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# SECTOR COMPETITIVENESS FRAMEWORKS

## MANAGEMENT CONSULTING

### PART 1 – OVERVIEW AND PROSPECTS



**Industry  
Sector**  
*Service Industries  
and Capital Projects*

**Secteur  
de l'industrie**  
*Secteur des services  
et des grands projets*

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# MANAGEMENT CONSULTING

## PART 1 – OVERVIEW AND PROSPECTS



PREPARED BY:

**SERVICE INDUSTRIES AND  
CAPITAL PROJECTS BRANCH**

This *Overview and Prospects* is the first of two companion documents on the Canadian management consulting industry in the **Sector Competitiveness Frameworks** series, which is being produced by Industry Canada in collaboration with Canada's key stakeholders in the industry. *Part 2 — Framework for Action* will be prepared in coming months, based on discussions with major industry stakeholders, following study and review of the *Overview and Prospects*.

The **Sector Competitiveness Frameworks** series focusses on opportunities, both domestic and international, as well as on challenges facing each sector. The objective is to seek ways in which government and private industry together can strengthen Canada's competitiveness and, in doing so, generate jobs and growth.

*Part 1 — Overview and Prospects* is being made available for distribution in printed as well as electronic forms. In all, some 29 industrial sectors are being analyzed.

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# F O R E W O R D

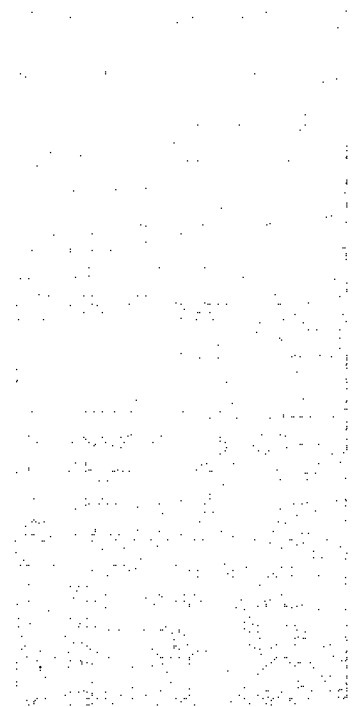
The new Canadian marketplace is expanding from national to global horizons and its economic base is shifting increasingly from resources to knowledge. These trends are causing Canadian industries to readjust their business approaches, and government must respond with new tools to help them adapt and innovate. Industry Canada is moving forward with strategic information products and services in support of this industry reorientation. The goal is to aid the private sector in what it is best qualified to do — create jobs and growth.

Sector Competitiveness Frameworks are a series of studies published by Industry Canada to provide more focussed, timely and relevant expertise about businesses and industries. They identify sectors or subsectors having potential for increased exports and other opportunities leading to jobs and growth. During 1996 and 1997, they will cover 29 of Canada's key manufacturing and service sectors.

While they deal with "nuts and bolts" issues affecting individual sectors, the Sector Competitiveness Frameworks also provide comprehensive analyses of policy issues cutting across all sectors. These issues include investment and financing, trade and export strategies, technological innovation and adaption, human resources, the environment and sustainable development. A thorough understanding of how to capitalize on these issues is essential for a dynamic, job-creating economy.

Both government and the private sector must develop and perfect the ability to address competitive challenges and respond to opportunities. The Sector Competitiveness Frameworks illustrate how government and industry can commit to mutually beneficial goals and actions.

The Sector Competitiveness Frameworks are being published sequentially in two parts. An initial *Overview and Prospects* document profiles each sector in turn, examining trends and prospects. The follow-up *Framework for Action* draws upon consultations and input arising from industry-government collaboration, and identifies immediate to medium-term steps that both can take to improve sectoral competitiveness.



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Management consultants provide objective information, advice and guidance to clients on a wide variety of management and general business issues and, when requested, assist in the implementation of their recommendations. Their core competency is assisting management in problem solving. They add value by

being able to use their expertise and ability to access information more effectively than their clients. Consulting outputs are information in the form of studies, advice and recommendations.

- There are major differences among consulting firms. Distinctions can be drawn on the basis of their size and organizational structure, their degree of specialization, level of technology usage, ability to assemble teams, client portfolio as well as other factors. Some firms have, and market, expertise in one or many fields of management science (human resources, finance, etc.), and others in one particular sector of the economy or in a subject matter outside the management field (agriculture, telecommunications, etc.).
- Definitional imprecision and the absence of scientific survey data preclude market size and growth determinations on other than anecdotal and estimated data. In 1995, worldwide revenues of consulting firms were estimated at US\$40 billion, with some 40 large international firms accounting for as much as 50 percent of those revenues.
- Canadian industry revenues that same year were estimated at between \$2.3 billion and \$3.0 billion (all funds are in Canadian dollars unless otherwise stated). More than 20 000 consultants were working in Canada in 1995. Nominal industry growth through to 2001 is expected to be in the area of 10 percent annually, down from a level of more than 15 percent in some years prior to the 1990–92 recession. Under an optimistic scenario, revenues could approach \$5.0 billion by 2001.

- In Canadian management consulting, information technology (IT), human resources, operations and corporate strategy are important practice areas. Annex A provides information on the services falling under these and other consulting specializations.
- Corporate strategy practices often generate the highest consulting revenues when viewed on a per consultant basis, while information technology and generalist practices tend to be lower. These latter practices often have junior personnel assigned to longer-term projects, whereas strategy assignments involve more participation by firm partners. Information technology is the largest consulting segment, accounting for up to 40 percent of industry revenues, according to industry estimates.
- Most major international consulting practices are based in the United States. Although some repositioning has occurred, there has been little movement in the composition of the top firms over the past 10 years. The large consulting firms are becoming larger and the smaller firms more numerous, and this trend is likely to continue.
- The industry in Canada consists of branches or affiliates of the major U.S. firms, a number of medium-sized firms, and a large number of small firms and sole practitioners (perhaps in excess of 5 000). Globally, there are very few publicly controlled management consulting firms and none in Canada. A number of consulting firms, however, extend ownership shares to their employees. Public ownership is more common among computer services firms in the IT consulting segment and firms from other industries that offer consulting advice.
- Medium-sized and large consulting firms provide a wide range of functional and sectoral expertise in-house and are constantly refining their service lines to meet market needs. Small firms, sole practitioners and highly specialized or "boutique" firms provide a narrower range of services and are often called upon to augment the expertise of the larger practices.
- Innovation does not flow from laboratory experimentation, but rather from a consultant's practical experiences, continuing interaction with clients, and the business and academic communities. Much innovation in the industry takes the form of new technologies, such as analytical models or frameworks, and creative solutions to particular management problems.

- Firms in the financial services, telecommunications, utility and energy sectors are major purchasers of consulting services. The increase in the importance of service sector clients has followed the shift in the overall economy toward a greater emphasis on services, as distinct from goods production. The public sector is another large user of these services, as is the goods-producing sector.

## **1.1 Major Trends**

- Because of the ease of entry resulting from minimal initial capital requirements and the absence of licensure or similar restrictions, together with the public and private sectors seeking help to address the challenges arising from change, consulting continues to attract growing numbers of practitioners from the academic, accounting, legal and other professions.
- Since the 1990–92 recession, management structures in many consulting practices have become leaner and organizational structures flatter. The traditional industry leverage model of employing more lower-paid junior personnel on an assignment rather than partner personnel is beginning to disappear. The emphasis is increasingly on flexible arrangements that allow firms to deploy their resources in the most efficient manner. Smaller firms and sole practitioners are relying more heavily on alliances and associates to build critical mass to compete against larger practices.
- Several of the international consulting firms are establishing global consulting practices with common marketing, intelligence and on-line corporate services. This structure, which often includes their Canadian practice, better positions these firms to serve global clients and compete for large international contracts.
- Mergers and acquisitions (M&As) are characterizing the domestic and global industries. Computer services firms, telecommunications firms and others are moving into consulting to promote their core competencies and to develop a complete package of service offerings. Consulting practices use the M&A route to expand geographically and/or acquire niche expertise.

- Notwithstanding the high degree of differentiation among the services offered by various firms, there is sensitivity to consulting fees. Clients are demanding value-added services or the transfer of the consultant's knowledge and expertise. In some sectors, clients are pushing consultants to consider alternate fee structures such as compensation linked to the costs saved or additional revenue generated from consultants' recommendations. The linkage between advice and its impact on the bottom line is difficult to measure.
- Outsourcing of non-core competencies and government privatization are emerging as major growth areas for consultants, particularly for those in the larger firms. Privatization has become a major aspect of the economic reform and liberalization that is under way in parts of Asia, Latin America and eastern Europe. The trend to increased public-private partnerships and outsourcing is creating opportunities both domestically and in foreign markets. As well as assisting clients plan their contracting-out strategies, some IT, human resources and financial management practices have become involved in managing outsourced operations.
- Consulting is labour-intensive. The absence of a large number of multinational clients has kept domestic compensation levels and billing rates lower than in the U.S. and Europe. Smaller domestic clients are often unwilling to pay international consulting rates. This has provided Canadian firms with a competitive advantage but at a price: profit levels are higher in U.S. firms.
- There is a continuing shift to virtual consulting approaches. Larger firms are experimenting with "hot desking" and "hotelling" arrangements, which enable several consultants to utilize common corporate space. Costs are eventually lowered through the disposition of expensive real estate, and additional leverage can be gained by hiring professional staff and having them work out of a client's premises.
- Key drivers of consulting industry growth in the medium-term future will include the accelerating pace of change in organizations and markets, the evolution to an information economy, the explosion of information technology as an enabler of change, continued corporate downsizing, the growing maturity of buyers of consulting services and the growing maturity of consulting firms.

