Help wanted: Businesses will seek consultants’ advice on restructuring as the economy recovers.

IBISWorld Industry Report 54161
Management Consulting in the US
June 2013
Andrew Krabepetchrat
About this Industry

Industry Definition
Management consultants advise businesses, nonprofits and public-sector agencies in the following areas: organizational design, human resources, corporate strategy, information technology strategy, marketing and sales, finances and logistics. This industry excludes establishments providing day-to-day administrative services and establishments that are concentrated in recruitment, training, public relations, market research, engineering design, computer systems design and investment advice.

Main Activities
The primary activities of this industry are
- Actuarial, employee benefits and compensation consulting services
- Administrative and general management consulting services
- Human resources consulting services
- Marketing consulting services
- Process and logistics consulting services

The major products and services in this industry are
- Corporate strategy
- Financial advisory
- IT strategy
- Marketing and sales
- Organizational design
- Process and operations management

Similar Industries
54121c Accounting Services in the US
Accounting firms provide financial and associated management services.

54121d Tax Preparation Services in the US
Tax preparation firms provide financial and associated management services.

54133 Engineering Services in the US
Consulting engineers help oversee the planning and designing of construction and industrial operations.

54151 IT Consulting in the US
IT consultants help plan and design computer systems. This industry is being increasingly linked with management consulting.

54182 Public Relations Firms in the US
Public relations firms are brought in to ensure that a client’s image and perception among customers and competitors is positive.

54191 Market Research in the US
Market research is conducted when firms wish to know more about the market in which they operate.
About this Industry

61143 Business Coaching in the US
This is an education-based industry adjunct to management consulting, whereby employees develop skills necessary for effective and efficient implementation.

Similar Industries continued

Additional Resources

For additional information on this industry
www.consultingmag.com
Consulting Magazine
www.imcusa.org
Institute of Management Consultants USA
www.consultant-news.com
Top-Consultant’s Consultant-News

IBISWorld writes over 700 US industry reports, which are updated up to four times a year. To see all reports, go to www.ibisworld.com
Industry at a Glance
Management Consulting in 2013

Key Statistics Snapshot

Revenue $171.9bn
Annual Growth 08-13 0.2%
Annual Growth 13-18 3.5%
Profit $15.6bn
Wages $69.5bn
Businesses 615,026

Market Share
Accenture Ltd. 3.6%
McKinsey & Company 2.9%
Deloitte Touche Tohmatsu 2.5%
Marsh & McLennan Companies Inc. 1.5%

Revenue vs. employment growth
Corporate profit

Key External Drivers
Corporate profit
Government consumption and investment
Number of businesses
External competition

Products and services segmentation (2013)

Industry Structure

Life Cycle Stage Mature
Revenue Volatility Medium
Technology Change Low
Capital Intensity Low
Industry Assistance None
Concentration Level Low
Regulation Level Light
Barriers to Entry Low
Industry Globalization Medium
Competition Level High

For additional statistics and time series see the Appendix on page 37

Source: www.ibisworld.com
Executive Summary

After tepid growth the past few years, the Management Consulting industry is poised to make a recovery in 2013 with expected revenue growth of 5.4% during the year. The industry includes firms that provide assistance to private, public and nonprofit institutions on issues ranging from strategic organization to human resources planning. With more than 90.0% of industry revenue coming from consulting contracts with private businesses, industry performance is largely driven by the level of corporate profit and the number of businesses in the United States.

Corporations that delayed spending will reinvest profit in consulting, boosting revenue

Industry revenue has been sluggish, with estimated annualized growth of only 0.2% in the five years to 2013 to total $171.9 billion. Prior to 2008, management consulting was countercyclical, exhibiting recessionary revenue increases due to restructuring demand. However, the Great Recession reversed this trend, causing most industries to reduce their consulting budgets. Simultaneously, competition in this low-demand environment caused industry-wide fee declines, compressing profit margins. Operating with excess capacity, management consultancies cut down hiring and slowly increased employment from 1.2 million people in 2008 to 1.3 million in 2013, representing an estimated annualized decline of 1.4% in the past five years.

