

# Management Consulting Services

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Thinking about expanding your business but having problems developing ideas for it? Do your expenditures total more than what the business is actually earning? Do you need something to improve employee production? Are you considering new technological services but do not know where to start? If a business owner answered affirmatively to any or all of these questions, the solutions may lie in seeking out the services of a management consultant. Management consultants provide technical, administrative, and strategic training and advice to business owners in both private and public sectors.

## Industry Overview

Approximately 25% of workers in management and consulting services are self-employed. Smaller consulting firms generally specialize in one area though many larger firms, aside from advising on traditional business processes such as marketing or human resources, often provide a range of services specific to one industry. One example is in health care. Consultants may be hired by a physician in private practice to improve staff retention, explore new marketing strategies, or purchase software – all of which can impact the bottom line of any enterprise. Consultants specializing in the health care industry can also offer their services to address issues related to the industry itself such as avoidance of malpractice suits, compliance with patient confidentiality regulations, and methods of dealing with health insurance companies.

Consultants in this industry are among the highest paid professionals. Both managerial and higher level professionals can earn considerably more than the industry average. According to the Association of Management Consulting Firms, the 2004 average total compensation (salary plus bonus or profit sharing) for research associates was \$52,482; for entry-level consultants, \$65,066; for management consultants, \$89,116; for senior consultants, \$123,305; for junior partners, \$191,664; and for senior partners, \$319,339.<sup>1</sup> As of this writing, there are 175,026 estimated U.S. establishments in this industry with total annual sales of over \$140 billion. The average sales per establishment are \$.9 million with an average of 7 employees per establishment.<sup>2</sup>

Management consultancy consists of several components which facilitate an effective consultant-client relationship. First, professional consultancy is characterized by a detached relationship to the business where the consulting services are being utilized. The consultant has no direct authority to make changes in a company and strives to ensure that the business owner and/or management team is thoroughly involved in the process to achieve the success of any plan. Secondly, the consultant's basic responsibility is to give sound and practical advice, as his integrity remains unquestioned. Thirdly, consulting involves providing professional knowledge and skills relevant to practical management problems. A consultant adds tremendous value to his/her services by keeping up-to-date with the latest industry trends, continually evaluating and improving problem-solving abilities in his chosen field of interest.<sup>3</sup>

## Industry Trends

The industry is presently dominated by a few large firms. Table 1 shows the top 15 global management consultancy firms based on their revenues in 2002.

**Table 1: Top 15 Global Consulting Firms based on 2002 Revenues**

Rank	Firm	2002 Global Consulting Revenues (US\$ million)
1	Accenture	13,105
2	IBM Business Consulting Services	13,074
3	Cap Gemini Group	7,047
4	McKinsey & Company	3,300
5	Deloitte Consulting	3,150
6	Mercer Consulting Group	2,620
7	Bearing Point	2,367
8	Booz-Allen & Hamilton	2,300
9	Hewitt Associates	1,720
10	Towers Perrin	1,440
11	A.T. Kearney	1,080
12	Boston Consulting Group	1,020
13	American Management Systems	986
14	Bain & Company	825
15	Watson Wyatt Worldwide	710

Source: Kennedy, 2003. Reproduced in *European Business Forum*, 2004 p. 58<sup>4</sup>

Recent trends are for the firms to shift their revenue base abroad, mainly into Eastern Europe, Latin America, and the Pacific Rim, for greater access to the world market. Large consulting firms are also expanding from traditional planning and advisory services to include implementation. In U.S. and Western Europe markets, demand is largely concentrated in the private sector. In the smaller markets that include Central and Eastern Europe, India and Asia, increasing demand comes from the public sector.<sup>5</sup> Entrepreneur.com listed 20 consulting business categories that are thriving today.

The top 10 in the list are:<sup>6</sup>

1. Accounting: Help the general financial needs of businesses.
2. Advertising: Develop a good strategic advertising campaign.
3. Auditing: Assist business owners from auditing bills to estimating profits
4. Business: Increase profits.
5. Business writing: Improve written communications from memos to comprehensive reports.
6. Career counseling: Provide assistance in job-hunting, career improvement, etc.
7. Communications: Assist employees to communicate effectively with each other.
8. Computers: Assist in all areas of computer software and hardware.
9. Editorial services: Produce marketing and technical literature from newsletters to annual reports.
10. Executive search/headhunter firms: Find talented workers for employers.

