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**Sector Paper on Management Consultancy
(ISIC sector 7020)**

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1.0 Introduction

This sector paper on the management consultancy provides a summary of international progress on the measurement of this activity, presents an overview of classification, and identifies and discusses the issues facing the accurate measurement of turnover and price change (and hence the calculation of real output), and includes recommended best practices for dealing with the various issues.

The sources of information for this paper include namely the presentations and summary notes from the *21st Voorburg Group Meeting on Services Statistics, Wiesbaden, Germany (see other references in annex)*.

This paper is organized as follows: section 2.0 presents an overview of international progress; and sections 3.0 through 8.0 cover the major headings included in the Voorburg Group's Content Development Framework (CDF), including definition of the service, the unit of measure, market conditions and constraints (including the size of the industry and special conditions or restrictions), standard classification structure and product details and levels, an evaluation of the classification standard versus the definition and market conditions that exist, national accounts concepts and measurement issues for management consultancy related to GDP measurement, methods and criteria for choosing various pricing and output method(s), quality adjustment methodology(ies) for pricing, evaluation of comparability of turnover/output measures with price index practices, a summary of various real world complications encountered by the various countries and suggested guidelines for determining which PPI and turnover/output data methodologies work best under particular market conditions and constraints, how the suggested key methodology guidelines and results meet the needs of the national accountants, and prescribed changes for standard classifications or national accounts as required.

2.0 Overview of international progress

The 21st Voorburg group meeting in Wiesbaden, Germany in 2006 presented the results from a survey of 33 participating countries. The survey asked countries to report on their progress in developing services statistics. Usable responses were obtained from 22 countries.

One sub-component of the survey dealt with the development of turnover and SPPI data for management consultancy services. Specifically, questions were asked about the level of detail by industry and commodity for which data were produced by the responding country, by industry and product. Product was defined under the Central Product Classification or CPC. Countries were also asked to provide information on the alignment of their turnover and price data. Table A presents the general findings.

TABLE A: Summary Results of Voorburg Survey, 2006 – Management Consultancy

Category	Number of Countries	Percent
1. Countries responding	22	100
2. SPPI detail <i>currently</i> available is greater than or equal to the CPC detail	1	5
3. SPPI detail <i>soon to be available</i> will be greater than or equal to the CPC detail	3	14
4. Turnover detail <i>currently</i> available is greater than or equal to the CPC detail	4	18
5. Turnover <i>soon to be available</i> will be greater than or equal to the CPC detail	1	5
6. Industry-level prices calculated	8	36
7. Industry-level turnover collected	16	73
8. Detailed turnover and prices well aligned	1	5
9. Detailed turnover and prices well aligned <i>soon</i>	2	9
10. Industry-level turnover and prices aligned	4	18
11. Industry-level turnover and prices aligned <i>soon</i>	6	27
12. Other-no industry coverage for prices and/or turnover	9	41

Of the 22 countries responding, 16 collect industry turnover data (73%) and 8 produce industry level prices indexes (36%). The level of detail is limited in both cases, however. In terms of current Services Producer Price Index (SPPI) detail, only 1 country (5%) produces detail greater than or equal to the CPC detail, and, for turnover, only 4 countries (18%) produce detail greater than or equal to the CPC detail.

Internationally there is also a low degree of alignment of detailed turnover and prices data. Only 1 country (5%) reported that they collected detailed and well-aligned turnover and prices data, although 10 countries (45%) did indicate that their industry-level turnover and prices data were either currently aligned or would soon be aligned.

3.0. Summary of the primary findings from the mini-presentations

3.1. 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.

Management consultants provide objective information, advice and guidance to clients, and, when requested, assist in the implementation of their recommendations. One area of significant importance is whether or not implementation is included as consultancy.

Consulting outputs are typically delivered in the form of written and verbal studies, advice and recommendations.

Business areas about which management consultants frequently produce advice include high level strategic and organizational planning, business financing, budgeting, marketing, and production and logistics.

The main industrial classifications considered are the International Standard Industry Classification (ISIC Rev. 4), the North American Industry Classification System (NAICS), and NACE.