As corporate profit recovered, so have industry prospects: In 2013, industry revenue is expected to rise, driven by increased corporate spending. Although it has not yet returned to full health, employment is projected to increase 5.0% in 2013. Corporations that survived the economic downturn but delayed consulting expenditures will reinvest profit in updates to business strategy, human resources and information technology infrastructure. As a result, industry revenue is expected to grow at an annualized rate of 3.5% over the next five years, increasing to $203.7 billion in 2018. Over the same period, employment is expected to increase at an annualized rate of 3.1% as consultancies hire to meet rising demand.

Hit by industry-wide price compression, profit margins dropped from 11.7% of revenue in 2008 to about 9.1% in 2013. IBISWorld forecasts that profit margins will increase gradually to 10.9% of revenue in 2018. As increasing profitability heightens competition, the industry landscape will shift over the next five years, reflecting opposing trends toward consolidation among major companies and fragmentation among highly specialized firms.

Key External Drivers

Corporate profit
The levels of business sentiment and profitability are positively correlated with the demand for management consulting services. As profit and cash reserves rise, companies feel more confident making large, long-term investments, such as hiring management consultants for assistance. Corporate profit is expected to grow in 2013, which indicates a potential opportunity for this industry.

Government consumption and investment
Although the corporate sector accounts for about 90.0% of industry revenue, government agencies are responsible for much of the remainder. Industry revenue is closely linked to
government consumption and investment via public sector consulting demand. Concerns about the federal deficit have limited the potential for further expansion of federal spending. Government consumption and investment is expected to decline slowly in 2013.

**Number of businesses**
General growth in the number of businesses directly affects aggregate demand for management consulting. As the number of businesses increases, demand for management consulting typically rises as well. The number of businesses is expected to increase slowly during 2013.

**External competition**
The Management Consulting industry operates in an increasingly competitive environment. As a result of the push to train specialist consultants in a variety of fields, competition has recently increased from firms in other industries, especially in the information technology (IT), finance and human resource areas. While this industry is narrowly defined to include only those establishments for which management consultancy is the primary business activity, accounting, IT and niche service providers are increasingly bundling consulting with their core products and services. As a result, external competition is expected to increase slowly during 2013, posing a potential threat to the industry.
Industry Performance

Current Performance

The Management Consulting industry has historically moved against economic cycles, with demand for strategic reorganization replacing demand for expansion planning during an economic downturn. However, the severity of the recent recession forced many of the industry’s potential clients to exit the market, reducing demand for recessionary restructuring. Recovery within the Management Consulting industry has instead been driven by human resources segments, niche consulting and the emergence of new consultants acting flexibly as independent contractors.

The historical trend toward countercyclical demand for management consulting services weakened during the recession. In 2009, revenue plummeted 11.7% as prolonged declines in aggregate demand reduced the number of businesses, and thus potential consulting clients, for a second year. The industry saw an uptick in growth, however, as corporate profit began to recover in 2009. Management consulting revenue is expected to rise slightly above prerecessionary levels to $171.9 billion in 2013, representing an increase of 5.4% during the year. The industry has experienced only marginal growth in the past five years, with revenue estimated to increase at an annualized rate of 0.2% in the five years to 2013.

Growth segments

At the height of the recession, consulting demand from large firms seeking to cut costs and protect profit margins increased, though not quickly enough to prevent industry-wide revenue declines in 2009. Historically, the financial services sector has been the primary consumer of management consulting services and one of the most profitable, and it was hardest hit by the financial crisis. Thus, industry demand has been especially slow to recover.

Nonetheless, demand for consulting services has been countercyclical in the five years to 2013; industry operators that specialize in human resources have performed strongly because of the large number of layoffs that occurred during and following the recession. Such firms helped companies reduce the cost of labor by providing guidance on the size and type of layoffs, as well as on subsequent pension obligations.