## **1.2 The Bottom Line**

- Government can support the industry by establishing appropriate framework policies and working with it to identify competitiveness gaps. In trade policy, the appropriate focus is on the implementation of the principles worked out in recent bilateral and multilateral agreements aimed at eliminating barriers to trade in services.
- Government policy and private sector business decisions require reliable and reasonably detailed statistical data, which are currently lacking. Statistics Canada is attempting to address this problem. Efforts to collect consulting industry data and to develop international standards for data reporting in this and other service areas should be supported by stakeholders.
- Government in partnership with industry could pursue a number of initiatives to address the problems that firms and especially smaller firms confront in export markets. The formation of consulting teams or networks in specific areas could help consultants market their services more effectively while allowing them to share the costs of export market development.
- The federal government in partnership with provincial governments could help meet the need of consulting firms for timely information on foreign market opportunities. Working with the private sector, they could conduct export seminars, gather and disseminate export intelligence, and develop frameworks to help firms assess their export readiness.

Many different  
firms contribute  
management  
consulting services

## 2 KEY POINTS ABOUT THIS INDUSTRY

There is a lack of detailed statistical data on the domestic management consulting industry (identified in Statistics Canada's *Standard Industrial Classification* (SIC) system under code 7771, Management Consulting Services). Data collection in management consulting is hampered by definitional issues and the continuing entry of firms that provide consulting services but whose core competency is other than management consulting. While statistical data at the aggregate level covering business and professional services may point to certain trends, it is never clear whether these apply across-the-board to all service industries, including management consulting, what the causes might be and what might be done about them.

The analysis for this overview therefore had to look outside the traditional sources such as Statistics Canada to other sources of information to gather a complete description of the industry. Inherent in this process were the sometimes inconsistent results between domestic sources (*Consulting Industry Survey*, Institute of Certified Management Consultants of Canada, Toronto, 1995) and foreign sources (*Consultants News*, Kennedy Publications Ltd., Fitzwilliam, New Hampshire, monthly; *Management Consultant International*, Lafferty Publications Ltd., Dublin, Ireland, monthly) depending on the assumptions made and their method of data collection. This was also compounded in foreign publications by the absence of a strong Canadian focus.

More complete data  
are needed for accurate  
analysis

This lack of data and the necessity for alternative data sources are not unique to the management consulting industry but are prevalent in many service industries. Recognizing the need for timely, complete and accurate statistical data to assess industry competitiveness, Industry Canada and Statistics Canada are continuing their efforts to improve the availability of services industry data, including a more accurate survey of the management consulting industry. Only as data at the industry level become available can Industry Canada begin to analyze competitiveness issues affecting this and other service industries.

## 2.1 Global Context

Consulting is a truly global industry. The United States is by far the largest market for consulting services and is also home to most of the international consulting practices. The importance of the U.S. market is highlighted in Table 1.

**Table 1. Global Consulting Markets by Revenue Share, 1995**

Total value	U.S.	Canada	Europe	Asia	Latin America	Rest of world
US\$40 billion	52%	6%	32%	7%	2%	1%

While the greatest proportion of demand for consulting services comes from high-income economies, there is a growing market in developing, newly industrialized and transitional economies. Multilateral development banks are often a source of funding for those projects. Markets in Asia and Central and South America have begun to attract growing interest from the global consulting firms. China is seen as a promising market but one that is especially difficult to penetrate. Eastern Europe and the Commonwealth of Independent States (comprising some of the states of the former Soviet Union) have become profitable markets for consulting firms working for international development agencies.

The service sector, principally firms in financial services, telecommunications, utilities and energy, constitute the global industry's largest installed client base. Strategic planning (both corporate and information technology (IT)) as well as operations management and human resources consulting remain important consulting functions in demand throughout the world.

The global industry continued to grow during the 1990s, although the pace has slackened since the last recession. This growth has been sustained by demand from the markets outside North America that were less affected by the recession. Many North American businesses appear to have recognized that they no longer need analytical studies and reports but rather assistance in adapting to the pace of technological change and in fundamentally restructuring their operations to become more competitive. Consultants themselves appear to have come to the realization that they could not sell a one-off service, but must become involved in all aspects of their clients' business.

**U.S. dominates world consulting market**

**Promising markets open up in Asia**

**Industry grows at a slowing rate through 1990s**

Clients want complete  
business solutions  
to their problems

Since the mid-1980s, there has been a marked increase in activity in certain areas of consulting, notably human resources, corporate strategy and IT, as clients became more interested in total corporate solutions to their problems. Larger consulting firms strengthened their information and knowledge networks. These knowledge networks utilized groupware applications that could provide a competitive advantage on the basis of historical data. Information such as best practices, research reports and information respecting client assignments could be shared across the organization. Through mergers and acquisitions, larger firms are striving to build a critical mass that could give them an advantage in key markets and industries. Global consulting became more important in the 1990s as consulting firms restructured in response to more discriminating demand from multinational clients whose operations are dispersed around the world.

The threat of litigation has also become an issue in the 1990s. Several cases involving consulting firms are now before the courts in a number of countries. So far, Canadian practitioners appear to have avoided this.

## **2.2 North American Context**

Most major international consulting practices have their head offices in North America. Although several European-controlled firms operate in the North American market, few have made significant inroads. U.S. firms have become market leaders in terms of service offerings, product innovations and revenue growth.

U.S. firms report  
remarkable revenue  
growth in 1980s . . .

While there are no definitive surveys available to document industry growth and market size, much anecdotal information suggests that consulting industry revenues have been solid and at times even remarkable. During the mid-1980s, the North American industry was growing. Nominal industry growth in the U.S. was reported at above 10 percent, often reaching 20 percent and more in some years. Some specializations, for example, strategy consulting, were experiencing nominal growth rates of 15 percent annually, while certain elements of IT were expanding at three times that rate during the latter part of the 1980s. During the same period, large U.S. accounting firms and human resources practices were reporting nominal revenue growth twice the consulting industry average. A large portion of the reported growth came from offshore markets that were growing faster than North America's. Industry growth slowed dramatically during the 1990-92 recession and then recovered, with reported nominal industry growth of between 5 percent and 10 percent annually in the post-recessionary period. This contributed to estimated industry revenues of US\$23 billion in 1995 for North American firms.

. . . slowing after  
recession

The growth in the North American industry over the past 10 years or so was the result of a number of factors. These included corporations' increasing need for sound business advice to cope with global and technological change, the greater pressure on governments to streamline operations and become more efficient, and the increasing acceptance and more frequent implementation by clients of consulting recommendations.

Also contributing to the nominal growth in industry revenues were the drawing in of additional firms and revenues through a broadening of the definition of management consulting to include consulting to business, the inclusion of firms from other market disciplines doing some consulting work in addition to their core competency, and an increase in the number of mergers and acquisitions involving a non-consulting partner. In some of these new or merged organizations, total revenues rather than the consulting portion may have been reported as consulting revenues in informal industry surveys, thereby overstating the size of the industry.

### Industry Association

Management consulting in Canada has been represented by a professional and trade association for over 30 years. The Canadian Association of Management Consultants was formed as a trade association in 1963 and, with its support, the Institute of Management Consultants of Canada was formed several years later to promote professionalism in the industry. In 1990, the Institute of Certified Management Consultants of Canada (ICMCC) replaced these two organizations. Its seven provincial and regional institutes confer the Certified Management Consultant (CMC) designation on practitioners who successfully complete its course of studies and practical experience requirements and adhere to a uniform code of professional conduct.

Corporate membership in the ICMCC stands at 19 firms and, on the professional side, its 3 300 members (2 300 designated practitioners and 1 000 practitioners studying for their designation) represent between 15 and 20 percent of domestic consultants.

## 2.3 Canadian Industry Snapshot

While a significant source of Canada's consulting strength lies in the sectoral and functional expertise of its small and medium-sized enterprises (SMEs), many global competitors are established here and participate in the Canadian market. This diversity makes it difficult to discuss the Canadian industry generally; an accurate "snapshot" must reflect the substantial differences among participants, both in terms of activities and size.

**Globalization and technological change open consulting opportunities**

**Part of growth reported may be overstated due to data collection methods**

**ICMCC becomes industry and professional association**

**Substantial differences exist among participants**

One significant market distinction is between firms active in information technology consulting and those focussing on other areas of consulting.