It is estimated that the industry will grow at an average annual rate of 4.8% over the remaining period to 2008 and this growth will be attributed to increased profits and employment in the general economy. The industry is also expected to operate in an increasingly competitive environment with management consultancy firms competing with consultancy firms emerging from the accountancy arena on the international and domestic scenes. Consolidation and mergers between large and small firms will continue. Opportunities for small niche firms will depend on differentiating themselves from others.<sup>7</sup>

## Marketing

In a semiannual study of the economics of consulting business, consultants were surveyed about the marketing strategies they used. These results were then correlated with their income levels. Table 2 shows the data for consultants with relatively high and low incomes:

**Table 2: Marketing Strategies, Percentage of Consultant Usage, and Pretax Income**

<b>Marketing Strategy</b>	<b>All Consultants By Percent %</b>	<b>Pretax Income Greater than \$110,000 By Percent %</b>	<b>Pretax Income Less than \$55,000 By Percent %</b>
Cold personal calls	58.5	14.4	70.7
Direct mailing of brochures/sales letters to cold lists	70.6	20.8	71.3
Provision of no-charge diagnostic services to pre-qualified leads	42.7	19.8	58.1
Promotion to similar clients on basis of referrals or names obtained from clients	60.5	71.6	22.9
Lectures to civic, trade, and professional audiences	17.8	40.1	9.6
Writing articles, books, newsletters for trade, professional, civic audiences	18.2	37.6	8.3

Source: *The Complete Guide to Consulting Success*, 1997.<sup>8</sup>

## Pricing

One of the most frequent concerns for starting a consulting business is how to charge for services. Following are several ways of billing consulting time:<sup>9</sup>

1. Hourly or Daily Rate: This method is widely used by consultants. To determine the rate, estimate the number of billable hours in a year. Time spent on marketing, administrative and other related functions are not charged to the client. The goal is to charge enough to cover overhead expenses and also earn a profit.

2. Fixed or Flat Rate: This method involves charging by the project. Many consultants report that higher earnings using this method versus an hourly or daily billing method. Charging a flat rate also minimizes potential price disputes because the price is settled prior to starting a project. However, there is a risk of underestimating a task so it is advisable to limit the scope of the project to something that is easily calculated.

3. Contingency or Performance Arrangements: Typically, this method is used when consultants are asked to partner with clients. Consultants' earnings are based on profits earned. Some consultants also include a flat rate with a percentage of the profits or ownership.

4. Value-Based Fees: This method is seen in projects involving taxes. For example, if a consultant saved a client one million dollars in taxes, he or she will charge a higher fee to reflect the value of the services rendered. Whether this fee reflects a percentage of the increased savings or a pre-determined amount, the goal is to match the price with the service that was rendered as adequately as possible.

Professionals planning to enter this field can expect to earn more than most of their peers. However, their success is highly dependent on how they cultivate their relationships with clients, how they price their services, and how they effectively market their business. The future is promising for the management consulting industry, as a whole. Small business owners will benefit from establishing a niche with different product offerings to compete with large firms.

### **Associations**

Association of Management Consulting Firms – <http://www.amcf.org/index.asp>

Institute of Management Consultants USA – <http://www.imcusa.org/>

Professional and Technical Consultants Association – <http://www.patca.org/>

### **Sources**

<sup>1</sup> Occupational Outlook Handbook, 2006-07 Edition. <<http://www.bls.gov/oco/cg/cgs037.htm>> Accessed June 11, 2006.

<sup>2</sup> Zapdata.com. D&B Sales & Marketing Solutions. <http://www.zapdata.com>.

<sup>3</sup> *A Guide to Management Consulting* 9<sup>th</sup> Edition. Small Business Institute. University of West Florida, 1994.

<sup>4</sup> Ringland, Gill & Shaukat, Azfar. An Uncertain Future for Management Consulting. *European Business Forum*. London: Autumn 2004. Iss.19, pg. 58, 4 pgs.

<sup>5</sup> "Management Consulting Services." *Encyclopedia of Global Industries*. Online Edition. Thomson Gale, 2005.

<sup>6</sup> Tiffany, Laura. How to Start a Consulting Business. <<http://www.entrepreneur.com/article/0,4621,290184-1,00.html>> Accessed June 11, 2006.

<sup>7</sup> Business Consulting Poised to Grow Over the Next 5 Years Due to Accelerating Link With IT, IDC Reveals. <<http://www.idc.com/getdoc.jsp?containerId=prUS20200506>> Accessed June 16, 2006.

<sup>8</sup> Shenson, Howard & Nicholas, Ted. *The Complete Guide to Consulting Success: A Step-by-Step Handbook to Build a Successful Consulting Practice* 3<sup>rd</sup> Edition. Upstart Publishing, 1997.

<sup>9</sup> Pope, Stephen. How Do You Set Consulting Fees? National Business Association, 2005.  
<<http://www.nationalbusiness.org/nbaweb/Newsletter2005/2118.htm>> Accessed June 11, 2006.

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