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## Management Consulting in Canada 2016 Industry Report

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Management consulting is in every corner of the business landscape. Its marketplace is increasingly worldwide and diverse. Globally, this is a \$350 billion industry, and in Canada, a \$12 billion one. Management consultants make an indispensable contribution to Canadian public and private sector organizations, and to the economy of the country. Now, in 2016, the industry is facing the same turbulent and challenging times that are seen around the world. To adapt, the industry needs innovation, focus and new strategies. Industry professionals, despite this need for transformation, are optimistic and ready to change.

**Globalization** opens opportunities for Canadian firms, and also presents challenges. In the past, over 50% of management consulting took place in North America, and now there is growth in both developed countries and emerging economies around the world. The US economy is on an upswing, and Canadian consulting firms are taking advantage of this. Europe's economic and political uncertainties are viewed as limiting the opportunities there to some extent. Many developing countries in Asia and South America are more stable now, although the opportunities there come with risk and uncertainty. Some 13% of Canadian management consultants surveyed reported that their firms do business outside of Canada, and expect this to grow.

**Technology and information** are key drivers of industry change. Business processes, strategies and structures emanate from technological change, and management consulting is adapting and developing new approaches for client success. The importance and momentum of big data and the information

revolution are opening opportunities for management consultants in information usage, governance, data security, privacy and information systems.

**Management consultants' tools** are evolving. Practitioners are developing analytical tools for information management, technology methods and innovative strategy approaches. Adaptation of tools from one client industry to another is a creative and often beneficial tactic.

**Challenges and changes for management consulting** come in many forms. The consultant has traditionally been a generalist, bringing an overall perspective and giving advice. Now, clients need consultants to implement their strategies and to educate and train staff. Instead of being generalists, consultants are developing niche proficiencies and broader skill sets, and they are adopting a nimbler and more collaborative approach. Clients have access to a broad array of tools and information, and this is changing the deliverables expected, and the process, for management consultants.

*"Experience and knowledge are important, yes, but an effective consultant needs empathy (heart) and understanding for the client and their projects."*

**Today's clients** come from the public (34%), private (57%) and not-for-profit (9%) sectors, an increase in the private sector importance from previous studies (47% in 2013). New sub-sectors like environment, First Nations, clean energy and not-for-profits offer potential, as does manufacturing, to some extent. Clients want consultants to provide extensive expertise in understanding end user (clients') customers. They expect mentoring and coaching.

- Clients are asking for more value for money, not just hourly or project-based consultants but value-based solutions and clear demonstrations of cost savings.

**Canadian industry structure** differs by region and industry. Quebec and Alberta are the most challenging business areas, Ontario and BC are fairly robust, and Saskatchewan, Manitoba and the Atlantic region are facing challenges. The oil and gas industry is a major concern, although in Alberta, its heartland, new signs of growth are emerging.

**49%**  
EXPECT CONSULTING  
MARKET TO GROW

**70%**  
SMALL PRACTITIONERS

**Measures of success** differ by firm size and market situation. Internal improvements, such as leadership or ownership changes, spell success, along with revenue increases. Growth in client base and office location expansion are also notable. In particularly challenging times, maintaining revenue levels and client base is viewed as a major achievement. Dominating or establishing a promising market niche is a winning differentiator for some firms.

**People and talent** create complex challenges. This is a mature profession. Over **80%** of respondents have been in the industry for over ten years, and over **70%** of the CMC-Canada membership is over the age of 50. Many are retiring or cutting back, and with them goes expertise and experience. Among the many sources of recruitment for new hires, recruiting those with experience ranks highest (36%), followed by internal promotions (13%), recruitment of graduates from universities (12%), and recruiting executives from

- Nearly half (**49%**) of respondents expect the market for management consulting to grow in the next three years, while another 32% think it will stay the same. Many large firms say their growth is more likely to come from mergers and acquisitions than from increased sales in existing business areas. Mid-sized firms predict 3-5% annual growth. Most are more optimistic about growth in their own firms than in the industry in general. Some executives expressed the opinion that all methodologies are still based on those from 50 years ago, and most are convinced that the image and model of management consulting have to change to survive. Mergers, brand building and niche development are areas of concentration.
- Over **70%** of firms are small (1-5 practitioners). 62% of management consultants are full time and 38% part time. Firms of all sizes use both, with large firms having proportionately more full-time consultants and smaller firms (other than sole practitioners) tending to have a higher percentage of part-timers.
- Mid-sized firms must develop viable, deep, sustainable niches to survive. Large firms can continue to do complex project work; small firms can specialize or sell commoditized solutions. The mid-sized firms are predicted to be squeezed most.

government or industry (11%). Recent retirees or people who are let go from industry or government may set up consulting businesses, and while some are successful, some lack the skills and processes to be truly effective. Today's consultant must come with flexibility, creativity, analytical competence, empathy and relationship-building capability.

- An imbalance of talent in some firms is created by bench strength of too many generalists and people with strategy and traditional skills, and not enough consultants with niche skills and information, analysis, technological and technical competence. It is increasingly difficult to hire the talent that is needed for the evolving project needs, and at the same time maximize the utilization of existing consultants.

**Types and locations of consulting firms** define the industry in Canada. 42% of respondents' firms are located in Ontario, 21% in Alberta, 17% in BC,

and less than 5% in each of the other provinces. Independent consulting practices make up 61% of the firms, Canadian national and regional/provincial firms represent 14% each, and 8% of respondents work in a Canadian office of an international firm.