### **Consulting in Information Technology**

IT consulting accounts  
for 40% of revenue

Consulting in information technology is the largest segment in most geographic markets, accounting for up to 40 percent of industry revenues by some estimates.

IT market is divided  
among accounting,  
computer services  
and specialized  
consulting firms

Consulting in this field is carried out by both large and small firms. For example, the consulting arms of the Big 6 accounting firms (Deloitte & Touche, Price Waterhouse, KPMG, Coopers & Lybrand, Ernst & Young, Arthur Andersen) are continuing to expand their service offerings in this area, some through the acquisition of existing niche IT practices. This is done in order to compete more effectively with computer services firms (e.g. DMR Group Inc., SHL Systemhouse Inc., Electronic Data Systems Inc. among others), which are increasingly active in this market, as well as with large, specialized IT consulting practices such as Andersen Consulting. In addition to their core IT consulting competency, some IT consulting firms, particularly the larger practices, also offer a broad range of general consulting services to meet client needs.

Participation in the consulting market by computer services firms is a strategy they adopt to facilitate future core business dealings with clients. While these firms may tend to support the selection of their own hardware/software as part of the business solution, smaller firms are also valuable sources of expertise. Their non-association with computer systems developers and hardware suppliers is valued by many clients.

IT consulting accounts  
for more revenue than  
any other management  
consulting service

The ICMCC in 1995 published the responses to its survey of 319 management consulting firms. The survey frame was driven by ICMCC affiliation; some large international firms without such involvement did not participate, which led to the omission of part of the high end of the market. The exclusion of such firms understates the survey results. Notwithstanding, the survey does provide some insight into the domestic industry. The ICMCC survey found that information technology accounted for 19 percent of the revenue of all respondents, more than that generated by any other core service. For medium-sized firms of between 50 and 149 employees, IT was responsible for almost two thirds of their consulting revenues. The next most important service offering for surveyed firms, on the basis of revenue, was strategic management (accounting for 15 percent of revenues), followed by human resources management (13 percent), organizational development (12 percent) and financial management (11 percent).

## Consulting in Other than Information Technology

Accounting for 60 percent of the domestic market revenues, practices consulting in other than IT have structured their service offerings along functional lines such as corporate strategy or human resources, while others have adopted a sectoral approach to the market. Still others approached the market with a broad horizontal focus on some of the strategic problems, threats and opportunities facing clients.

A second distinguishing characteristic is the size of firms.

**Large firms** are often viewed as those with 50 or more consultants and revenues in excess of \$15 million. These firms tend to have a global network of offices and offer their clients a wide range of consulting services. Several have followed the trend begun by computer services firms and have moved into managing clients' outsourced operations. Large firms include the consulting arms of the large domestic accounting firms and the Canadian practices of international strategy firms, human resources firms and generalist firms. In 1995, *Consultants News* reported that a U.K. research firm, Alpha Publications Ltd., had estimated that the 30 largest consulting firms in Canada accounted for a 61-percent share of Canadian industry revenues that same year. SMEs accounted for the balance.

**Medium-sized firms** usually employ between 10 and 49 consultants and have revenues ranging between \$1 million and \$15 million. These are more numerous than the larger practices and tend to specialize in a few functional/sectoral areas. Medium-sized firms often achieve critical mass through partnership arrangements and alliances with firms of similar size both at home and abroad.

**Small firms and sole practitioners** tend to have annual revenues of \$1 million or less and employ up to nine consultants. Small firms constitute an estimated 95 percent of all domestic consulting firms. This category includes many individuals who have moved out on their own to apply the knowledge and experience they have gathered in business, government or academia. Sole practitioners include corporate entities that function as virtual corporations retailing their services directly as well as individual freelance consultants who wholesale their services to others for onward distribution. The high proportion of small firms accounts for a minor share of employment in the industry. In the ICMCC survey, for example, 84 percent of the firms that employed fewer than nine employees accounted for only 14 percent of consulting professionals.

**Other firms target functional, sectoral or strategic issues**

**30 largest firms in Canada account for 61% of industry revenues**

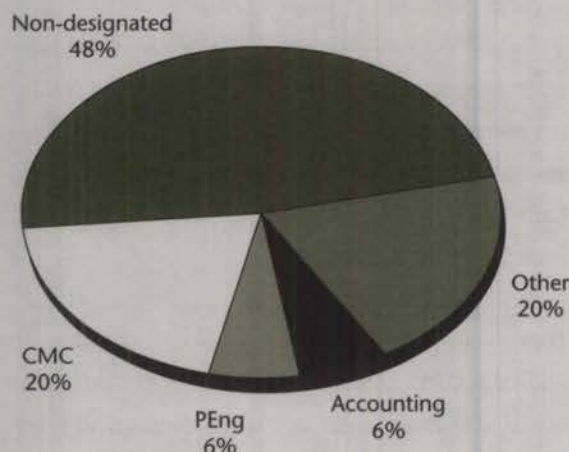
**Some mid-sized firms form alliances to achieve critical mass**

**Some consultants function as virtual corporations or freelance and wholesale their services**

Entry barriers  
are very low

The growth of small firms is indicative of the absence of significant barriers to entry into consulting. The designation of Certified Management Consultant (CMC) identifies practitioners who have followed a program of training and who adhere to a prescribed code of professional conduct, but the field is open to anyone with the requisite skills. A 1991 Statistics Canada pilot survey of 75 management consulting firms found that 20 percent of the professional employees in surveyed firms held the CMC designation, while 48 percent of the practitioners had no professional designation (Figure 1).

**Figure 1. Professional Designations in Management Consulting, Canada, 1991**



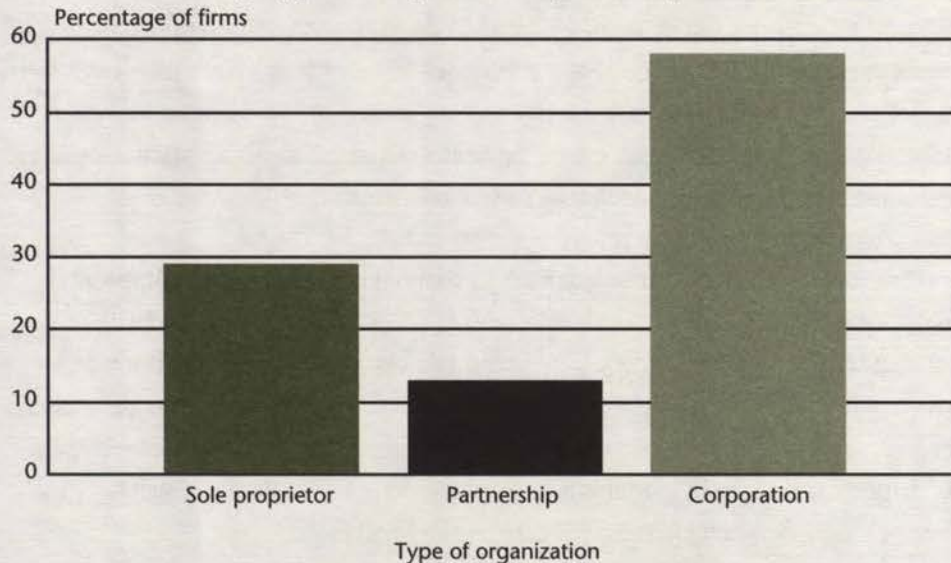
Source: Statistics Canada, *The Daily*, February 14, 1994.

Within Canada, the distribution of consulting activity reflects the distribution of business activity. Ontario, Quebec and British Columbia traditionally account for about 80 percent of industry revenues and employment.

Most firms adopt  
corporate structure

Consulting practices are generally owned by employees and partners. While sole proprietorships are important in Canada, most consulting firms adopt the corporate form of organization (Figure 2). Widespread public ownership of consulting practices is rare outside the computer services area, where capital requirements can be significant. The partnership structure found in other professions exists in the consulting industry.

**Figure 2. Distribution of Consulting Firms by Type of Organization, Canada, 1995**



Source: Institute of Certified Management Consultants of Canada, *Consulting Industry Survey* (Toronto: ICMCC, September 1995).

For the most part, the strength of consulting firms depends on their human resources. Staff salaries average up to 60 percent of consulting revenues, and are the largest expense category for consulting firms. To build their competitive strength, firms invest in the upgrading of their employees' professional skills and often associate with other consultants offering complementary expertise. The concept of an associate is similar to that of a subcontractor in the construction industry. Associates are consulting practices or individual consultants with specialized knowledge who are engaged by the lead firm on a consulting assignment for the expertise they can bring to the assignment. Associates provide flexibility and avoid the overhead costs and commitments associated with full-time employees. The 1995 ICMCC survey revealed that associates tend to be relatively more important to smaller firms; by augmenting the skill set of small practices, associates permit these firms to compete on a wider range of projects.