Competition threatens revenue

During the past five years, management consultants faced increased competition both from the IT Consulting industry (IBISWorld report 54151) and from the in-house consulting segments of multinational corporations. Consequently, the industry faced the dual threats of decreased consulting outsourcing and increased external competition, which placed additional
Industry Performance

Competition threatens revenue continued

The development of internal consulting groups offers an organization several advantages, including more in-depth knowledge about the corporation’s strategic objectives. Unlike outside management consultants, who focus on a variety of different companies, internal management consultants can better tailor their knowledge and services to the organization. Moreover, many major companies in the management consulting industry have moved away from the model of engaging one client per industry at a time, adopting controversial non-exclusivity policies. Such policies may present the appearance of a conflict of interest to clients, increasing the attractiveness of in-house consulting. Most importantly, internal management consulting is often cheaper than third-party services, a key factor for businesses facing compressed profit margins during the past five years.

The services the IT Consulting industry provides often overlap with this industry’s services because IT has become more relevant to management, production and logistics strategies. For example, large multinational providers of hardware and software now offer strategic implementation consulting; IBM does this through its global business services division, and HP and Oracle offer similar services. Like IBM’s consulting division, new external competitors may have the vast financial and professional resources of large parent corporations at their disposal. This trend has posed a threat to management consulting firms on a cost basis and in terms of marketing ability, contract negotiation and service quality.

The recession forced consumers of management consulting to reevaluate the industry’s services. In response to client demands for increasingly specialized and technical analysis, major consultancies expanded their industry-specific expertise through aggressive acquisition in the past five years. In spite of these efforts to improve quality, price-based competition with consulting firms outside the industry and with in-house consultants intensified during the period. Management consultants were forced to reduce fee structures to maintain valuable client relationships. IBISWorld estimates that industry profit fell from 11.7% of revenue in 2008 to 9.1% in 2013.

Employment and wages slow to recover

As the economy slowed, management consulting firms were forced to slow down the hiring of new staff. IBISWorld estimates the industry will employ about 1.3 million people in 2013, representing a five-year annualized increase of 1.4%. During the same period, the number of enterprises grew very slowly as well, at an annualized rate of 0.2% to an estimated 615,026 enterprises in 2013. Larger firms acquiring smaller niche competitors spurred the drop.

Within management consulting, self-employment acts as a release valve for firms facing too many employees in a low-demand environment. Laid-off management consultants may take up their own private practice rather than reenter the job market. As a result, the average size of management consulting establishments became increasingly skewed toward small firms during the recent period of low and declining revenue. IBISWorld estimates that the
Industry Performance

Employment and wages slow to recover continued

Average number of employees per establishment declined from 2.0 people to 1.9 in the five years to 2013. Wages display relatively high volatility in management consulting because of wage declines among employees. The volatility is also the result of labor market competition from nonemployers, i.e. self-employed consultants. These consultants may accept lower wages because they derive value from increased control over their companies; these wage effects carry over into the labor market for consulting employees via competition from subcontractors. As a result, from 2008 to 2013, the average industry wage fell from $56,243.00 to an estimated $52,766.00.

Industry Outlook

As corporate profit recovers, industry revenue is forecast to improve, growing 2.2% in 2014. In the wake of the recession, many industries will face restructuring, increased regulation and changes in the market for their goods and services. Over the next five years, management consulting services will be crucial for companies transitioning and expanding in a changing economic environment. As such, industry revenue is projected to increase at an annualized rate of 3.5% over the next five years, underpinned by a simultaneous 4.3% annualized increase in corporate profit. In 2018, industry revenue is projected to total $203.7 billion.

Segments of growth

In the coming five years, all management consulting segments are expected to grow, with particularly robust growth in human resources and information technology (IT) consulting services. As the economy improves, positive growth in the industry’s core market — private sector businesses — will drive performance. Both the number of businesses and corporate profit are expected to experience robust growth. Corporations that weathered the recession but delayed consulting expenditures will put retained earnings to use by making strategic adjustments to their business structure and strategy. This trend will encourage management consulting firms to expand their corporate strategy and organizational design arms. At the same time, revenue from process and operations management consulting is expected to recover as firms continue to pursue cost-effective supply chain management.

Client businesses that shed employees during the recession will need to hire aggressively as demand recovers in the next five years. Management consulting firms will play a crucial role in assisting expanding businesses as they decide how many and what type of employees to hire.
Industry Performance

Segments of growth continued

Furthermore, human resources consulting will be instrumental as businesses incorporate new employees into existing healthcare and pension plans and as they bring these plans into compliance with new legislation. For this reason, human resources consulting services are expected to be a source of growth in the five years to 2018, with the balance of services shifting toward healthcare.