More precisely, in **ISIC Rev.4** (International Standard Industrial Classification of All Economic Activities, draft revision 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 provision of business services may include advice, guidance or operational assistance to businesses and the public services regarding :

- . public relations and communication*
- . lobbying activities*
- . design of accounting methods or procedures, cost accounting programmes, budgetary control procedures*
- . advice and help to businesses and public services in planning, organization, efficiency and control, management information, etc.*

This class excludes :

- . design of computer software for accounting system, see 6201*
- . legal advice and representation, see 6910*
- . accounting, bookkeeping and auditing activities, tax consulting, see, 6920*
- . architectural, engineering and other technical advisory activities, see 7110,7490*
- . advertising activities, see 7310*
- . market research and public opinion polling, see 7320*
- . executive placement or search consulting services, see 7810*
- . educational consulting activities, see 8550.*

So the scope of what is included in consultancy services may vary. For European countries, at least two main types of activity are found : management consultancy and public relations consultancy. The weight of these two sub-branches is approximately 90 % - 10 % respectively.

Professionals define **management consultancy** as being “a range of external consulting activities aimed at improving the organisation, management and development of businesses and organisations - in other words, everything that contributes to change” (from the “Guide to consultancy companies”).

Public relations aim to improve the image or perception of a business, a group or a person; it is clearly differentiated from services linked to implementation such as advertising.

In **France** and **Germany**, this service is divided into business / management consulting and public relations, with management consulting being by far the largest portion and public relations having a negligible size (90% and 10% respectively in France). Germany plans to exclude public relations in a first step of development and hopes to find out more about this service during the current development work on SPPI for advertising consulting.

In the **United States**, the primary output of management consulting firms is the provision of advice and assistance on management and general business issues and problems. According to

the current North American Industry Classification System (NAICS) the management consulting industry includes the distinct activity of executive search consulting, defined as the identification and evaluation of candidates for senior level executive positions.

Common to all countries is the rather broad and diverse scope of activities that fall under this category of management consultancy: strategic consulting, financial management consulting, customer relations management consulting, human-resources management consulting, and supply-chain management consulting.

3.2. Unit of measure for turnover/output and pricing

Management consultancy services cover a large heterogeneous range of consulting activities; they are client specific because they vary depending on the requirements of the client. The services provided by this industry tend to be customized and unique to each client. **So most of the consulting services are unique.**

The primary pricing unit of measure for consulting transactions is generally by project or engagement.

For output, the services collected and measured are based on the value of the service being provided and billed.

In the **United States**, the unit of measure for consulting transactions is generally per project or engagement. Project prices are usually composed of a series of time-based (hourly) fees for the individual professionals working on the engagement. Unit fees may also be charged in addition to professionals' hourly rates. These fees represent charges made for each unit of a specific deliverable that is created as part of the project. For example, a consulting firm working on developing a new employee training plan may charge for each manual that is delivered. The unit of measure for executive search services is an individual placement of a professional into an executive position.

For **Germany**, model pricing is used, where the unit of measure represents a service composed of mostly generic sub-activities whose specifications are held constant. The model is fictitious or based on a contract signed in the past.

3.3. Market conditions and constraints

3.3.1. Size of the industry

According to the European Federation of Management Consultancies Associations, about half of the worldwide market of "Business Consulting" was generated by Europe based consultancy firms. The European market is estimated 27 billion Euro in 2005; Germany is the largest market (37 %), the UK, the second one (28 %); France ranks third (11 %). In most of the developed countries, the contribution of the management consulting sector to the GDP is around 0,5 % (Source: European Federation of Management Consultancy Associations, 2006/2005 survey).

It is a fast-growing industry. According to Eurostat, the turnover of "legal, accounting and management services" grew strongly during the first five years of the new millennium: + 6.8 % from per year from 2000 to 2005 (Eurostat, Statistics in focus, n°76/2007).

In the United States, the “Management, Scientific, and Technical Consulting Services” industry generated \$124 billion in revenue in 2002. (Source: 2002 Economic Census and 2002 Nonemployer Statistics Report). In Canada, this industry generated \$8.8 billion in 2004.

3.3.2. Special conditions or restrictions

This market is a very atypical market in that it has a very small number of very large players and a huge number of very small players. The market is dominated by few large markets and worldwide players. Besides, small and medium sized enterprises put their focus mostly on niches of activity, capable of providing services in specific areas, industries and markets.

There may be differing practices that might be correlated with the size of firms. Related to this is whether or not sampling frames include non-payroll firms.