International consulting firms residing in Canada supplement the expertise of their Canadian personnel by forming multinational teams, drawing on the global skill sets of the practice. Many smaller firms have a different client base and do not require the same diverse base of skills. However, through the use of associates and the development of alliances, SMEs can deepen their capabilities and improve their ability to compete against larger firms. Anecdotal information points to a growing interest by smaller firms in these informal relationships.

**Skills are the greatest strength and largest expense**

**Multinational teams draw on global in-house skill sets . . .**

**. . . while associates and alliances achieve similar effect for smaller firms**

Clients expect constant  
skill upgrades, but resist  
upward fee pressure  
to pay for them

While practitioners recognize the importance of staying abreast of current developments and trends, sole practitioners and small firms are not always able to afford continuing professional development courses for themselves or their staffs to the same extent as larger firms. Considered by some as non-billable time, many SMEs tend to view this activity as a costly investment that may not pay dividends in the foreseeable future. Many are caught in a dilemma. Clients are demanding new skill sets including formal certification of quality assurance practices but at the same time are resisting the resulting upward pressure on fee rates.

Canadian consultancies tend to rely less than U.S. firms on hiring graduates in Master of Business Administration (MBA) directly from schools, preferring to hire personnel with sectoral or at least some consulting experience. Larger firms that take on younger recruits supplement professional courses with in-house training. Often, however, the preferred method for building human capital is to hire an employee with the needed expertise or network of contacts. About one quarter of senior new hires tend to have sectoral experience. The hiring of staff externally is relatively more common for junior positions and for small firms.

## **2.4 Performance**

Consulting emerges  
out of accounting  
during 1930s . . .

Some of Canada's first management consulting firms were formed in the early 1930s, and many were associated with the chartered accounting profession, an association that remains to this day. Also around that time, the industry's areas of practice in Canada and elsewhere began moving away from the purely technical aspects of industrial engineering to become a multifaceted service, offering a range of skills and techniques to address various management issues.

. . . branching into  
specialties during 1970s

By the 1960s, the major accounting firms that had helped create some of Canada's earliest and largest consulting firms were joined by the entry of sole practitioners and part-time academics. The face of consulting was also changed by the emergence of new specialties. Strategic planning became a significant new field of consulting, while computer-related and human resources consulting became popular in the 1970s. Mergers and acquisitions in the 1980s gave rise to a number of new, multi-service, globally oriented service providers. Non-traditional suppliers, often computer services firms, began entering the market toward the latter part of that decade. This trend continues.

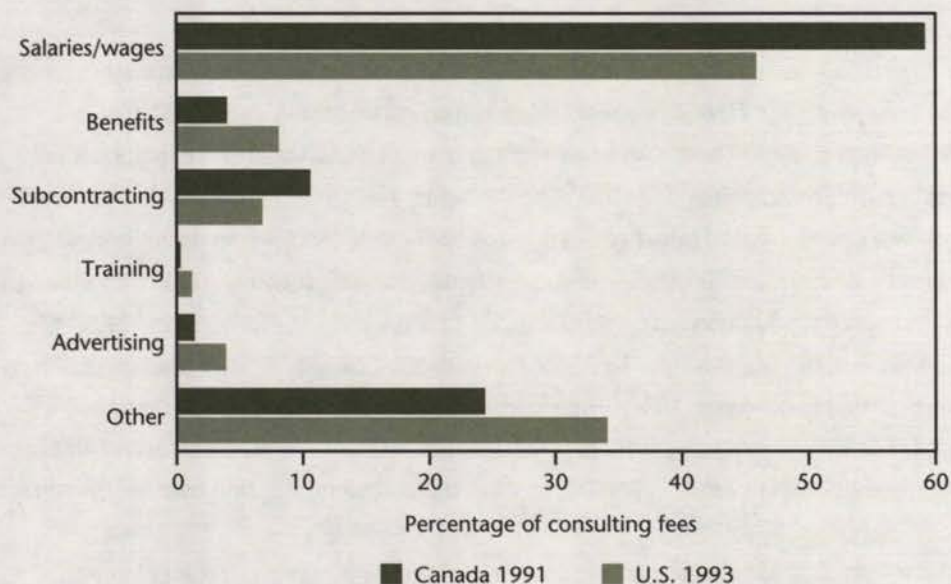
Larger firms lead  
corporate growth  
during 1990s

Early ICMCC corporate member surveys are the main source of historical data. They indicate that the Canadian industry enjoyed very strong growth through the late 1970s and, with the exception of the 1981-82 recessionary period, this growth continued through much of the 1980s. Data processing was a particularly strong area of growth in those years, and by the mid-1980s represented almost 50 percent of the revenues of surveyed firms, up from 30 percent a few years

earlier. Some firms experienced very strong growth; nominal annual growth reportedly was as high as 30 percent in some practices during the mid to late 1980s. The 1990–92 recession brought in a period of somewhat lower industry and corporate growth, which continued into 1993–94. There is evidence that corporate performance is now improving, with nominal annual growth of 12 percent to 18 percent being reported by some larger firms. Information technology, human resources, operations and strategy consulting have all experienced strong growth in recent years, now accounting for more than three quarters of industry revenues, with an expectation for continued growth in the near to medium term.

There is some limited information available to compare the operations of Canadian and U.S. consulting firms. Salary expenses are important to firms in both countries (Figure 3). Although Canadian practices appear to have a competitive advantage in terms of the benefits paid to consulting staff, U.S. practices recorded lower overall compensation levels as a percentage of

**Figure 3. Comparison of Operating Expenses of Management Consulting Firms, Canada and the U.S.**



Source: Statistics Canada, *The Daily*, February 14, 1994; Association of Management Consulting Firms, *Survey of United States Key Management Information* (New York: ACME, 1994).

consulting fees. The subcontracting category reflects the significance of associates. The results showing subcontracting to be more heavily utilized by Canadian firms may have been affected by the differing economic conditions prevailing during the two survey periods. The training expense category for domestic practices was very low, less than \$1 000 in total. While advertising expenses were also modest, this was an area receiving new emphasis as major firms attempted to build brand recognition and differentiate themselves from their competitors.

The lower ratio of salaries to revenues in the U.S. is interesting in view of the very high starting salaries some U.S. consultancies have been paying new recruits in recent years. High initial salaries, surpassing US\$100 000 at some leading international consultancies, have pushed up overall salary costs in the U.S. Evidence suggests that non-billable time, associated with practice development, proposal writing, training and marketing of a firm's services, also was greater in U.S. firms. In both countries, partners incurred the most non-billable time, averaging more than 30 hours per week in some practices. The average non-billable time of consulting staff in Canadian practices ranged from eight to 16 hours per week, compared with nine to 20 hours in U.S. firms.

**The number of small  
firms is growing**

The 1995 ICMCC survey shows that small consulting firms were continuing to experience rapid growth. For example, of the 164 surveyed firms with one to three professionals, 27 were new to the industry in 1994. The growth in the number of small firms was fuelled in part by small office/home office technology and corporate outsourcing. The survey also reveals that 60 percent of sole practitioners worked from home. There has been much discussion in the industry of the growth of "niche" or "boutique" practices, referring to small, highly specialized consulting practices whose practitioners have a significant depth of sectoral or functional expertise or a combination of the two. However, the ICMCC survey does not identify any one practice area as being particularly dominant. All reporting groups had at least four areas of practice, which collectively contributed 50 percent or more to the consulting revenues of the firm. Larger firms of 50-plus professionals reported nominal revenue growth of 12 percent in 1994 over the 1993 level.

**U.S. and Asian markets  
are important  
for many firms**

In the 1995 ICMCC survey, revenue from foreign markets was greater for British Columbia and Toronto-based firms. Major export markets were the U.S. and Asia as well as Europe (which is now viewed as presenting less promising market opportunities than initially thought). Organizational development firms earned a substantial 27 percent of their revenue offshore, while information systems practices earned 5 percent. This low rate may be explained by the absence of some IT practices from the survey.

There appear to be a number of significant differences between categories of firms (Table 2). Small firms derive the majority of their revenue from sole source proposals (public and private sector) and from contracts for the provision of goods and services worth under \$25 000. Large firms make greater use of competitive contracting and derive most of their revenue from projects over \$100 000 in value.

**Table 2. Points of Comparison between Categories of Firms, Canada, 1994**

Contribution to revenue	Small firms (1-9 consultants)	Medium-sized firms (10-49 consultants)	Large firms (50+ consultants)
		(percent)	
Competitive bids	27	49	58
Sole source proposals	73	51	42
Existing clients	56	59	73
Assignments			
<\$25 000	59	31	10
\$25 000-100 000	33	44	23
\$100 000-250 000	6	14	17
> \$250 000	2	11	50
Public sector work	34	53	66
Principal sources of competition	Similar sized and boutique firms Large accounting firms Mid-sized local firms	Large accounting firms Mid-sized local firms Boutique firms	Large accounting and non-accounting firms Mid-sized national firms Mid-sized local firms
Source: Institute of Certified Management Consultants of Canada, <i>Consulting Industry Survey</i> (Toronto: ICMCC, September 1995).			

