



SECTOR PAPER

ON MANAGEMENT CONSULTANCY

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PURPOSE OF THE SECTOR PAPER

- › Provide concise and exhaustive overview for the accurate measurement of GDP for the management consultancy industry.
- › Organization according to the Content Development Framework (CDF):
 - overview of international progress
 - summary of primary findings from mini-presentations
 - summary of complications & recommended guidelines for SPPI and turnover/output
 - how suggested key methodology guidelines and results meet the needs of the national accountants
 - prescribed changes for standard classifications or national accounts.

OVERVIEW OF INTERNATIONAL PROGRESS

- › Survey results presented for 22 countries at 21st Voorburg group meeting in 2006
 - 16 collect industry turnover data
 - 8 produce industry level price indexes
 - low degree of alignment between turnover and prices
 - 10 countries at the industry level
 - only 1 country at detailed level.

SUMMARY OF PRIMARY FINDINGS FROM MINI-PRESENTATIONS - 1

- Definition of the service
 - The **primary output** of management consulting firms is the provision of advice and assistance on management and general business issues and problems : strategic and organizational planning, marketing, human resources, supply chain, finance, ... i.e. a rather broad and diverse scope of activities.
- Unit of measure
 - For turnover revenues: value of the service being provided and billed.
 - For prices: project or engagement.

SUMMARY OF PRIMARY FINDINGS FROM MINI-PRESENTATIONS - 2

- › Markets conditions and constraints
 - Fast-growing industry as other business services
 - Heterogeneous industry
 - very large firms and many small units (non employers)
 - Strong professional associations

SUMMARY OF PRIMARY FINDINGS FROM MINI-PRESENTATIONS - 3

- › Standard classification structure and product details
 - Countries have to go below the existing classification to split out activity
 - The current CPC Rev 1 insufficient
 - The next CPC Rev 2 (draft) include necessary distinction both
 - **in branches (financial, marketing, supply chain)**
 - **and in functions (strategic, operations and business process, human resources).**

SUMMARY OF PRIMARY FINDINGS FROM MINI-PRESENTATIONS - 4

- › The draft CPC Rev.2 (2007):
 - › . *8311 Management consulting and management services*
 - › *83111 Strategic management consulting services*
 - › *83112 Financial management consulting services*
 - › *83113 Human resources management consulting services*
 - › *83114 Marketing management consulting services*
 - › *83115 Operations management consulting services*
 - › *83116 Supply chain and other management consulting services*
 - › *83117 Business process management services*
 - ›
 - › . *8312 Business consulting services*
 - › *83121 Public relations services*
 - › *83129 Other business consulting services.*

SUMMARY OF PRIMARY FINDINGS FROM MINI-PRESENTATIONS - 5

- › Evaluation of standard vs. definition and market conditions
 - Countries fine-tune their collection classification in accordance with usual professional classifications, mainly by function.

- › National accounts concepts and measurement issues for the area related to GDP measurement
 - Output only for intermediate consumption by other enterprises or by administrations.
 - Straightforward supply and use equation.

SUMMARY OF PRIMARY FINDINGS FROM MINI-PRESENTATIONS - 6

- Pricing methods and criteria for choosing
 - Mainly **time-based method** with a direct measurement of working time: the charge-out rate method with hourly or daily rates differentiated by professional level (such as partner, project manager, associate, senior and junior consultant and back office) and sometimes by function (strategy, organization,...).
 - As possible, taking into account a realized rate.
 - Major working procedure for countries already collecting prices data: a very small burden on the respondent and corresponds to the pricing mechanism of this industry.

SUMMARY OF PRIMARY FINDINGS FROM MINI-PRESENTATIONS - 7

- › Turnover/output data methods and criteria for choosing
 - Turnover collected via economic census or sample surveys.
 - Collection via more or less detailed product lines for a breakdown of the annual accounting turnover.

SUMMARY OF COMPLICATIONS & RECOMMENDED GUIDELINES FOR SPPI and TURNOVER/OUTPUT- 1

- Point 4.1.1: **Scope of the surveys**
- Surveying the appropriate service activity consistent with the classification.
- Recommendation 1: for collecting data, countries should adopt and focus on the relevant industry classification 7020 (ISIC Rev.2), which excludes
 - implementation and IT services
 - holding services
 - executive search services.