In the United States, there were four times as many nonemployers (464,605) as there were employers (116,059). Moreover, for employers, receipts per establishment averaged \$908 thousand while for nonemployers, average receipts per establishment were \$40 thousand. In Canada the largest 20 firms accounted for only 14% of industry operating revenue in 2004.

Business management services are a self-regulated industry with a small number of strong **professional associations**. For example, in Europe there is a European Federation of Management Consultancy Associations (acronym FEACO in French). These associations aim to increase the performance standard of consulting companies, to implement quality standard by means of professional regulations, to positively influence the economic and legal framework conditions of the consulting sector. German and French experiences showed it was interesting to work with these associations for the sample design process, for the questionnaire design process on prices or output, for better relations with the firms of the sector, or, last but not least, for validation of the first results.

3.4. Standard classification structure and product details and levels

In general for all countries, the classification structure does provide most of the detail required as price determining characteristics at the industry level, which are largely based on the type sub-service that management consulting can provide. This also translates to product classification, where in the United States for example, the North American Product Classification System (NAPCS) includes corporate development and restructuring consulting, compensation and benefits consulting, and integrated supply chain management consulting.

The current CPC (Version 1) has insufficient product detail to match the price collection experience to date, however CPC Version 2 (draft 2006) will be expanded to include the necessary distinctions both in branches of consulting (financial, marketing, supply chain) and in functions of consulting (strategic, operations and business process).

More detail can be found in the draft CPC (Central Product Classification, draft version 2, January 2006) with a group 831 divide into 2 classes 8311 and 8312 linked with the 7020 class of ISIC Rev.4:

- . 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.*

This is more precisely defined in the following explanatory notes :

83111 Strategic management consulting services

This subclass includes:

- *advisory, guidance and operational assistance services concerning business policy and strategy and the overall planning, structuring and control of an organization. More specifically, general management consulting assignments may deal with one or a combination of the following:*

- *policy formulation*
- *determination of the organizational structure (decision-making system) that will most effectively meet the objectives of the organization*
- *legal organization*
- *strategic business plans*
- *corporate development and restructuring consulting services, such as on mergers, acquisitions, joint ventures, strategic alliances, diversification, privatization*
- *defining a management information system*
- *development of management reports and controls*
- *business turnaround plans*
- *management audits*
- *development of profit improvement programmes*
- *and other matters that are of particular interest to the higher management of an organization*

83112 Financial management consulting services

This subclass includes:

- *advisory, guidance and operational assistance services concerning decision areas that are financial in nature, such as:*

- *working capital and liquidity management, determination of an appropriate capital structure*
- *analysis of capital investment proposals*
- *asset management*
- *development of accounting systems and budgeting and budgetary controls*
- *financial consulting services related to mergers, acquisitions, etc. such as advice on methods of valuations, methods of payment, methods of control, international finance*

This subclass does not include:

- *security brokerage services, cf. 71521*
- *portfolio management services (except for pension funds), cf. 71530*
- *pension fund management, cf. 71640*

83113 Human resources management consulting services

This subclass includes:

- *advisory, guidance and operational assistance services concerning the human resources strategies, policies, practices and procedures of an organization. Human resources consulting assignments may deal with one or more of the following:*

- *recruitment, compensation, benefits, performance measurement and appraisal*
- *organizational development (improving functioning within and between groups)*

- *employee training and development needs*
- *outplacement procedures and plans for assistance to employees*
- *succession planning*
- *compliance with government regulations in areas such as health, safety, workers' compensation and employment equity*
- *labor-management relations*
- *human resources audits*

83114 Marketing management consulting services

This subclass includes:

- *advisory, guidance and operational assistance services concerning the marketing strategy and marketing operation of an organization. Marketing management consulting assignments may deal with one or a combination of the following:*

- *analysis and formulation of a marketing strategy*
- *formulation of customer service programs, pricing, advertising and distribution channels*
- *sales management and sales staff training*
- *organization of marketing channels (sale to wholesalers or directly to retailers, direct mail, franchise, etc.), package design and other matters related to the marketing strategy and operations of an organization*

This subclass does not include:

- *public relations services, cf. 83121*
- *advertising services, cf. 836*

83115 Operations management consulting services

This subclass includes operations management consulting services, such as:

- *consulting on systems and procedures improvements*
- *office and service operations improvements such as:*
 - *office layout*
 - *workflow planning and work standards*
- *office automation, such as the selection and installation of automated systems*
- *product development, quality assurance and quality management*
- *plant safety, security and protection*

This subclass does not include:

- *supply chain consulting services, cf. 83116*

83116 Supply chain and other management consulting services

This subclass includes:

- *integrated supply chain management consulting services*

Integrated supply chain management consulting is a bundled product that includes inventory management, warehousing and storage and distribution services.