Small firms lead in small contracts, large firms lead in large

Consulting practices of all sizes in the U.S. generated 68 percent of their revenues from existing clients. Compared with Canadian firms, U.S. consultancies are somewhat more dependent on sole source contracts, as distinct from those stemming from competitive bidding. The latter, which contributed to almost 60 percent of the revenue of large Canadian firms, accounted for between 22.5 percent and 42.5 percent of the revenue of U.S. firms in 1995.

Small firms rely more on sole source proposals

### 3 CHANGING INDUSTRY CONDITIONS AND INDUSTRY RESPONSE

#### 3.1 General

Restructuring and globalization spark demand for consulting

Restructuring in the public and private sectors and the increasing globalization of business have contributed to an increasing demand for consulting services. The consulting industry has responded by devising new approaches to the management challenges presented by these highly competitive, global markets. While changes in the mix of consulting services have occurred, either by way of a new concept or a variation on an existing theme, both parties have gained: clients by reportedly utilizing the services of consultants to help them address market challenges, and the industry through the introduction of new products and services with increased growth potential.

Consultants respond with increased array of services

To meet client demand, the consulting industry has continued to introduce innovative products and services, often marketing these services with their own buzzwords and corporate identities. With most of the recessionary cost-cutting and downsizing/rightsizing behind them, the corporate community with the help of consultants is restructuring for growth.

Attention to human resources increases . . .

There is also a renewed interest in the services of human resources or organizational consultants as client organizations turn their attention to the challenges of growth. Corresponding developments include:

. . . other specializations strengthen

- mergers and acquisitions, leading to a further expansion in the size of the largest firms
- the entry of non-mainstream consulting firms (i.e. computer service firms) attempting to capitalize on market opportunities and provide clients with a total solution package
- networking among smaller firms attempting to build their capabilities and enhance their credibility
- a greater emphasis on functional and industry specialization, as distinct from generalist consulting
- the use of joint ventures to satisfy client demands for comprehensive solutions to their problems.

In some growth areas such as the privatization of public sector enterprises, consulting firms are in competition with firms in other industries such as financial services and with professions including law and consulting engineering. The consulting arms of the large accounting firms are also facing increasing competition from computer services firms. Through continuing mergers and acquisitions of niche practices, these large consulting practices are attempting to strengthen their competitive position and maintain market share. This strategy is leading to a shortage of qualified people, which may restrain the growth of some firms.

In the environmental arena, management consultants play a key role in promoting sustainable development by ensuring environmental considerations are taken into account in assignments when assessing the strengths, weaknesses, threats and opportunities facing Canadian businesses. Furthermore, they can encourage the adoption of sustainable practices and, depending on the nature of the assignment, recommend strategic options for trade, investment, technology and human resources.

### **3.2 Technological Change**

For consultants, technology is the collection of tools used in conducting their professional business, the administration and management of their practices, and the marketing of their services (Table 3). In undertaking projects, consultants rely on technology to acquire and manipulate information. In some cases, the service the consultant is offering is based on a proprietary technology such as a methodology, framework or model. SME practices may not formalize their methodologies to the same extent as the larger practices. Cost is a consideration and there may not be the same demand for this technology by their clients.

Consultants have been major beneficiaries of the dramatic progress in communications and computer technology. The decreasing cost and increasing power of information technology have increased the productivity of all consultants, including small firms that rely on mass market hardware and software. They have also reduced the costs of entry into the industry.

Large firms are increasingly using groupware that allows their practitioners in all locations to access corporate data documenting past assignments and best practices. Specialized software applications are used by large firms in specific areas such as financial modelling (Table 3). Assorted information suggests that technology patterns in the U.S. are largely similar to what is observed in Canada.

**Consulting firms are experiencing competition from firms in other industries**

**Consultants promote sustainable development of Canadian businesses**

**Technology use varies with firm size**

**IT innovations reduce costs, increase opportunities for consulting**

**Table 3. Overview of Commercial Technologies Associated with the Management Consulting Industry**

Commercial technology	Technology usage by firm size			Common applications within the practice
	Small	Medium	Large	
<b>Computer hardware</b>				
Desktop	High	High	High	Run commercial software, research, communications
Notebooks/portable computers	Low	Medium	High	Run commercial software, research, communications
<b>Mass market applications (commercial software)</b>				
Document creation	High	High	High	Preparation of proposals, reports, correspondence
Presentation	Medium	Medium	Medium	As above, plus presentations and training aids
Spreadsheets	High	High	High	Internal administration, data analysis, tables and charts
Database	High	High	High	Data analysis
Accounting/financial	Medium	High	Low	Time tracking, accounting
Statistical analysis	Low	Low	Low	Specialized use software; surveys
Project management	Medium	High	Low	Project planning, proposal presentation and tracking
<b>Specialized applications (often developed in-house)</b>				
Project management	Low	Low	Low	Project planning and tracking
Industry specific	Low	Low	High	Example: financial modelling
Accounting/financial	Low	Low	High	Time tracking, accounting
Statistical analysis	Low	Low	Low	Surveys
<b>Groupware</b>				
Discussion forums	Low	Low	High	Information exchange
Knowledge bases	Low	Low	High	Corporate assignments, skills base, best practices
Document creation	Low	Low	High	Group revisions, approval sequences
Administrative systems	Low	Low	High	Expense accounts, time tracking
E-mail	Low	Medium	High	Internal and external communications
www sites	Low	Low	High	Marketing, product/technology demonstrations, recruiting

...Continued

**Table 3. Overview of Commercial Technologies Associated with the Management Consulting Industry (cont'd)**

Commercial technology	Technology usage by firm size			Common applications within the practice
	Small	Medium	Large	
<b>Networks</b>				
LAN	Low	Medium	High	Groupware applications, internal E-mail
WAN	Low	Low	High	As above plus E-mail between offices
Internet/public	Medium	Medium	High	Research, external E-mail, inter-office links, promotional material and marketing
Intranets	Low	Low	Low	Groupware applications
<b>Telephone and teleconferencing</b>				
Cellular	Medium	Medium	Medium	Communication when out of office
Voice mail	High	High	High	Communication and messaging
Audio teleconferencing	Low	Low	High	Group communications within firms and with clients
Video conferencing	Low	Low	Medium	As above
<b>Other technologies</b>				
Fax machines	High	High	High	Document exchange
Computer-assisted training	Low	Low	Medium	Self-training for consultants and clients
Virtual offices	High	Medium	Medium	Minimizes overheads and commuting time
<b>Proprietary technologies</b>				
Methodologies	Low	Low	High	Repeatable processes used to ensure consistency
Knowledge bases	Low	Low	High	Disseminate corporate knowledge to all
• best practices databases	Low	Low	High	Marketing the firm, leverage of junior staff, quality control
• modelling tools	Low	Low	High	As above
• methodologies and templates	Low	Medium	High	Marketing, proposal preparation, quality control
Groupware applications	Low	Low	High	Sharing of information, formation of virtual teams
Source: Lavallee & Associates Management Consultants, "The Use of Technology in the Management Consulting Industry," <a href="http://strategis.ic.gc.ca/sc_indps/service/engdoc/6d.html">http://strategis.ic.gc.ca/sc_indps/service/engdoc/6d.html</a>				

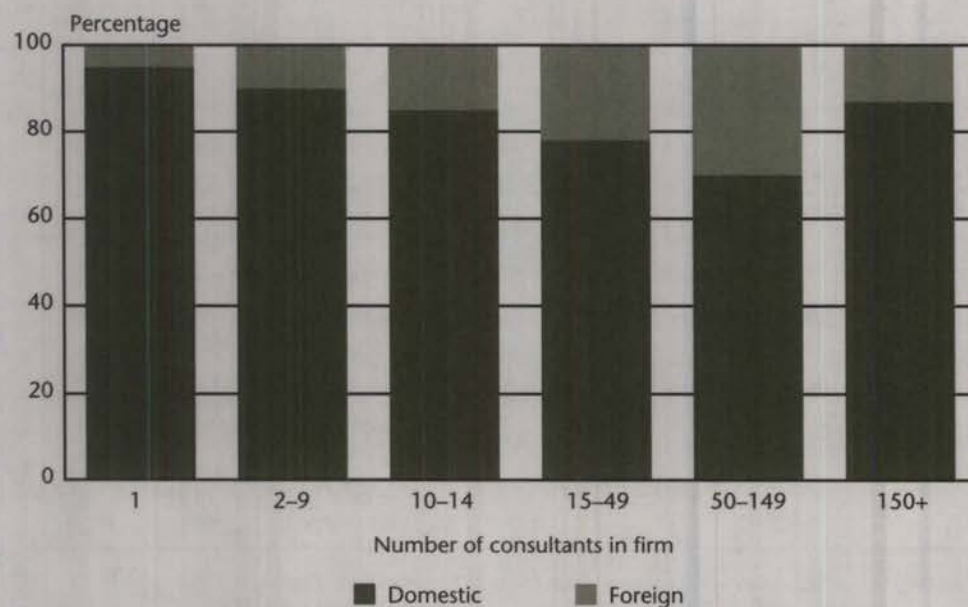
Large firms can more  
easily move personnel

### 3.3 Trade

Exports of management consulting services are often achieved through the cross-border movement of personnel. Most large and a few medium-sized firms have a foreign presence, which allows them to build the contacts and establish the credibility needed for a long-term market commitment. This becomes difficult for smaller firms, where the owner/manager is often also the principal consultant.

