Judgment scales
- Labor is no longer the bottleneck
- Economics improve by design
- Profit is a function of architecture, not effort

This is why identity today determines opportunity tomorrow.

IX. A Diagnostic for Today, a Forecast for Tomorrow

At this point, the question is no longer academic. It's personal.

So here's the diagnostic every founder should answer honestly—right now:

Are you running your firm according to domain norms, or according to professional services economics?

If your decisions are anchored in phrases like *"that's how firms like ours operate," "this is normal in our space,"* or *"buyers won't pay more for this kind of work,"* there's a strong chance you're still operating under a domain-first identity. And if that's true, you are almost certainly accepting constraints that no longer apply.

That diagnosis isn't an indictment. It's an explanation.

Now comes the forecast.

As professional services moves deeper into Era 3, the gap between firms that understand their true industry and those that don't will widen rapidly. Domain expertise will remain table stakes—but it will no longer be the differentiator. The differentiator will be **business-model mastery**: the ability to design, price, deliver, and scale expertise using the economics of modern professional services.

Founders who continue to anchor their identity to domain alone will:

- Price as if time is scarce
- Hire as if labor is the only input
- Accept margin ceilings formed in earlier eras
- Be surprised—again—by disappointing exit outcomes

Founders who embrace the correct identity will see something else entirely:

- Output- and outcome-based revenue replacing time
- Fixed-cost leverage replacing variable labor
- Margin expansion driven by design, not effort
- Valuations that reflect durability, scalability, and confidence

Here is the promise—grounded in observation, not optimism:

Once founders correctly identify the industry they are actually in, false limitations fall away.
Better decisions follow.
And profit improves as a result.

Not because the work changed.
Not because the market changed overnight.
But because the rules finally matched reality.

Your domain explains *what you know*.
Professional services explains *how you win*.

And in Era 3, that distinction is no longer optional.

X. Why This Distinction Comes First

Every conversation about improving a professional services firm eventually turns to tactics.

Pricing models. Utilization. Leverage. Sales. Referrals. Technology. AI. Exit readiness.

Those conversations are important—but they only work when they're built on the correct foundation. When identity is wrong, every optimization effort that follows is constrained by false assumptions. Founders debate pricing inside the wrong mental box. They argue about margins that were never designed to expand. They invest in tools without changing the economics those tools are meant to improve.

That's why this distinction—between domain and industry—has to come first.

If you believe you run a "law firm" or a "marketing agency," you will instinctively look for answers inside those domains. You will benchmark against peers who are often struggling with the same limitations. You will inherit norms formed in earlier eras and mistake them for immutable truths.

If you understand that you run a **professional services business**, something shifts.

Suddenly, problems that felt unique become recognizable. Constraints that felt permanent become design choices. Lessons learned in other domains become transferable. And the question changes from *"How do firms like ours survive?"* to *"How do well-run professional services firms win?"*

This is not a semantic exercise. It is a reclassification of reality.

Professional services is the industry.
Domain is the specialization.
Judgment is the product.

That framework explains why the same firms struggle with the same issues across law, consulting, accounting, marketing, engineering, and technology services. It also explains why the solutions to those issues—pricing discipline, leverage, systems, and now AI—repeat across domains when the business model is properly understood.

As the industry moves deeper into Era 3, this foundation becomes non-negotiable. Artificial intelligence does not change what professional services firms sell. It changes how that expertise is delivered, scaled, and monetized. Founders who haven't corrected their identity will attempt to layer new tools onto old assumptions—and they will be disappointed by the results.

Founders who get the identity right will recognize Era 3 for what it is: not a threat to professional services, but its next structural evolution.

This is why every serious conversation about the future of boutique firms begins here.

Before strategy.
Before tools.
Before optimization.

With clarity about the industry you are actually in.