- *logistic management consulting services, such as*

- *inventory management logistic consulting, that is keeping track of the existing inventory, determining the most effective inventory requirements for a client*
- *distribution and transportation logistic consulting, including the processes used by a client to store, handle and move goods within an organization, to ship goods from the client to the customers*
- *warehousing and storage logistic consulting including the processes of receiving, storing and issuing an item*
- *maintenance logistic consulting*

- *other management consulting services, n.e.c.*

83117 Business process management services

This subclass includes the provision of a bundled service package that combines information technology intensiveservices with labour (manual or professional depending on the solution), machinery, and facilities to support, host and manage a business process for a client:

- *financial business process such as financial transaction processing, credit card processing, payment services, lending services*

- *human resource business process such as benefits administration, payroll processing, personnel administration*

- *supply chain management business process such as inventory management, procurement services, logistics services, production scheduling and order processing*
- *customer relations management business process such as help desk, call centre, customer service*
- *vertical market business process, conducted by specific industries such as electric, chemical, petroleum*
- *other business processes for a client*

312 Business consulting services

83121 Public relations services

This subclass includes:

- *advisory, guidance and operational assistance services concerning methods to improve the image and relations of an organization or individual with the general public, government, voters, shareholders and others*

This subclass does not include:

- *planning and creating services of advertising, cf. 83611*
- *public opinion polling services, cf. 83700*

83129 Other business consulting services

This subclass includes:

- *regional, industrial or tourism development services*

The explanatory notes of the European CPA (Classification of Products by Activity, draft 2008) is quite similar but a bit more precise for the exclusions.

The subcategory "strategic management consulting service" excludes

- . *legal advisory and representation services,*
- . *services of counselors and negotiators arranging mergers and acquisitions.*

The subcategory "financial management consulting services" excludes

- . *accounting, bookkeeping and financial auditing services.*

The subcategory "human resource management consulting services" excludes

- . *executive placement or search consulting services*
- . *educational consulting services.*

3.5. Evaluation of classification standard vs. definition and market conditions

The professional Associations use to segment the market into key services lines which correspond roughly to broad **different functions** of the enterprise. For example, the European Federation of Management Consultancy Associations follow four main segments:

- . *Consulting*
- . *Development and Systems Integration*
- . *Outsourcing of value added services (IT management services, Applied management services, Business Process Outsourcing)*
- . *Other services.*

Within Consulting, there are two sub sections :

. *Business consulting that includes :*

- *Strategic consulting, which target the improvement of the long-term strategic health of a company : strategic planning development; mergers and acquisitions; sales, marketing, corporate communication, financial advisory, etc*

- *Organisations/Operations management, which aims at the integration of business solutions through Business Process Re-Engineering, Customer/supplier Relations Management, turnaround/cost reduction and purchasing & supply management;*
- *Project management;*
- *Change management: services which, on top of any other type of consulting, enable the success thereof within the human element of the organisation;*
- *Human resource consulting: services that target the improvement of the people element of an organisation through performance measurement and management, reorganisation of benefits, compensations and retirement schemes, human resource strategy and marketing, the development of talent strategies and executive coaching.*

. Information technology consulting, services that help organisations to evaluate their IT strategy with the objective of aligning technology with the business process. These services include strategic planning and conceptions, operations and implementations.

Part of this professional classification can be matched with the detailed draft CPC. This last classification clearly meets better the requirements of the professional associations. **But the distinction both in branches (financial, marketing, supply chain) and in functions (strategic, operations and business process) may lead to overlapping of management consultancy services.**

In **Germany**, the early experience of the price collection survey proved the importance to distinguish between the different functions of consulting services such as strategy, organization/management/processes, IT and human resources. On the one hand respondents are able to calculate charge-out rates for these functions, while on the other hand analysis of price determining characteristics shows different levels of charge-out rates exist not only for different qualification levels but also for the different functions. Against the background of these ever changing markets, the traditional differentiation of enterprises in branches such as financial, marketing and production are no longer suitable. So, the draft CPC (Version 2 - 2006) meets these requirements of the German market better, but the distinctions of the activity fields in both branches and functions leads to some overlapping.