The 1995 ICMCC survey suggests that industry exports are in the range of 15 percent of billings, with foreign sales being substantially more important for larger firms. The survey indicates that, while sole practitioners earned only 4 percent of their revenues outside Canada, firms with 50 to 149 consultants derived 30 percent of their revenue from exports (Figure 4). The U.S. remains the industry's principal export market, with Asia and Europe offering business opportunities for different categories of firms.

**Figure 4. Source of Revenues, by Firm Size, Canada, 1995**



Source: Institute of Certified Management Consultants of Canada, *Consulting Industry Survey* (Toronto: ICMCC, September 1995).

Canada has a favourable trade surplus in consulting services. Anecdotal evidence suggests that Canada is a net exporter of management consulting services. Although few in number, large and medium-sized firms appear to account for the bulk of these export revenues. Many larger firms also have partners overseas and support their endeavours by providing Canadian resources for projects awarded to their foreign colleagues.

The industry's principal export market has historically been the U.S. The size, proximity and openness of the U.S. market, particularly following implementation of the Canada-U.S. Free Trade Agreement (FTA) in 1989 and the North American Free Trade Agreement (NAFTA) in 1994, contribute to ensuring its continued importance. Trade agreements were cited by 19 percent of respondents to an A. T. Kearney Ltd./Globe and Mail (*The Globe and Mail*, May 1, 1996, p. B11) survey as the leading factor in their drive to increase exports. Other promising markets for Canadian firms include eastern Europe, where the transition to market-based systems is creating a demand for outside expertise, and in Asia, where consultants are needed to address the structural changes associated with very rapid economic growth. Promising opportunities also exist in several countries in Latin America. However, Canadian firms will not be alone in those markets and will face not only international competition but also less expensive local competition.

Canadian firms have developed significant export business through international financial institution (IFI) consulting contracts. An increasing number of consulting companies are also gaining international exposure and experience through work with the Canadian International Development Agency. These contracts often enable smaller firms or groups of firms to gain some initial foreign experience and to make some useful contacts in overseas country markets. Most smaller firms, however, lack the resources and the alliances to sustain a significant commitment to developing export markets. Initiatives aimed at helping SMEs must address their problems in developing and marketing a unique service, along with difficulties they incur due to the added costs of doing business outside Canada.

### **3.4 Investment and Financing**

While a rule of thumb places before-tax profitability of consulting practices at 20 percent of revenues, this is difficult to substantiate. Because most firms are private companies or partnerships, they are not obligated to release their financial results. However, this approximation may not be unreasonable, according to one U.S. survey (Association of Management Consulting Firms, *Survey of United States Key Management Information*, New York, ACME, 1994), which found that the profits of all surveyed firms, before taxes or bonuses, averaged 17.6 percent of consulting revenues.

**Canada is net exporter  
of consulting services**

**Freer trade increases  
opportunities in U.S.**

**IFI contracts also  
aid in getting  
foreign exposure**

**Profitability is high at  
17-20%**

Entry costs  
are modest . . .

. . . but investment can  
be substantial for  
proprietary technology

Young consultants  
seek experience  
in large firms

Organization  
structure flattens

Financial requirements are not an impediment to entry into the consulting industry. The needed technology can be acquired at modest cost. Some smaller practices are virtual firms that, through the use of communications technology and outsourcing, are able to avoid the costs of establishing and operating an office.

Investment requirements can be substantial, however, for consulting firms that are attempting to develop proprietary technology such as economic or financial models. Large costs can also be incurred in developing export markets. The significant loss of billable time that is often associated with the development of export opportunities poses a particular difficulty for SMEs. Larger firms experience less difficulty raising the capital that may be needed for technology or market development because they are perceived to present lower risks and they generally have significant assets to back their borrowings.

### **3.5 Human Resources**

The 1995 ICMCC consulting industry survey found that the age of consulting staff declined with firm size. In large firms, for example, over 70 percent of staff were younger than 39 years of age. The young age of consultants may partly reflect the tendency for older and more experienced consultants to be attracted away to senior positions in the firms they service as clients.

A Bachelor's degree is the most common educational qualification of new recruits. Canadian firms do less hiring of newly graduating MBA degree holders than their American counterparts, preferring instead to use individuals with industry or some consulting experience in their less junior positions. Some medium-sized consultancies and most larger firms have designed training programs for their staff. The goal is to instill a corporate culture and ensure a consistency in approach to the client and in the use of corporate methodologies.

Since the 1990–92 recession, there has been a trend to flatter organizational structures. This development corresponds with the increased emphasis given to the role of associates. Flatter structures might be seen in the context of a general effort by firms to eliminate restrictions that limit their ability to assemble resources and use them in the most efficient possible way to fulfil project requirements.

There is anecdotal evidence of increasing reluctance among practitioners to put in the long hours required on some assignments. Larger firms in particular are having to consider how to meet the needs of those employees who are seeking a more reasonable balance between workload pressures and family life. To improve morale and guard against burnout, one U.S. firm reportedly provides a two-month annual vacation for its long-term consultants.

**Firms increase attention to personal needs to fend off burnout**

On the horizon, there may be a shortage of skill sets in certain areas of consulting. Skilled personnel are a key ingredient to the success of any consulting practice. In Canada and the U.S., a general concern is being voiced in some practices over the shortage of skilled functional expertise. For some, growth may be limited by their ability to hire experienced staff. The shortage lies more in experienced personnel with both an industry and functional background, rather than in MBA graduates.

**Skill shortages loom**

### **3.6 Mergers, Acquisitions and Alliances**

Over the past several years, the industry has witnessed many mergers and acquisitions (M&As), along with the increased use of alliances and joint ventures. M&As partly represent rationalization and consolidation within the industry. They also reflect a recognition by firms in other industries of the value of the consultancy to their profitability and growth.

**Firms merge to boost market share, acquire desired skill sets**

In most M&As, buyers have been looking to boost market share, acquire new skill sets, build critical mass in the global market, or simply expand without the need to build and develop a new consulting practice. Recent examples of industry M&As include the February 1996 Deloitte Touche Thomatsu International merger of its U.K., U.S. and Canadian consulting practices under the name Deloitte & Touche Consulting Group (DTCG); the DTCG's subsequent merger that same year with the Canadian training firm Pulvermacher, Stevens and Shack; and in the U.S. in 1995, the KPMG acquisition of the niche practice San Francisco Consulting Group as an entry vehicle into the telecommunications field.

M&As have also been used by non-traditional practitioners to enter the consulting industry. Electronic Data Systems Inc.'s 1995 acquisition of the consulting firm A. T. Kearney Ltd. is a U.S. example. The acquisition allowed EDS to move beyond technology and into strategy consulting, providing clients with a complete package of services. EDS has also acquired firms in France, Brazil, the U.S. and Canada as part of its push into mainstream consulting.

**Other industries buy entry into consulting through acquisitions**

**Alliances and joint  
ventures achieve  
critical mass while  
retaining identity**

Canada has not been immune to the recent wave of M&A activity. There have been several recent acquisitions of professional services firms in the domestic computer services sector by U.S.-based, non-traditional practitioners. Several examples in the traditional consulting sector in Canada include the acquisition in 1995 by Deloitte & Touche Management Consultants of the Canadian operations of International Consulting Solutions; and the partnership agreement between Price Waterhouse Management Consultants and Omnilogic Systems Group, a provider of IT services.

Alliances and joint ventures are alternatives to M&As that allow firms to benefit from combining complementary skills and resources while retaining their individual identities. While alliances and joint ventures are popular among both large and small firms, examples involving larger firms are easier to obtain. In 1995, for example, Andersen Consulting expanded its alliance with GE Capital Technology Services to provide data outsourcing services in Canada in addition to the U.S.

## 4 GROWTH PROSPECTS FOR THE INDUSTRY

### 4.1 Demand Outlook

Demand for consulting services is expected to grow nominally by about 10 percent annually from 1995 through to 2001. Overall, IT, human resources, operations and strategy consulting likely will lead the way, although there may be slight shifts in the short term such as an increase in demand for consulting expertise in marketing and sales and financial management. Supporting this view is a recent study (World Association of Management Consulting Firms, *Critical Management Issues Report*, New York, ACME, November 1996) involving management consultants, academics and users of consulting services, who all identified business strategy as the most critical management issue on which companies will focus in the next five years. Developing new markets, a commitment to quality, integrating information systems with business strategy, adding more value to existing products and services were among other key findings mentioned as crucial to the growth or survival of companies through to the millennium. Industry practitioners can help fulfil these needs and position corporate Canada competitively in the global marketplace.