The industry is forecast to have an increasingly technological focus as IT becomes more important to the effective operation of business. The likely result of this trend is a growing overlap between management consulting firms and IT consulting firms, and the division between these industries’ service offerings will likely blur.

Overlap between the services of management consulting and IT consulting firms will rise

Consolidation, specialization and profit

In the five years to 2018, the number of enterprises in the Management Consulting industry is expected to stabilize as consolidation among major players is offset by fragmentation among small specialty firms. In the coming five years, the number of firms operating in this industry is projected to increase at a meager annualized 1.1% to reach 650,190 companies in 2018.

Major companies increasingly compete on services offered, with each seeking to become the industry’s preeminent one-stop shop for large multinational clients. In pursuit of this reputation and the business it would attract, major companies are expected to continue the pattern of mergers and acquisitions into the next five years. However, there will still be opportunities for smaller, niche firms to enter the industry due to low barriers to entry. As long as independent contractors remain price-competitive, larger firms will continue to conduct some of their business through subcontracting arrangements with small specialist consultants. As such, the number of firms in this industry is expected to remain relatively stable. Firm size, however, is expected to become polarized, with higher numbers of very large and very small firms.

Historically, the industry has been highly profitable, with typical profit margins over 10.0% of revenue, and its bottom line is projected to improve over the five years to 2018. As large consulting firms offer increasingly integrated services, providing advice to a variety of industries, they also benefit from operational efficiencies. A large firm’s resources and fixed costs are spread throughout a larger organizational structure. As large firms consolidate operations, management consulting firms will become even more efficient. Given these trends, IBISWorld expects profit to represent 10.9% of revenue by 2018.

High-salaried employment opportunities

The industry experienced a decline in employment during the past five years, and firms will need to bolster their workforce to meet increased demand for consulting services in the five years to 2018. With recent revenue gains unmet by employment increases, large consulting firms are anticipated to open their doors to new college graduates. Employment in the industry is forecast...
Industry Performance

High-salaried employment opportunities continued

to increase at an annualized 3.1% in the give years to 2018, including employment of about 1.5 million people in 2018.

As competition among major companies increases, employers vying to expand capacity will bid up wages for highly qualified consultants. As a result, total industry wages are projected to increase at an average rate of 2.5% annually in the five years to 2018, reflecting industry-wide growth. However, general management consultants, though still in demand, are not expected to receive the wage increases of their specialized or better-qualified peers. The average wage is therefore anticipated to decline slightly, reaching $51,355.00 in 2018 and reflecting consolidation and increased bargaining power among the largest employers.
Industry Performance

Growth is slowing to a rate roughly in line with overall GDP growth

Industry consolidation is increasing through merger and acquisition activity

There is widespread acceptance and adoption of the services being offered, limiting growth in new markets
The Management Consulting industry is in the mature stage of its life cycle. During the 10 years to 2018, industry value added (IVA), which represents the industry's contribution to the overall economy, is projected to increase an annualized 1.5%, compared to average annual GDP growth of 2.1% over the period. However, IVA is biased downward by exceptionally poor performance during the recession. In the five years to 2018, IVA is projected to grow at an annualized rate of 3.4%, roughly in line with annualized GDP growth of 3.5% over the five-year period. This comparable growth reflects the general stability of the industry.

Examining industry-wide enterprise growth produces a similar conclusion: in the 10 years to 2018, enterprise growth will stabilize, increasing slowly at an annualized 0.7% and indicating a mature industry undergoing high merger and acquisition (M&A) activity. The M&A activity of the past five years is expected to continue into the next five-year period as major companies scramble for market share, a characteristic of mature industries. Clients are increasingly looking for consultancies that offer “end-to-end business solutions” (i.e. a consulting firm that is involved in every step of the process, from advisory to execution to assessment). However, low barriers to entry and growing client demand for niche consulting services has produced a countervailing trend toward specialization, ensuring that new firms will continue to emerge.