Similarly in **the United States**, where the transitioning of this industry from pure strategic consulting and advice to frequent implementation of information technology solutions and business process outsourcing has made it challenging to determine the proper definition of consulting firms. The NAICS classification limits the activities of this industry are strictly to the provision of advice and assistance, however, as an increasing proportion of consulting projects conclude with some form of system automation or implementation of new software, this line may need to be re-evaluated in the future. As of 2007, executive search services will again be reclassified out of the Management consulting industry under NAICS and will become a unique 6-digit NAICS industry in the Administrative and support services sector, alongside the Employment placement and Temporary help industries. This change should be easy to implement from a PPI perspective.

3.6. National accounts concepts and measurement issues for the area related to GDP measurement

The management consulting service industry is a only a producer of intermediate consumption by other enterprises or by administrations. None of the service output is sold in the form of final demand. So the evaluation of the production and the drawing of a supply and uses equation is straightforward taking into account import and export data from balance of payments.

3.7. Pricing and turnover/output data methods and criteria for choosing various output methods and criteria for choosing various pricing methods

3.7.1. Pricing methods

The more widely used pricing method is a time-based method with a direct measurement of working time. More precisely, the pricing methodology is 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, organisation, ...). Moreover, as often as possible, one tries to take into account a **realized rate** calculated after finishing the contract; most of the time, one may collect only average realization for a mix of projects. So the pricing of a management consultancy contract asks the respondent to provide two types of data, one they directly observe (wage rates for each labour type, e. g.) and the other that they can easily estimate (the average realization rate for all projects within the specific industry type, e. g.). This method causes a very small burden on the respondent and corresponds to the pricing mechanism of this industry, it is why it is the major working procedure for countries already collecting prices data.

A second pricing method is sometimes used: the model pricing for an estimated contract (or for an actual contract (US, Germany e.g.). This is a highly resource-intensive method because of the need of regular updating of the models in a fast moving industry.

For some very special services, **percentage fee method** and **contract pricing** may also be used.

In **France**, the most appropriate means of measuring price was "pricing based on working time". The main pricing method is the fixed price, where the consulting firm works out its fee based on the qualifications necessary for the work requested and the remuneration paid for that qualification, on the number of persons needed for the work and on the number of days of work. The product of these three factors determines the fee that will be negotiated with the client. Certain companies may include a risk coefficient to protect themselves against the uncertain nature of projects (this risk coefficient can depend on the reputation of the client company, its business sector, and its promptness in paying its bills – it being taken for granted, for example, that the public sector has the reputation of paying late, resulting in inclusion of a risk coefficient.) Where referencing is used (although that applies to only the 5 -10 largest firms in the market), rates are predetermined and discounts for the volumes purchased are already known, and therefore there is no need for negotiation.

For **the United States**, the pricing methodology for this industry calls for collecting project realization rates as part of model price transactions. Consulting firms typically have set hourly rates for each of the different levels of professionals on their staff and these rates will often be

discounted. The percentage of these established hourly rates that consulting firms actually receive for the provision of service during a given period is known as their “realization rate”. During the initiation period, individual, specific contracts are selected to price over time. These contracts are used to specify the detailed services provided and establish benchmarks for weighting the rates of the different type of consultants that work on the selected group of projects. Respondents are asked to simply provide the list rates for each of the professionals who bill for their time on each of these projects. A total charge is calculated by multiplying the hours that each consultant worked on the selected project by their listed rates. This total is then adjusted by the project realization rate. Any additional charges that are applied in the specific contracts (i.e. for billed travel or other business expenses) are then added to get the final price that is used in the index.

In **Germany**, prices are also determined by charge-out rates, which are differentiated between professional levels and functions. For small to middle-sized companies, actual charge-out rates are representative of the service. However, it is common practice in a few middle-sized and many bigger companies to offer discounts (similar to the case of the United States) calculated as realized charge-out rates after finishing the contract.

3.7.2. Turnover/output data methods

The main sources of product data are economic census or annual sample surveys. The collection of value data is made with reference to very detailed product lines that can be easily matched afterwards with price data collected at a more aggregated level. Thereafter, in order to measure real output of management consulting services, production volume is calculated by deflation using the appropriate price index.