While consultants can help position clients for growth, the demand for consulting services is related to the price of that service and the client's ability to pay. Client consulting budgets are highly sensitive to revenue growth. Furthermore, client demand for specific consulting services has changed substantially over time as a result of changing needs and changing management philosophies. The future of the industry therefore depends on economic growth in client industries, the consulting industry's capacity to innovate, create and fill new needs as well as its capacity to implement the structural changes that are needed to keep pace with the changing nature of consulting demand.

If client organizations are being confronted generally with more rapid changes and stronger pressures to adopt promising technologies and strategies, there will be no shortage of new developments in the future to replace disappearing sources of consulting demand. Unfortunately, the data and analytical results that are needed to offer useful guidance to the industry are still a long way off.

IT, human resources, operations, strategy consulting lead future growth

Industry growth relies on client growth

Data are not available for guidance

Continuing  
restructuring and  
business climate  
change open new  
opportunities . . .

. . . for consultants to  
assume responsibility  
for functions

Firms look to Pacific,  
small firms turn to  
partnering to build  
critical mass

A number of factors will drive the demand for consulting services in coming years. Both governments and corporations in Canada are facing strong pressures to restructure and adapt to changing conditions. In the corporate sector, many of these pressures are associated with the development of increasingly sophisticated information technologies. Bilateral and multilateral trade agreements are leading to a substantially more liberal environment for trade and investment and the increased competition that comes with it. These developments open new opportunities for Canadian corporations, but they are also giving rise to more intense competition. In the public sector, adjustments are needed to respond to public demands to cut costs and increase efficiency.

Over the next few years, these developments will affect the emphasis placed on various types of consulting expertise. Strategic planning and human resources consulting services will be sought by organizations needing assistance in planning for and coping with the consequences of change. The public and private sectors will continue to rely on outside assistance in applying new developments in IT. A wide range of financial, economic and industrial consulting specialties will benefit from the continuing privatization of government agencies, and the development of public-private sector partnerships (PPPs). Consultants are also likely to gain from the increasing reliance on outsourcing. A recent survey (cited in *Consultants News*, October 1996) reported that 85 percent of respondents were outsourcing all or part of at least one business function and the rate could approach 95 percent within three years. Consultants will likely be involved in introducing many of these restructurings and, in some cases, they could assume responsibility for managing functions that are contracted out.

Opportunities in offshore markets will continue to attract practitioners. Larger practices have the financial and human resources necessary to pursue and win export contracts. Canadian practitioners are active in a number of areas including Asia Pacific and are looking at South America. While some smaller firms have also been successful exporters, many lack the size and financial resources to market their services and pursue business development. These may need to turn to partnering and alliances with similar firms to build the critical mass necessary to develop an export presence.

Table 4 shows various sectors of the Canadian economy, the significant trends that can impact on management consulting and their effects. In the public sector market, increased competition among consultants will result in a continuation of pressures for fee containment.

**Table 4. Trends in Demand, 1995–2001**

Sector	Likely trends in Canada	Prognosis for 2001
<b>Private sector, services</b>		
Financial services	M&As to continue, technology remains important, pricing pressures from new entrants	Above average Above average demand in Canada and abroad
Distribution services	Continued concentration of retailing	Little or no change
Telecommunication services	Eventual merging of telecom and cable companies	Industry restructuring continues
Transport services	Continued threat from U.S. carriers	Little or no change
New media services	Significant growth, M&As	Above average demand
<b>Private sector, manufacturing</b>		
Manufacturing	Continued restructuring for growth and cross-border migration	Average activity declines toward end of decade
<b>Public sector</b>		
Utilities	Restructuring, cost containment, privatization	Increasing activity on public-private partnerships (PPPs)
Education and health care	Cost containment, need for productivity improvements	Continuing demand
Government departments and agencies	Continued downsizing and outsourcing opportunities, human resources concerns for employees	Continuing pressure on fee containment and requirement for senior partners on assignments
<b>Public-private partnerships</b>		
Energy	New partnerships likely as part of privatization drive	<i>Note:</i> These examples are provided for illustrative purposes only. In each instance, management consultants are expected to be on teams led by private investors.
Environment	Joint operation of water and sewage facilities	
Recreational facilities	Park management and maintenance	
Real estate	Design, build, own and lease back arrangements	
Transport	Possible introduction of system management contracts	
Source: Industry Canada, with assistance from B. Helm Associates Ltd., Toronto, Ontario.		

Strength lies in  
specialized expertise  
of SMEs in many areas

Canada's multicultural  
heritage facilitates  
service exports

Canadian billing  
rates are often  
lower than those of  
many competitors

Canadian strength  
is in refining new  
approaches

## 4.2 Current Strengths

Canada's strength in consulting lies in its many SMEs with their wide range of sectoral and functional expertise. Many domestic practices have been established on the basis of a specialized industrial expertise in fields such as telecommunications, transportation, power generation and natural resources, to name a few. Others are recognized internationally for their broad knowledge and work in services, health care and the public sector. Few countries can match this depth of experience across a wide range of industries and sectors.

Although the industry may at times be viewed as conservative, there are pockets of innovative strength. This has been reflected in the development of new service offerings, new proprietary technologies and innovative solutions to particular problems. Many consultants are able to draw on their cultural and linguistic heritage to build business networks that are a source of competitive advantage. The specialized knowledge of many practitioners combined with their linguistic abilities often facilitate alliances with offshore firms pursuing business in various parts of the world.

The billing rates of Canadian consulting practices are generally lower than those of their American competitors, partially as a result of the absence of a client base willing to pay international consulting rates and the proliferation of smaller consulting firms in the market. Lower rates combined with the high quality of their professional services contribute to the competitive strength of Canadian firms. Large domestic firms often take advantage of the lower fees of smaller consultancies by utilizing the services of these firms and those of sole practitioners on individual projects. This adds to the available base of knowledge to be applied to specific assignments, and it can contribute to higher profitability. Large Canadian practices also derive strength from their extensive international connections. Many have significant ties to technology, recognize its competitive advantages and use it to their advantage.

## 4.3 Current and Future Competitiveness Challenges

Canadian firms face challenges across a number of fronts. One challenge is in the development of new service offerings that respond to market demands. Many of the world's functional consulting specialties were initially introduced in the U.S. and subsequently adopted by practices throughout the world. But while Canadian firms may not be leading innovators in management theory, they can refine new approaches and develop innovations in applying new theories to address specific client needs. To make a contribution in this area, firms must make the required investment in knowledge acquisition, staff training and new product development.

A related challenge for firms is to maintain, and where possible increase, service standards. Clients are placing greater emphasis on the skills and capabilities of those assigned to the job rather than the reputation of the practice. This underlines the need for continuous upgrading of consultants' skills. It also increases the importance of associations, alliances and other formal and informal arrangements that allow firms to access the knowledge and skills needed on particular projects. Links with academics and various business organizations can help firms develop innovative solutions to issues facing their clients.

A third challenge involves controlling costs and maintaining highly competitive fee structures. This requires that attention continue to be devoted to increasing efficiency in the use of consulting resources. The possibilities for reducing costs by utilizing associates and other outside resources need to be explored. In foreign markets, firms must consider how they might reduce costs by recruiting nationals and entering into cooperation agreements, alliances and joint ventures with local domestic firms. This strategy is being adopted by many of the global practices.

The development of foreign markets is a particular challenge for SMEs. While these firms cannot compete against major consultancies on large projects, many smaller Canadian firms are well positioned to take on smaller assignments that depend on specialized industry or functional expertise. To penetrate foreign markets, however, SMEs must use their limited resources to collect market intelligence, support market development initiatives and overcome various cultural and institutional impediments. Networking and international alliances are potentially attractive vehicles for SMEs to acquire geographical representation.

While technology is a great enabler, it is not a substitute for geographical representation and niche expertise. Canadian consultants must keep pace with technological developments in other market economies. The large firms generally have this capability, though the smaller practices, by virtue of their size and financial resources, can be at a disadvantage.

A number of other developments pose potentially significant challenges. These include:

- pressure by clients for performance-related fee structures
- vulnerability of consultants to litigation by clients who believe they have been poorly advised
- competitive threat arising from the continuing entry of non-traditional practitioners such as computer services, financial services and telecommunications companies into consulting
- need to strengthen marketing expertise in smaller practices
- ability to effectively translate lower domestic billing rates into export sales
- need to break the reliance on the U.S. market and expand into others.

**Continual skill upgrading is needed to keep firms viable**

**Increased efficiency keeps fees down**

**SMEs can target foreign markets by networking**

**Performance-related fee structures, litigation threat challenge consultants**

## 4.4 Future Opportunities

A number of areas of future opportunity can be identified in domestic and export markets. Some of these opportunities will arise from the pressures for restructuring as discussed in Section 4.1.

