



U.S. Producer Price Index for Management Consulting Services

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Producer Price Index



Topics

- Output Definition
- Classification
- Pricing Methodology
- Quality Assessment



Output Definition

Provision of advice and assistance on management and general business issues and problems



Output Definition

More specifically . . .

Provide objective information, advice and guidance to clients, and, when requested, assist in the implementation of their recommendations



Output Definition

Areas of advice include . . .

- High level strategic & organizational planning
- Business financing
- Budgeting
- Employee hiring
- Benefits & compensation issues
- Marketing
- Production & logistics



Output Definition

Also includes the distinct activity of executive search consulting according to NAICS

Executive search is the identification and evaluation of candidates for senior-level executive positions



Classification

- PPI for Management Consulting Services corresponds to the 5-digit NAICS code 54161
- In order to be consistent with PPI systems, this has been re-coded with the “false” NAICS code 541610



Classification

The five 6-digit NAICS industries that compose 54161 are included as product line detail . . .

- Administrative Management and General Management Consulting Services
- Human Resources and Executive Search Consulting Services
- Marketing Consulting Services
- Process, Physical Distribution, and Logistics Consulting Services
- Other Management Consulting Services



Classification

- 6-digit detail exactly matches turnover data collected by Census
- No turnover data collected for detail below the 6-digit level



Classification Issues

- Companies transitioning from pure advice to *implementation* as well . . .
 - Business process management services
NAICS 518210
 - Computer systems design
NAICS 541512
- More difficult to classify companies



Classification Issues

- Executive search services moved to this industry with implementation of NAICS
- In 2007, executive search services reclassified as a unique 6-digit industry in the Administrative and Support Services subsector
- Easy to implement this change since executive search companies provide this service only



Pricing Methodology

Unit of measure is per project or engagement . . .

- Series of time-based (hourly) fees for the individual professionals working on the project
- Unit fees may also be charged in addition to professionals' hourly rates



Pricing Methodology

Realization Rates

Percentage of hourly rates actually received for providing service

For example . . .

If a consultant lists a rate of \$100 per hour and records a realization rate of 80%, he is receiving \$80 per hour



Pricing Methodology

Two pricing options . . .

- Average realization rate - *preferred*
Compares total revenue for all projects within a service area to total amount that would be received if billing at listed rates
- Project-specific realization rate

Both options are model prices



Pricing Methodology – Example

Administrative and general management consulting services. Contract COMPANY X. Financial consulting. First time/new customer. Client industry: Healthcare. Client revenue: \$10-50 million. Service characteristics: project fee. Analysis of problem included. Provision of recommendation included. Assistance with implementation included. Service line average realization rate: 65%.

Partner	\$200/hr x 20 hours	=	\$ 4,000
Associate	\$125/hr x 60 hours	=	\$ 7,500
Jr. associate	\$ 75/hr x 90 hours	=	\$ 6,750
Support staff	\$ 20/hr x 20 hours	=	\$ 400
Total		=	\$18,650

Service line average realization rate = 65%

Total realized billed rate	=	\$12,122.50
Transportation – travel expenses	=	\$ 2,500.00
Telephone expenses	=	\$ 650.00
Total price	=	\$15,272.50



Pricing Methodology – Example

Price change

Technology improves and the *exact same service* can be provided in less time

This is a price change . . .



Pricing Methodology – Example

Administrative and general management consulting services. Contract COMPANY X. Financial consulting. First time/new customer. Client industry: Healthcare. Client revenue: \$10-50 million. Service characteristics: project fee. Analysis of problem included. Provision of recommendation included. Assistance with implementation included. Service line average realization rate: 65%.

Partner	\$200/hr x 10 hours	=	\$ 2,000
Associate	\$125/hr x 50 hours	=	\$ 6,250
Jr. associate	\$ 75/hr x 80 hours	=	\$ 6,000
Support staff	\$ 20/hr x 10 hours	=	\$ 200
Total		=	\$14,450
Service line average realization rate		=	65%
Total realized billed rate		=	\$ 9,392.50
Transportation – travel expenses		=	\$ 2,500.00
Telephone expenses		=	\$ 650.00
Total price		=	\$12,542.50
Price change		=	-17.88%



Pricing Methodology – Example

Quality change

Technology changes such that the client no longer requires assistance with implementation resulting in less time needed to provide the service

This is a quality change . . .



Pricing Methodology – Example

Administrative and general management consulting services. Contract COMPANY X. Financial consulting. First time/new customer. Client industry: Healthcare. Client revenue: \$10-50 million. Service characteristics: project fee. Analysis of problem included. Provision of recommendation included. ~~Assistance with implementation included.~~ Service line average realization rate: 65%.

Partner	\$200/hr x 10 hours	=	\$ 2,000
Associate	\$125/hr x 50 hours	=	\$ 6,250
Jr. associate	\$ 75/hr x 80 hours	=	\$ 6,000
Support staff	\$ 20/hr x 10 hours	=	\$ 200
Total		=	\$14,450

Service line average realization rate = 65%

Total realized billed rate	=	\$ 9,392.50
Transportation – travel expenses	=	\$ 2,500.00
Telephone expenses	=	\$ 650.00
Total price	=	\$12,542.50

Price change = 0%



Pricing Methodology

Respondent updates . . .

- Hourly rates for each professional
- Realization rate
- Estimated cost of travel and business expenses



Pricing Methodology

Average Realization Rate

Advantages . . .

- Price includes discounts
- Reflects broader range of services

Disadvantages . . .

- Inappropriate if mix of clients and/or hours billed affects price charged



Pricing Methodology

Project-Specific Realization Rate

Advantages . . .

- Continuously price a unique service
- Alleviates respondent burden

Disadvantages . . .

- Discounting not readily captured
- Substitutions are difficult; difficult to assess quality differences



Pricing Methodology

Executive Search Services

- Model price
- Percentage of total first year compensation of placed executive
- Update estimate of compensation and percentage fee



Quality Assessment

Lower score for preferred price

81.25 compared to 87.5 – both Type B deflators

Why?

- Mix of contracts is non-homogeneous
- Flaw in weighting of model prices
Model price is never Type A with current weighting scheme