The value of management consulting is well accepted in the business community, with major consultancies ranking among the most prestigious and well-respected firms in the country. Particularly in the realms of corporate strategy and organizational design, the industry has achieved a high degree of market saturation, with third-party management consulting widely considered to be a vital source of impartial analysis. However, management consultants face demand threats from the in-house consulting departments of major corporations, as well as external competition from specialized firms in areas such as information technology, finance and business planning consulting.

Management consulting services will continue to evolve slightly to meet changing client demand, though dramatic shifts in product segments are unlikely.
Products & Services

Process and operations management comprises the largest service group in the management consulting industry at an estimated 31.0% of industry revenue. This service area includes process, physical distribution and logistics consulting. Under the heading of logistics consulting, production scheduling and supply chain management form a
consistent source of revenue for management consultants: Profit-motivated companies seek strategies to generate cost savings and increase operational efficiency, regardless of the macroeconomic climate. As a result, this service segment has remained relatively constant during the past five years.

**Corporate strategy**

Corporate strategy services contribute an estimated 17.0% to management consulting revenue. This service area includes strategic advice in the areas of general growth strategy, leadership development, performance improvement, mergers and acquisitions, and corporate portfolio design. In the area of leadership development, consultants view employee engagement as a potential source of competitive advantage. As online learning methodologies have reduced the cost of providing employee training, this service area has experienced growth. In general, however, demand for corporate strategy services is cyclical, having only recently (in 2010 and 2011) recovered from sluggish corporate profit growth prior to 2008.

**IT strategy**

Information technology (IT) strategy services contribute an estimated 17.0% to management consulting revenue. Although IT consulting is excluded from this industry (refer to IBISWorld report 54151), management consulting does include the following IT solutions: custom computer application design and development services, computer systems design, development and integration services, and IT infrastructure management services. In some areas, management consulting firms directly compete with specialist consulting firms in the IT consulting industry. However, many clients have recognized that review of an organization’s structure and technology are part of an integrated process. As a result, management consulting firms increasingly integrate IT strategy into their services, making this a growth area during the past five years.

**Human resources and benefits**

At 16.0% of industry revenue, human resources and benefits consulting forms a key service area for management consultants, and one that has been a growth segment for the industry. Human resources and benefits services can most simply be divided into retirement and health benefits consulting.

In the area of retirement, management consultants offer services in the design, governance, and risk management of defined benefit and defined contribution plans. Because defined benefit plans require complex estimates of future obligations, services related to these types of pension plans require greater expertise and more time, and thus command a higher price. The trend among employers, however, is toward easier-to-manage defined contribution plans; this represents a future slowing of retirement services revenue for consultants.

Healthcare consulting services include the design, management and administration of employee healthcare plans. In an environment of changing healthcare legislation, employers’ demand for these services may increase to ensure sustained compliance as new elements of healthcare reform go into law over the next five years (refer to the Regulation & Policy section of this report). Therefore, healthcare benefits consulting revenue will likely increase in the future.

**Organizational design**

Organizational design services are estimated to account for 11.0% of management consulting revenue. As the name implies, organizational design involves reorganizing a company to
Products & Markets

Products & Services continued

change the way it operates. Such reorganization may involve providing advice to firms facing major changes, making a fresh and independent review of a company’s overall business model, creating a strategy for global expansion and evaluating underperforming business segments. As firms expand geographically, organizational design consulting offers solutions to integrate global operations. Demand for this service segment is cyclical and is expected to increase as the economy continues to recover over the next five years.

Financial advisory
Financial advisory services contribute an estimated 6.0% to management consulting revenue. Consulting firms engaged in financial advisory services provide finance and risk management executives (such as CFO’s) with financial and economic analysis of the risks and uncertainties facing their companies. These uncertainties include business and legal issues that result from changes in demand, public policy, financial conditions, competition, and the regulatory environment. Financial volatility increases the difficulty of providing solutions to these issues, and thus the demand for financial advisory consulting. This service segment has been a growth area for the industry over the past five years.

Marketing and sales
Marketing and sales services contribute an estimated 2.0% to management consulting in the areas of brand strategy and design, corporate identity and image consulting. Because marketing and sales expenditures can be delayed or terminated in a climate of poor business confidence, revenue from this segment has remained low during the past five years.