3.8. Quality adjustment methodologies for pricing

When prices are collected as charge-out rates, it is very difficult to adjust for quality. In case of a price increase due to labour cost, it is impossible to know what portion of that is due to providing a better service and what portion is due to market forces. So the main general drawback of this method is well known: the evolution of the productivity of labour force is not taken into account. **But, on one hand, in this industry, productivity changes occur at a very slow pace; on the other hand, following different mix of professional levels is way to deal with this problem.** Nevertheless, there may be many sources of measurement error (cf. Discussant remarks in the minutes of VG 2006 meeting for an extensive review of this point).

When prices are collected via model pricing, there an implicit quality adjustment.

3.9. Evaluation of comparability of price measures with turnover/output measures - evaluation of the turnover/output definition and measurement compared to the defined output activity by both PPI and turnover/output technicians

In most cases, data is collected with a great detail for turnover and with less detail for prices; however, the data are comparable and can be used together, namely in order to meet national

accounts requirements which deal with management consultancy services as a whole at the 4 digit level of ISIC.

The CPC lines of product seems to be a good starting point to describe the management consulting services with a wording understandable by professionals (reference to functions and to branches). They should be used to collect a breakdown of turnover along with complementary services.

For each product line or for appropriate grouping, the collection of producer prices could be realized in order to get comparable data. Charge-out rates are different between functions, so it should be collected at a detailed level.

4.0 Summary of the points of the various real world complications encountered by the various countries and suggested guidelines for determining which PPI and turnover/output data methodologies work best under particular market conditions and constraints

4.1 Complications encountered

4.1.1. Scope of the surveys

The precise scope of the surveys may pose some problems.

Firstly, the industry according to the preceding classification (ISIC Rev 3: 7414) was not comprised solely of management consultants. It has additionally been used to classify a large number of business services not easily classified elsewhere; for example, holding companies were sometimes classified there because they were providing management services to their subsidiary companies.

Secondly, in this industry, there may be “captive units” which only provide management assistance to one enterprise group or to a brand network; these services are not usually evaluated at the market rate but correspond to transfer pricing. Very often, these latter firms are then excluded from the collection of price data. Is it right to do so?

Thirdly, in the management consulting industry, there is a substantial presence of owner operated or non-payroll firms. Some countries cannot sample firms without salaried employees. Have these small firms a different economic behaviour with an impact on the price levels and changes? Is it a true problem?

Recommended guidelines for point 4.1.1

Recommendation 1

In order for turnover to be measured accurately and for comparability purposes, countries implementing surveys should adopt and focus on the relevant industry classification definitions of ISIC Rev.4 7020. This industry class excludes namely implementation services, IT consulting, holding services and executive search firms.

Recommendation 2

In order for turnover and prices to be measured accurately and for comparability purposes, surveys should cover captive units as regards turnover but not as regards prices (because they may be transfer prices).

Recommendation 3

In order for turnover and prices to be measured accurately and for comparability purposes, surveys should cover the smallest units (own-operated or non payroll firms). If it is not possible, the corresponding turnover should be estimated; as regards prices, one should try to validate the assumption that the prices changes for small units are similar to those observed for large and medium firms surveyed.

4.1.2. Switching across product and industry lines

According to some respondents, an **accurate differentiation of IT services and management consulting services** is becoming more and more difficult. There has been some convergence between management and IT consultancies. Any organisational or strategic business change goes hand-in-hand with changes in the IT system. On the one hand, consultancy companies (such as Accenture) have developed IT consultancy services and on the other hand, IT service providers (such as IBM) have developed their own management consultancy services. In this way, larger operators sometimes find it difficult to dissociate management consultancy from IT consultancy. This development makes it difficult to draw a clear line between management consulting and IT consulting. But this convergence between consultancy and new technologies may have bottomed out to the point where clients prefer to distinguish management consultancy provided by consultants from IT consultancy provided by IT specialists, these two services having different pricing structures.

Is this still a problem?

Moreover, for large firms, **consultation is linked with implementation**. Implementation may be in fact the next natural phase of management consultation. An economic implication of viewing consultation and implementation as a joint product is that pricing strategies for the joint project may affect the time series trends of the price indexes for each alone (for example, firms may treat the consultation step as a loss leader to obtaining a more lucrative contract for implementation services). To deal with this problem, firstly one has to define very precise product lines and secondly, one has to check whether the respondent is able to make the necessary distinction.