SUMMARY OF COMPLICATIONS & RECOMMENDED GUIDELINES FOR SPPI and TURNOVER/OUTPUT- 2

- › In **ISIC Rev.4** the class 7020 includes the provision of advice, guidance, and operational assistance to businesses and other organizations on management issues, such as strategic and organisational planning; decision areas that are financial in nature; marketing objectives and policies; human resource policies, practices and planning ; production scheduling and control planning.
- › This class excludes:
- › . design of computer software for accounting system, . executive placement or search consulting services, ...

SUMMARY OF COMPLICATIONS & RECOMMENDED GUIDELINES FOR SPPI and TURNOVER/OUTPUT- 3

- Point 4.1.1: **Scope of the surveys**
- In this industry, there are some « captive units », which only provide management assistance to one enterprise group (with transfer prices ?).
- Recommendation 2: surveys for collecting data should
 - cover captive units for turnover data.
 - exclude captive units for prices data.



SUMMARY OF COMPLICATIONS & RECOMMENDED GUIDELINES FOR SPPI and TURNOVER/OUTPUT- 4

- Point 4.1.1: **Scope of the surveys**
- In the management consulting industry , there are many small firms (owner operated or non employers).
- Recommendation 3: as far as possible, surveys should cover the small units. If not possible, one should estimate the turnover and make the assumption that prices changes for small units are similar to those observed for large and medium size units.



SUMMARY OF COMPLICATIONS & RECOMMENDED GUIDELINES FOR SPPI and TURNOVER/OUTPUT- 5

- Point 4. 2: Switching across industry and product lines
- There is a broad scope of activities in management consultancy with some borderline problems.
- Recommendation 4: turnover surveys should aim to collect a minimum level of product detail consistently over time, namely to serve as weighting and sampling sources for SPPIs. The draft CPC Rev.2 is a good starting point.

SUMMARY OF COMPLICATIONS & RECOMMENDED GUIDELINES FOR SPPI and TURNOVER/OUTPUT- 6

- > The draft CPC Rev.2 is a good starting point:
- > . **8311 Management consulting and management services**
- > **83111 Strategic management consulting services**
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- >



SUMMARY OF COMPLICATIONS & RECOMMENDED GUIDELINES FOR SPPI and TURNOVER/OUTPUT- 7

- Point 4. 2: Switching across industry and product lines
- For price collection, it is important to distinguish between different consulting services, mostly by function (different price determining characteristics and levels of charge-out rates).
- Recommendation 5: for price collection, one should try to distinguish between the different functions.

SUMMARY OF COMPLICATIONS & RECOMMENDED GUIDELINES FOR SPPI and TURNOVER/OUTPUT- 8

- Point 4. 2: Switching across industry and product lines
- The distinction both in branches (financial, marketing,...) and in functions (strategic, operations,...) may lead to overlapping of management consultancy services.
- Recommendation 6: As a consequence, it is only at the industry level that one can be sure to obtain relevant and comparable data for turnover and prices.

COMPARISON OF THE TURNOVER DEFINITION AND MEASUREMENT BY PPI AND TURNOVER TECHNICIANS

- › For turnover data and price indices to be used together appropriately (e. g. turnover data for weighting prices indices) concepts, definitions and classifications must be consistent.

How the Suggested Key Methodology Guidelines and Results Meet The Needs of the National Accountants - 1

- Recommendation 1 deals with defining industry scope consistently and coherently for both turnover and price statistics. The importance of this for national accountants is obvious.
- According to recommendation 6, collection of data for turnover and price should be realized at a detailed level but because of overlapping services, there may be a low level of alignment. As a consequence, it is only at the industry level that one can be sure to obtain relevant and comparable data for turnover and prices.

How the Suggested Key Methodology Guidelines and Results Meet The Needs of the National Accountants - 2

- Recommendation 5 deals with constructing a constant quality SPPI. Countries have experienced that there is very little change in quality over time, so that maintaining constant quality can be easy if adequate service pricing specifications or details are collected and maintained.
- According to the Eurostat Handbook, only the collection of actual contract prices is considered as an A-method. The most widely used time-based method of charge-out rates is considered as B-method. Nevertheless, this method seem to be the best possible according to the international experiences in price collecting process for management consultancy.



Prescribed Changes for Standard Classifications or National Accounts as Required

- › Industry Classification : moving towards ISIC Rev. 4 7020 will be an improvement.
- › Product Classification : moving towards CPC Rev. 2 will be an improvement with a clarification for the bundle of services represented by advice combined with implementation.
- › Industry class should be considered as a whole for national accounts.

CONCLUSION

- › Questions ?

- › Discussion and feedback:
 - back to the recommendations ?
 - other issues ?

- › Process for final version of this sector paper ?