Demand Determinants

The demand for this industry’s services is closely linked to the availability of budgetary resources and other discretionary expenditure by business, public sector, and nonprofit clients. As such, business confidence, corporate profit and government investment are important factors that strongly affect the growth of this industry.

The demand for management consulting services is strongly linked to the economic cycle. It is particularly sensitive to business and government activity levels in areas such as mergers, acquisitions, financial planning, feasibility studies, human resources, strategic planning and corporate profit. Governments’ hiring of consultants, particularly at the federal and state level, has increasingly become a political issue, in terms of actual expenditure and the value obtained from these assignments.

Management consultants must prove that the value of their services is worth the money that is spent because the federal government has a rigid budget.

Unfortunately for industry operators, expenditure on consultancy services by governments and businesses tends to be one of the first areas to be reduced when the level of business confidence and economic growth decreases. Slow economic growth leads to a tightening of the overall budgetary and financial resources. In some instances, however, management consulting can be a countercyclical industry, whereby consulting companies are hired to improve a company’s performance during a downturn.

Global economic conditions, including changes in clients’ particular industries and markets, also affects revenue in the consulting business. Revenue
About 90.0% of the industry’s total revenue is derived from the corporate sector. Financial services, manufacturing, consumer products, telecommunications, energy, utilities and healthcare are all major clients of the Management Consulting industry. The remaining 10.0% of industry revenue comes from government agencies and nonprofit groups. All of these industries are experiencing rapid and significant change, largely from the client’s external environment. As a result, businesses in these markets require ongoing advice as technology, consumer preferences and government regulations change.

### Financial services companies

Financial service providers are the management consulting industry’s largest consumer, accounting for about 22.0% of industry revenue. This market uses a variety of services, from strategic planning to organizational restructuring. Major international banks, for example, employ management consultants to streamline operations and maintain profit levels. While many businesses have since reduced their spending as a result of the recession, this market has also undergone a significant amount of restructuring, which has mitigated losses for many operators. Demand from the financial service industry is expected to increase slowly over the next five years as an increasing portion of the US economy is concentrated in the financial sector.

### Consumer products and manufacturing companies

The consumer products and manufacturing markets focus on the branding and logistics consulting segments because sales and shipping are significant factors in these fields. For example, typical customers in this market include manufacturers, wholesalers, retailers and distributors in industries such as consumer products, apparel, automotive and
Products & Markets

International Trade
International trade does not occur in this industry due to the service-based nature of activities management consultants provide. Many of the largest firms in this industry are, however, global players generating an increasing proportion of their revenue through non-US operations (for more information on this trend, refer to the Industry Globalization section of this report).

Major Markets continued

avocation and aerospace. The prospect of the Chinese economy exhibiting robust growth over the next decade is leading to a rush by many consumer goods manufacturers to enter the Chinese market. Management consulting firms will continue to assist in the transition to Asian markets, making consumer manufacturing a likely source of demand growth over the next five years.

Healthcare companies
The healthcare market, which is primarily composed of hospital management and pharmaceutical companies, uses the industry’s logistics, human resources and public relations services. Healthcare science and technology are rapidly expanding frontiers, even as economic and financial pressures reduce profit margins, intensify competition and constrain the funds available for investment. This changing environment is encouraging healthcare companies to hire management consultants to aid in improving cost while maintaining standards in treating ill patients. This market is expected to grow over the next five years.

Telecommunications and other companies
Telecommunications is a rapidly changing field that is strongly influenced by technological change. Currently, the introduction of voice over internet protocol (VoIP), the ability to conduct conversations over the internet without the associated costs of telephones, is a high growth industry. Because traditional wireline operators provide the data connections used by VoIP, revenue and thus demand from this market are expected to remain steady over the next five years.

