MEASURING THE CONSULTING SERVICES INDUSTRY IN CANADA

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Agenda

1. Definition of Service being Collected
2. Units of measure
3. Market conditions
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1. Definition of Service being Collected

• Annual establishment based survey
• The North American Industry Classification System (NAICS-2002)
• Three distinct five-digit NAICS industries, namely:
  – Management consulting services (54161)
  – Environmental consulting services (54162)
  – Other scientific and technical consulting services (54169)
1. Definition of Service being Collected

- **54161 - Management Consulting Services** is further divided into three categories:
  - 541611 - Administrative Management and General Management Consulting Services
  - 541619 - Other Management Consulting Services
2. Units of measure collected

- Number or counts
- Percentages
- Amounts in Canadian dollars
- Margins are derived internally from other reported data (for example operating margins)
3. Market conditions

Consulting Services Industry Composition (% of revenue)

- Management consulting services
- Scientific and technical consulting services
- Environmental consulting services
3. Market conditions

- At 20%, the operating profit margin in 2004 is large when compared to other industries.
- Significantly more **unincorporated firms** in the consulting services industry than in other industries (30% of population).
- In the case of **unincorporated firms**, the labour input of the owner or proprietor does not usually show up as a salary or wage expense. Instead, owners take their earnings from firm profits.
3. Market conditions

Consulting Services Industry
Profit Margin %

2004

- Unincorporated firms
- Incorporated firms
- Total Industry
4. Classifications and product details

- North American Industrial Classification System (NAICS)
- North American Products Classification System (NAPCS)
- Charter of Account (COA)
### 4. Classifications and product details

**Management, Scientific and Technical Consulting services**

*Survey portion only - Reference year 2004*

<table>
<thead>
<tr>
<th>NAICS CODE</th>
<th>Revenue categories</th>
<th>Establishments with the product line</th>
<th>Revenue of establishments with the product line</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
<td>Millions of dollars</td>
</tr>
<tr>
<td>5416</td>
<td>Strategic management and planning, organizational structure and review services</td>
<td>8,981</td>
<td>1,733</td>
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<tr>
<td></td>
<td>Financial management consulting services</td>
<td>4,065</td>
<td>687</td>
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<tr>
<td></td>
<td>Human resources management consulting services</td>
<td>1,811</td>
<td>1,112</td>
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<td></td>
<td>Executive search services</td>
<td>888</td>
<td>254</td>
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<td></td>
<td>Operations management consulting services</td>
<td>1,726</td>
<td>167</td>
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<td></td>
<td>Marketing management consulting services</td>
<td>3,140</td>
<td>287</td>
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<td></td>
<td>Other management consulting services</td>
<td>2,479</td>
<td>578</td>
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<tr>
<td></td>
<td>Market research and public opinion polling services</td>
<td>180</td>
<td>12</td>
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<td>Economic and social research</td>
<td>491</td>
<td>23</td>
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<td>Public relations services</td>
<td>558</td>
<td>20</td>
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<td>Information technology consulting services</td>
<td>518</td>
<td>79</td>
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<td>Education and training</td>
<td>2,033</td>
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<td>Environmental consulting services</td>
<td>1,556</td>
<td>576</td>
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<td>Geomatics / Geophysical consulting services</td>
<td>112</td>
<td>5</td>
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<tr>
<td></td>
<td>Other scientific and technical consulting services</td>
<td>3,988</td>
<td>898</td>
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<tr>
<td></td>
<td>Sales of other goods and services produced</td>
<td>1,126</td>
<td>147</td>
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<tr>
<td></td>
<td><strong>Total operating revenue</strong></td>
<td><strong>20,583</strong></td>
<td><strong>6,667</strong></td>
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<td></td>
<td>Investment and other income</td>
<td>6,527</td>
<td>136</td>
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<tr>
<td></td>
<td><strong>Total revenue</strong></td>
<td><strong>20,603</strong></td>
<td><strong>6,802</strong></td>
</tr>
</tbody>
</table>
5. National Accounts

- Survey is a feeder to SNA
- New initiative in Canada: SNA modernization
- Reduction of good producing industries with expansion of services in input-output tables
- Will impact commodity (NAPCS) detail requirements
- Do not anticipate problem for services output
- Lots of questions with respect to services input
- Pilot testing of “reportability” of inputs over months to come
6. Method for measuring output

• Annual industry/establishment based survey – part of Unified Enterprise Survey (UES)
• Sample survey combined with use of administrative data (annual income tax)
• Stratified sampling (take-all, must take, take-some and take none)
• Mail-out / mail back
• Modular approach (Ducharme-Da Pont Paper)
• Extensive quality assurance
• Data confrontation and analysis
7. Comparability of output data with price index practices

- Statistics Canada does not currently produce an explicit price index for the consultancy services industry
- SNA make up their own deflators
- However, there is a project to develop such an index in the next twelve months as a part of a broader initiative at Statistics Canada on expanding statistical information on the Services sector
8. Issues

• Confronted to a number of significant frame related problems in this industry:
  – Important industry classification problem
  – Out of scope rate 35%
  – Death rate near 30%
  – “Catch all” industry on the business register
8. Issues

Series of measures to alleviate problem:
- Maintain good knowledge and understanding of industry population
- Allocate additional resources to verify the quality of classification coding and apply corrections
- Possibly expand the sample size and use the survey as an instrument to progressively clean up the frame
- Review rules and procedures for industry coding for births on the business register (automatic coding)
8. Issues

Series of measures to alleviate problem:

• Better training of the staff involved in industry coding
• Investigate using alternate sources of information (industry associations lists) to supplement the frame
• Investigate using financial ratios (cost of good sold, sales of services) derived from tax data to automatically recode or refine the automatic coding
9. Conclusion

- Industry characterised by no real barrier to entry, large population
- Survey follows new unified and integrated business survey model and modular approach to content
- Price deflator to be developed in near future
- Frame quality issues being addressed
Thank you! - Merci!