Recommended guidelines for point 4.1.2

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. To define this minimum

level, the product list of draft CPC Rev.2 (83111, 83112, 83113, 83114, 83115, 83116, 83117, 83121) is a good starting point.

Recommendation 5

As regards price collection, the most important is to distinguish between the different functions of consulting services, such as strategy, operations, business process, human resources,.... because there are different price determining characteristics and different levels of charge-out rates.

Recommendation 6

Although the draft CPC Rev.2 is a good starting point, one should be aware that the distinction both in branches (financial, marketing, supply chain) and in functions (strategic, operations and business process) may lead to overlapping of management consultancy services. 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.

5.0.Evaluation of the turnover/output definition and measurement compared to the defined output activity by both PPI and turnover/output technicians

For most of the countries, the SPPI is able to use the turnover/output statistics as a source for aggregation and weighting.

In **France**, the results from the annual survey of service (EAES) are used for SPPI sampling. For business and management consultancy, it is easy to identify the largest firms and the turnover by product (at 8 levels, close to the CPC). Much detail on turnover is available for all the service industries, so that sampling is carried out by product line.

For **the United States**, the U.S. Census Bureau calculates output data for each of the NAICS industries used as service line detail for the Management consulting PPI. As a result, the output data conforms exactly to the PPI detailed indexes for this industry. Turnover data is currently not available for any additional detailed service lines within any of the five management consulting areas for which the PPI will publish indexes. However, the PPI has no intention of attempting to publish further detailed indexes at this time.

In the case of **Germany**, while the output of turnover is well defined and surveyed for SPPI use, one of the main challenges is the differentiation of management and IT-related consultancy. The importance of IT services as a supporting tool of management consulting is increasing and IT companies are widening their range of services to organizational or strategic topics. This development makes it difficult to draw a clear line between management consulting and IT consulting.

6.0 How the suggested key methodology guidelines and results meet the needs of national accountants

The recommendations presented in Section 4.0 of the paper are intended to address real world complications and concurrently help meet the needs of the national accountants in producing more accurate and reliable estimates of economic activity for the management consulting services. Their needs can be described broadly as focusing on two key aspects: 1.) Definition of industry scope and alignment of turnover and prices data, 2.) Constructing a high quality SPPI.

6.1. Defining industry scope and aligning turnover and prices data

Recommendation 1 deals with defining industry scope consistently and coherently for both turnover and price statistics. Adhering to or following the classification definitions closely ensures this consistency. The importance of this for national accountants is obvious – they have to know what economic activity is being measured by all components in order to produce accurate measure of real output and confront the data.

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.

6.2. Constructing a high quality SPPI

Recommendation 5 deals with constructing a constant quality SPPI that is representative of current period production. 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 on price and volume measure of national accounts” (Edition 2001) only the collection of actual contract prices for management consultancy services is considered as an A-method. The most widely used methods of charge-out rates and of model pricing are considered as B-method. Nevertheless, these methods seem to be the best possible according to the international experiences in price collecting process for management consultancy.

Could they be ranked A-method in the future?

7.0. Prescribed changes for standard classifications or national accounts as required – Based on Problems in Trying to Conform to 4-Digit ISIC Boundaries and Identifying Uniform Product Lines Across Countries

7.1. Industry classification

The ISIC class is clearly defined and can be considered as a whole for national accounts evaluation. Table B provides a general overview along with industry classification details for ISIC Rev. 3.1, NAICS, and NACE. Moving towards ISIC Rev.4 will be an improvement.