Other
Firms in the Management Consulting industry serve nearly every other industry in one way or another. Many management consultants specialize in serving very specific segments of the market in order to differentiate their services. Examples of such industries included in this segment are agriculture, forestry, chemicals, fisheries, sports entertainment and events, hospitality and gaming. Consequently, a significant portion of industry revenue is generated in other industries. IBISWorld estimates that other markets generate 18.0% of industry revenue.
Business Locations 2013

Additional States (as marked on map)

1 VT 0.1
2 NH 0.2
3 MA 4.9
4 RI 0.2
5 CT 2.6
6 NJ 4.7
7 DE 0.2
8 MD 2.7
9 DC 2.2

Revenue (%)

- Less than 3%
- 3% to less than 10%
- 10% to less than 20%
- 20% or more

SOURCE: WWW.IBISWORLD.COM
The distribution of management consulting establishments reflects the general distribution of population in the United States, with increased consulting density in proximity to key demand markets, including financial service companies, large corporations and government clients.

Within the Mid-Atlantic, management consulting firms are disproportionately represented: The region contributes 23.0% to industry revenue and 18.2% to industry employment although it contains just 15.6% of the US population. The financial service sector (which represents 22.0% of industry revenue) has historically centered in New York. Similarly, New York City ranks first amongst US cities in terms of Fortune 500 corporations. Capitalizing on the local agglomeration economies in finance and large corporations, all four major players are headquartered in New York. Also within the Mid-Atlantic region is Washington, DC, home to a majority of federal agencies. Consulting services in these two cities target the industry’s largest- and highest-value corporate and institutional clients. Consequently, revenue per establishment in this region is higher than the national average, as is the average regional wage.

Although the Mid-Atlantic region is strategically important for management consulting firms, the Southeast ranks first among regions with 20.0% of revenue. In keeping with its large population (25.4% of the US population), the Southeast produces the greatest share of revenue, establishments and employment. Within the Southeast, however, revenue lags behind all three other measures, reflecting a lower utilization rate.

Among states, California ranks first in industry revenue with a contribution of 12.8%. With a large concentration of high-growth tech and finance firms located in the San Francisco Bay Area, California produces the greatest share of management consulting revenue, establishments and employment of any state. The West as a whole is represented among management consulting firms in proportion to its population: The region contains 17.0% of the US population and brings in 16.0% of industry revenue.
Regions with a disproportionately small number of industry establishments on a per capita basis include the Great Lakes and Southwest regions. The small number of establishments is due to the low level of business penetration in the Great Lakes (with the exception of Chicago and Detroit) and Southwest. A crucial exception in the Southwest region is Texas, which ranks fifth among states in industry revenue (6.9%), and third in industry establishments (7.0%). The city of Houston ranks second after New York in Fortune 500 headquarters and is home to much of the country’s energy industry and, as a result, a large share of related corporations and consulting operations.
Key Success Factors

Ability to compete on tender
Most consultancy tasks are subject to competition, so competitiveness on price and service offerings is crucial.

Effective quality control
The effectiveness of consulting activities is often easily measured, making it simple for clients to assess the value of consulting services.

Well-developed internal processes
Given the generally labor-intensive nature of the industry, operators need to ensure that appropriate cost- and time-management systems are in place on a project basis so that these can be closely monitored.

Access to highly skilled workforce
Often, consulting contracts are entered into on the basis of the consultant's expertise.

Establishments by employment size (2013*)

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<thead>
<tr>
<th>No. of employees</th>
<th>Share of establishments (%)</th>
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<tbody>
<tr>
<td>1-4</td>
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<td>500+</td>
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*IBISWorld Estimate
SOURCE: US CENSUS BUREAU COUNTY BUSINESS PATTERNS

The Management Consulting industry displays a high degree of fragmentation despite the presence of several high-profile global corporations in the industry. In 2013, the four largest management consulting firms are estimated to account for just 10.5% of the US market. This low concentration is due to the abundance of independent contractors in the industry and the proliferation of specialized boutique consulting firms. In 2009 (most recent data available), 90.4% of firms had fewer than 10 employees, compared to 87.7% in 2000. In 2009, only 0.8% of industry firms had over 100 employees.

