

By [Daniel Kiernan](#)

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## Home for the Holidays

So you thought you had job security because you got out of Wall Street, or whatever fickle trade in which you got your start, and you joined a private equity firm. Well, we have some bad news for you.

Private equity is being hit just like everybody else, apparently – though maybe not as hard. Firms are starting to downsize staff and close entire offices as the economy continues to suffer. The reports of such closures and layoffs have just started, and it's unclear how far things will go.

The cutbacks seem to be taking place at the higher levels of private equity. Tom Bonney, managing director of Philadelphia financial consulting firm CMF Associates, commented on what he saw as the differences between the methods of cutting in the various segments of the asset class.

"I break it up into three tranches within private equity," Bonney says. "One is the larger, mega-private equity funds. Second are the publicly traded BDC funds. And third are the middle market buyout funds. In terms of the larger megafunds, what you're seeing is just reeling in certain levels of expansion that took advantage of growth expectations and investment expectations that they had. What you're seeing, I think, is a retrenchment back to the core competencies and core visions of these funds. They're probably being pressured by their limited partners as well to get back to basics.

"In the publicly traded companies, those (cuts) are being driven by earnings per share problems and an overall cost containment in terms of consolidating offices within a few regions. If you think of American Capital, they might have had 20 or so offices, and I think they're consolidating now down to four or five regional centers.

"And in regard to the middle market, I'm not seeing much in terms of layoffs in the middle market. What I am seeing, though, is there was (previously) a push to bring on and hire operating partners and operating talent, meaning people who could help them run the portfolio companies – as opposed to investment professionals. We're seeing a slow down in terms of the job growth and expansion in operating partners, and a re-evaluation of how they want to deliver operating assistance to their portfolio companies."

Bonney seems to be on to something with the megafunds scaling back expansion.

Perhaps our eyes were bigger than our stomachs, and an office in Poland isn't such a great idea, they might finally be concluding. Carlyle's much publicized layoffs this week (made after Bonney's comments) included 10% of its staff (out of 1,000 total employees) and the shuttering of its Menlo Park office.

If Silicon Valley isn't a fertile place to expand into, what chance does the average emerging market have? The firm had already closed its office in Warsaw. It also got rid of its Asia Leveraged Finance Group. The Poland office and the Asia group were both founded in 2007. The office in Poland hadn't yet been the source of a single deal.

American Capital, a publicly traded fund, laid off 110 employees on Tuesday. It has been reported that 3i Group will top Carlyle and lay off 15% of its own staff. Behrman Capital, which has been having trouble raising its latest fund, is also laying off a significant amount of its staff.

Linda Ducruet, the founder of executive search firm Ducruet Associates, agrees with Bonney that overexpansion is an issue with some of the megafunds. But alongside the retrenching she also sees a more classic and conventional form of downsizing.

"I think you're going to see offices go, selectively," she says. "At the same time I think they'll take a look at all the different levels and say, 'OK, these are our deal guys and here are some who have been mediocre, riding the crest of the wave – boom, they're gone. Marketers – we don't need as many because we don't really have anything to sell. Analysts – the pool is going to reduce.' That is, to me, downsizing across the board."

Ducruet also says a sort of irony in the tactics that major firms are going to have to resort to in order to survive.

"If you look at what a private equity firm does, they buy portfolio companies, they go in, they slice and dice, they trim away all the fat," Ducruet points out. "They're going to have to turn those exact methods on themselves now."