**Services** offered by the management consulting industry are continually evolving. Corporate/business strategy has long been a standard offering for consulting firms, and makes up 27% of the service mix, but now project work involves implementation of those strategies as well as development of them. People issues – human resources, organizational development, coaching, and governance – comprise 16% of the services offered. Operations (15%) and information technology (14%) are both growing in importance; clients want consultants to bring greater efficiencies and effectiveness, along with improved processes, to their assignments.

**Growth and advancement** outlooks show optimism, in general, with **42%** of respondents predicting growth in the market for their services, and another 28% foreseeing a stable market with business volume remaining the same. The main area of concern and uncertainty comes from economic and market conditions, viewed as a threat by **38%** of respondents.

- Many initiatives are expected to take place in respondent firms. Most common is a change in business model, organization or strategy (27%), followed by hiring new consultants (21%). Some suggest no major changes will take place (15%), while others see principals leaving the firm (14%), or a merger/acquisition (13%) on the horizon.
- External market developments come in many forms. **Management consultants project opportunities to be created by new technologies (58%), changing demographics (52%), globalization (52%), and information/analysis issues (51%).** In addition to economic issues, they view a shortage of qualified consultants (20%) and reputation/transparency considerations (19%) to be the key developments that will pose threats.
- Increased business development tops the list of growth and expansion strategies, with 61% of respondents saying that their firm places this as a top priority. Next comes developing different or expanded services (42%), undertaking more marketing and/or promotion (35%), and pursuing new target markets (32%). Some executives reported that their firm now has a director of business development, which is a new initiative.

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*"Niche markets and deep domain expertise of consultants have become more critical to success. The days of the "generalist" are over."*

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**Pricing and proposals** are front and centre with management consultants. The industry is becoming more competitive, and some insiders are concerned that there is a race to the bottom to lower prices to secure business. Federal government RFPs are increasingly more complex and prices are being driven down. Some firms are selling tools and processes to build revenues and client base.

- Preparing client proposals involves many considerations, and the most important is expertise of consultants (**cited by 92% of respondents**), followed by reputation of the consulting firm (85%), importance of work to the client (83%), and the relationship with the client (80%).
- Pricing factors also come in many forms. Respondents found pressure to compete on price to be most challenging (63%), pressure to lower price (55%), and uncertainty about client budget and ability to pay (55%) to be the most notable factors.

**Revenue** distribution across different sizes of firms has remained fairly consistent over the years this study has been conducted. Large firms, with revenues over \$100 million, account for 82% of the market's revenue, and the next tier of firms, with revenues in the \$51 - \$100 million range, account for 7%. The smallest firms, with under \$1 million in revenue, comprise just 1% of the market, just as they have since 2008.



- Over **44%** of firms reported that their revenue grew between the present fiscal year and the past one, and 30% said their revenue remained the same. While 18% of those reporting growth predicted it to be more than 20%, another **10%** thought their revenue decline would exceed 20%.
- Financial projections for the coming fiscal year were down from 2013 and 2011. **49%** of consultants expect their financial performance to grow, and 32% suggest they will remain the same. Another **18%** expect revenues to decline. In 2013, growth was projected at 64%, and decline at just 7%.

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*“Our ethos is to radiate a voracious appetite for change and innovation, and to inspire our clients to do the same.”*

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**Fees** across the industry have remained relatively stable over the past year, and also over the seven-year period of these industry studies. There are four tiers of consultants, and while their rates vary by firm size, the most senior level (principals, senior partners and CEOs) quote their hourly billing rates at \$250 - \$500, with **\$250** the most common rate. Next group, VPs and experienced consultants, come with an hourly rate of \$200 - \$450, and again the most common is \$250. Mid-level professionals are charged out at \$100 - \$370 per hour, and entry level professionals at \$50 - \$175. Some firms charge out at a day rate, which ranges from \$700 to \$3500.

- Four fee models are used across the industry. Respondents said that fixed fees (60%) and hourly/daily fees (58%) are by far the most commonly used. By comparison, contingency/performance fees are rarely or never used, although some consultants have tried them. Retainer type arrangements are less commonly used all the time, with 35% of respondents indicating they are rarely used, and 33% citing never.

**Discounting practices** are a topic of great interest to management consultants, and one with dissenting views. 53% of respondents indicate that discounting takes place in their firm, and 29% of respondents say they never discount, but industry leaders were confident in saying that everyone discounts in some circumstances. The major reasons for discounting are to support a not-for-profit client or worthy cause, to secure a long-term client or high value contract, or to secure a new and valuable client. Government business is the least likely area where consulting firms will offer a discount. The discount amount or percentage is highly variable and often does not follow a specified percentage or discount practice.

**Communications** utilized by respondents' firms are concentrated around relationship building with clients (77%), maintaining a strong website (48%), and demonstrating thought leadership (38%). Presentations (52%) and LinkedIn are also well utilized (38% of firms). Some other popular social media are not utilized much in the management consulting industry, such as webinars, podcasts, blogs, and Facebook. With the emphasis on business development, the low use of these tools represents an under-utilized resource in management consultants' toolkits.

**What lies ahead for the industry?** Over **45%** of respondents are confident that the industry is evolving strongly and demand will be stronger over the next three years, and 32% predict that it will be the same. Only **13%** predict weaker demand. Stronger demand is projected for Ontario, the USA and BC, weaker demand is foreseen for Alberta. Key drivers of growth are expected to be increased business from existing and new target markets by offering existing services (29%) and generating new or revamped services (24%).

**Overall, management consulting remains vibrant, adaptable, and vital to the Canadian and global marketplaces.** Insightful leaders will view the industry disruption as a challenge they can successfully address, and will position their firms for the necessary changes and advances.

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**92%**  
CITE CONSULTANT  
EXPERTISE MOST IMPORTANT  
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