Table B. Overview of International Classifications for Management Consultancy

	Classifications		
	<i>ISIC Rev.3.1 7414 Business and management consultancy activities¹</i>	<i>NAICS 54161, Management Consulting Services²</i>	<i>NACE 1.1 7414, Business management and consultancy activities³</i>
Definition		This industry comprises establishments primarily engaged in providing advice and assistance to businesses and other organizations on management issues, such as strategic and organizational planning; financial planning and budgeting; marketing objectives and policies; human resource policies, practices, and planning; production scheduling; and control planning.	
Inclusions	<ul style="list-style-type: none"> - provision of advice, guidance or operational assistance to businesses and the public service: · public relations and communication · design of accounting methods or procedures, cost accounting programmes, budgetary control procedures · advice and help to businesses and public services in planning, organization, efficiency and control, management information etc. · management consultancy such as by agronomists and agricultural economists to farms etc. 	<ul style="list-style-type: none"> - 541611 Administrative Management and General Management Consulting Services - 541612 Human Resources and Executive Search Consulting Services - 541613 Marketing Consulting Services - 541614 Process, Physical Distribution, and Logistics Consulting Services - 541618 Other Management Consulting Services including telecommunications and utility consulting services 	<ul style="list-style-type: none"> - provision of advice, guidance or operational assistance to businesses and the public service: ▪ public relations and communication ▪ design of accounting systems, cost-accounting programmes, budgetary control procedures ▪ advice and help to businesses and public services in planning, organization, efficiency and control, management information, etc. ▪ management consultancy such as by agronomists and agricultural economists to farms, etc.
Exclusions	<ul style="list-style-type: none"> - design of computer software for accounting systems, see 7229 - legal advice and representation, see 7411 - accounting, bookkeeping and auditing activities, tax consulting, see 7412 - market research and public opinion polling, see 7413 - architectural, engineering and other technical advisory activities, see 7421 - advertising activities, see 7430 	<ul style="list-style-type: none"> - providing a range of day-to-day office administrative services, such as financial planning, billing and recordkeeping, personnel, and physical distribution and logistics, see Industry 56111, Office Administrative Services; - administering, overseeing, and managing other establishments of the company or enterprise (except government establishments), see Industry 55111, Management of Companies and Enterprises; - administering, overseeing, and managing governmental programs, see Sector 92, Public Administration; - professional and management development training, see Industry 61143, Professional and Management Development Training; - listing employment vacancies and in selecting, referring, and placing applicants in employment, see Industry 56131, Employment Placement Agencies; - developing and implementing public relations plans, see Industry 54182, Public Relations Agencies; - developing and conducting marketing research or public opinion polling, see Industry 54191, Market Research and Public Opinion Polling; - planning and designing industrial processes, see Industry 54133, Engineering Services; - planning and designing computer systems, see Industry 54151, Computer Systems Design and Related Services; and - providing financial investment advice services, see Industry 52393, Investment Advice. 	

¹ <http://unstats.un.org/unsd/cr/registry/regcs.asp?Cl=17&Lg=1&Co=7414>

² NAICS United States, 2002, Office of Management and Budget, pages 739-743

³

http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP_NOM_DTL_VIEW&StrNom=NACE_1_1&StrLanguageCode=EN&IntPcKey=612615&IntKey=612839&StrLayoutCode=HIERARCHIC&IntCurrentPage=1

7.2. Product classification

The CPC lines of product are a good starting point to describe the management consulting services. While there is a high level of agreement between the CPA used in Europe and the CPC of the United Nations, there is often very little harmonization among other product classifications. The Central Product Classification, CPC Ver 1.1, includes products for general management consulting (83111), financial management consulting (83112), human resource management consulting (83113), marketing management consulting (83114), production management consulting (83115), and other management consulting (83119).

Version 2 of the CPC retains some of these products but adds new groupings for strategic management consulting (83111), production management consulting is retitled operations management consulting (83115), and a new product for supply chain management consulting services (83116). The revision of the CPC also now includes direct management services, such as business process management services, as well.

The North American Product Classification is under development for Canada, Mexico, and the United States. The pure consulting products concord very closely to the products available for use in CPC Rev. 2. However, the provisional management consulting products in NAPCS also include separate product categories for the bundle of services represented by advice combined with implementation.

Classification experts must agree on the basic concepts and definitions of management consulting products (i.e., advice only or advice and implementation) in order to develop comparable data internationally.

8.0. Conclusion

A review of the management consulting services industry leads to several conclusions.

First, the revision of ISIC for management consulting services brings substantial improvement for the definition of the industry.

Second, the product lines of the draft CPC Rev.2 are a good starting point to describe the management consulting services and for collecting data on turnover and prices. It may be important to distinguish between different functions of consulting services because there are different price determining characteristics and different levels of charge-out rates. Nevertheless, one should be aware that the distinction both in branches (financial, marketing, supply chain) and in functions (strategic, operations and business process) may lead to overlapping of management consultancy services.

Third, as a consequence, it may be only at the industry level that one can be sure to obtain relevant and comparable data for turnover and prices.

ANNEX

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