**Freer trade promotes  
favourable climate  
for service exports**

The FTA, the NAFTA and the General Agreement on Trade in Services (GATS) are creating and strengthening markets for consultants by maintaining a favourable climate for the export of their services and expansion by their manufacturing and service sector clients. Whether the larger practices with established international linkages and global structures or the SMEs will take the fullest advantage of these opportunities remains to be seen.

**Continuing government  
re-engineering  
keeps domestic  
opportunities open**

Canadian governments will need assistance streamlining their activities, and domestic firms will require advice on how to implement the efficiency improvements needed to withstand increased foreign competition. In some of these markets, consultants will face increased competition from other service providers, such as engineers, lawyers, accountants and investment brokers. The entry of non-traditional players is, at the same time, likely to lead to increased competition in some of the more dynamic market segments, such as IT consulting. In coming years, firms may also have to accept the greater risks that accompany the use of performance-related fee structures.

**Western Europe,  
China, India are  
promising markets**

Outside Canada, there are a number of promising markets. Although industry publications have cast doubt on significant double-digit consulting industry growth in Europe, the U.K., Germany and France should remain large users of consulting services. Many countries in Asia Pacific have already achieved remarkable growth and prosperity and others, most notably China, are growing rapidly. India, with its liberalization initiatives and large inflows of western investment, is attracting the attention of large international consulting firms. Smaller firms, which would have difficulty establishing a presence in these countries, could develop alliances with local firms or larger foreign firms that have successfully penetrated these markets.

**Privatization initiatives  
boost demand for con-  
sulting in industrializing  
economies**

In many parts of Asia, Latin America, eastern Europe and some parts of the Middle East, the rapid pace of development and the accompanying liberalization of national economies is creating substantial opportunities for foreign firms with the needed know-how. The privatization initiatives of foreign governments are in themselves creating a significant demand for foreign consultants. New Zealand and the U.K. have captured sizable shares of the privatization market, but a great many opportunities remain. Many of these are in sectors of Canadian strength,

including telecommunications, power, infrastructure services and health care. Demands for consulting services are also arising as a result of the growth of foreign investment and the establishment of multinational affiliates in many countries in Asia and Latin America.

The United States will remain the most sophisticated market in the world for consulting services and will continue to lead the development of new client services. Canadian firms, allied with American organizations, will have a distinct advantage in being able to access new technologies and methodologies, and market the resulting services to their clients.

## 4.5 The Bottom Line

Canadian consultants must keep pace with technological developments that can improve their productivity and with market opportunities, including those in other economies. Marketing is becoming increasingly important as practitioners strive to differentiate their practices from competitors. Joint ventures and alliances will continue to be popular vehicles through which firms combine their resources to gain competitive strength in specific areas. The move to regional and global consulting groups can also be expected to grow as firms attempt to position themselves to gain a share of expanding foreign markets.

By establishing framework policies that encourage innovative behavior and by working with the industry to identify competitiveness gaps, government can play a supportive role. In trade policy, the appropriate focus is on the continuation of current efforts to eliminate barriers to trade in services. The NAFTA and the GATS have laid the foundation. Effective implementation of the principles set out in these agreements will become increasingly important as Canadian firms reduce their reliance on projects sponsored by government agencies and give greater attention to the private sector projects up for bid in foreign markets.

Analytical and policy framework decisions must be based on reliable statistical data. Current information sources, which include the ICMCC's 1995 *Consulting Industry Survey* as well as several foreign trade publications, do not provide a comprehensive portrait of the Canadian management consulting industry. Statistics Canada must improve its collection and reporting of service sector data and continue to work internationally with other statistical agencies to develop a system allowing national service industry statistics, including management consulting data, to be collected and reported internationally.

**U.S. will continue as most sophisticated market**

**Technology can improve productivity**

**Government can support consulting by establishing framework policies that encourage innovative behavior**

**Better data are needed to chart future course**

**Team building can  
increase firms'  
eligibility to bid  
on wider range  
of projects**

There are a number of possible initiatives that could be pursued to address the hurdles Canadian firms confront in export markets. Independent practitioners often have the expertise required for foreign projects but can lack the resources to effectively market their services abroad. The export potential of that expertise can be realized by the formation of joint teams of consultants, government specialists and others, including academics, with the know-how to offer industry specific services in emerging markets. An industry firm or a business association might lead these initiatives. The teams that are assembled could conceivably develop a system to capture and disseminate information on consulting opportunities similar to the work being done in the capital projects area. To assist in the formation of specialized teams, there may be merit in extending Industry Canada's Capital Projects Supplier Capability Matrix to the management consulting industry. The desirability of this option is being explored with practitioners.

**Sharing experiences  
and best practices  
can help boost foreign  
market penetration  
success**

The problems small consulting firms confront in foreign markets are not unique. Large consulting firms, along with service providers in other sectors, face difficulties due to the presence of low-cost local competitors, the preference given by foreign purchasers to domestic suppliers and other factors. Firms could benefit from information on the experiences of other Canadians in particular markets. The roadmap being developed in the area of capital projects needs could be modified for management consulting industry use. Firms would be encouraged to share their best practice experiences and observations respecting foreign competitors.

**Timely intelligence is  
needed to win foreign  
opportunities**

Government is currently working with representatives from the consulting industry to ensure timely access to intelligence on foreign market opportunities. Other joint initiatives will include export seminars, gathering and disseminating export intelligence, and developing frameworks to help firms assess their export readiness.

For further information concerning the subject matter contained in this Overview, please contact:

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## **Annex A**

### **CONSULTING SPECIALIZATIONS**

Services to the private sector typically cover the development of strategies to strengthen a company's position in the marketplace, operational measures to improve cost effectiveness and enhance quality assurance, and related applications of information technology, human resources development and marketing, sales and distribution practices. A corresponding range of services is provided to the public sector with the added dimensions of economic analysis and public accountability. Most of the large firms offer the full range of services; smaller firms generally specialize both functionally and sectorally.

Identified below are several core consulting disciplines and an illustrative listing of a few generic service offerings falling under the different categories. Additional information on consulting specializations can be found through a review of the promotional material or the Internet sites of consulting firms. (See, for example, Milan Kubar, *Management Consulting: A Guide to the Profession*, 3rd ed., Geneva: International Labour Office, 1996; Statistics Canada, "Definitions," Survey of Management Consulting, 1995; Institute of Certified Management Consultants of Alberta, *Emerging Trends in Management Consulting*, Edmonton, March 1996.)

#### **Corporate Strategy**

Consultants in this specialization offer advice and assistance to clients on strategic organizational and financial issues pertaining to the overall planning, structuring and control of an organization. Consultants diagnose organizations, help clients in enhancing competitiveness through analyses of their internal and external environments and assist in identifying appropriate strategies to overcome identified issues and challenges.

#### **Financial Management**

Consulting in financial management relates to the provision of advice and assistance on matters relating to financial planning and control (e.g. the determination of an appropriate capital structure, accounting policy and procedures, analysis of capital investment proposals, working capital, liquidity and inventory management, evaluations of mergers and acquisitions and investment analysis). Consultants are also involved in capital investment analysis and for many with exporting clients, international finance.

#### **Information Technology**

Consulting in information technology (IT) includes reviewing and developing IT strategies for clients, providing briefings on IT systems for management and employees, evaluating the provision of IT services, reviewing and managing IT projects, evaluating IT performance, and

researching different information systems. Consultants also provide advice and assistance on the selection and development of computer hardware or software systems and undertake analyses of existing IT systems. Computer risk management is an important area within the IT consulting field.

### **Operations Management**

Consultants in this discipline provide guidance and advice to improve client productivity and reduce production costs through facilities layout, selection of equipment, materials handling, quality control, safety and performance standards, inventory control and the overall integration of operational information. An important aspect of the work today centres around quality, productivity and performance improvement. The rise in importance of this consulting speciality came on the heels of significant international competition and globalization, a time when productivity enhancements became necessary to ensure corporate survival. Business process re-engineering, total quality management and benchmarking fall under this category.

### **Human Resources Management**

Practitioners deal with the people side of organizations and assist clients in dealing with general human resources planning and development issues. Service offerings include the provision of advice and assistance to develop or modify human resources and personnel policies, practices and procedures including recruitment, pay, benefits and compensation, professional development and employee assistance programs. Consulting on organizational development, labour-management relations, equity employment issues, performance measurement and appraisal are other areas often falling within this category. Practitioners also conduct human resources audits and assist in determining the appropriate motivational tools and strategies for clients to employ in specific circumstances.

### **Marketing and Distribution Management**

Consulting in this function can involve marketing strategy formulation, implementation of marketing activities, market analysis and elements of market research. Consultants assist clients in developing and analyzing market entry strategies, developing customer service and pricing policies, planning marketing programs, and structuring marketing operations including the provision of advice on sales management, advertising and promotion. They help clients organize distribution channels, develop inventory control systems and assist in new product development and packaging design. Assistance with export planning and international marketing is another important activity for these consultants.