Although concentration is low within the industry as a whole, there is increasing concentration among major companies. Existing firms compete in terms of price, quality, contracts and breadth of services offered. To effectively compete, major companies have engaged in aggressive nonorganic expansion in the past five years, broadening their service base by acquiring or merging with consulting firms in other areas of specialization. Macroeconomic volatility since 2009 has forced many large consultancies into bankruptcy, providing financially stable firms with ample acquisition targets. For example, since the recession, Marsh & McLennan has made 26 acquisitions, while Deloitte Consulting has expanded by purchasing large consultancies specializing in public service, property and sustainability.

In contrast to the high level of competition among major companies, the vast majority of management consulting firms operate in a considerably less concentrated business environment. Among the majority of firms, the trend is toward decreasing concentration. The severity of the recession reduced demand for consulting projects and forced layoffs for many experienced industry consultants. Many of these laid-off experts formed their own consultancies as sole proprietors rather than reenter the job market. This circumstance has increased the proportion of small firms and decreased the average size of firms.
Cost Structure

Benchmarks

Profit

Cost structures within the Management Consulting industry vary based on a variety of firm-specific factors, including business size and markets served. Profit, calculated as earnings before interest and taxes, is the difference between revenue and operating expenses. Historically, profit margins within management consulting have been high due to a low proportion of non-labor costs, with typical figures between 10.0% and 13.0%. Following the recession, consultants were forced to lower fees to retain valuable relationships as clients looked to cut costs. As a result, revenue fell. Due to lags in enacting cost-saving measures and reluctance to reduce capacity, expenditures did not immediately respond, causing profit margins to fall to 7.6% in 2010. As the economy continues to recover, increased demand for consulting services will permit firms to increase fees and operate at higher capacity. Consequently, IBISWorld estimates that profit margins will increase to 9.1% of industry revenue in 2013 and to 10.9% in 2018.

Wages

The costs of employment primarily drive operating expenses within the Management Consulting industry. IBISWorld estimates that wages will represent 40.5% of total industry revenue in 2013. Including wages paid via subcontracting, this figure increases to about 57.5%. Labor costs include expenditures for compensation, subcontractor and other personnel costs, but they are dominated by expenditures for experienced and more costly client-service personnel. However, because the majority of employees in this industry are directly engaged in client service rather than administrative or support roles, management consulting firms are able to generate high profit margin.

Personnel utilization rates and the cost of wages affect the share of labor costs in revenue. In the short term, utilization rates for personnel primarily determine the share of wages in revenue; lower utilization rates mean fewer billable hours and lower revenue. When utilization rates rise or fall, employers will increase or decrease their workforce to meet demand. In the long term, the cost of obtaining and retaining highly skilled consulting employees is subject to the labor market for experienced and talented graduates of MBA and other programs, which affects wages directly. In the five years to 2013, wages remained at 40.5% of industry revenue. This figure reflects an increase in utilization rates over the period. As demand fell, many firms began to operate below capacity and consequently reduced the hiring of new workers. With recovering demand, remaining workers contribute more per capita billable hours. Simultaneously, reduced industry-wide demand created unemployment and eventually slowed wage growth via competition for existing jobs.

Key Success Factors

continued

possessing specialized knowledge that relates to clients’ operations. Without this skill base, the consulting firm has little bargaining power.

Having good working relationships with subcontracting building trade specialists

Subcontractors are used to ensure that quality output can be guaranteed on time and budget. Many skilled consultants operate as independent contractors.

Access to niche markets

Firms can be more successful if they have specialized skills or services and can serve a niche market.
Competitive Landscape

Cost Structure

For larger companies, effective itinerary and task management, employment of part-time workers and maximum use of labor-saving technology can lead to more efficient management of labor costs. Skilled consultants are increasingly opting to act as independent contractors even as the industry is consolidating. Major consultancies often have access to a wide variety of skilled staff. However, mid-tier operators are often forced to bring in such contractors when a contract calls for their skills. Subcontracting costs, which represent 17.0% of industry revenue, have been rising over recent years. In particular, the recent recession has led to an influx of independent skilled operators.

Other costs
Because management consultants frequently travel to the client’s site to conduct operations, the costs of purchasing and maintaining work space are low compared with industry averages, while marketing and travel costs are relatively high. The low shares of purchases and depreciation, 4.1% and 1.3% of industry revenue, respectively, reflect the low capital intensity. Additionally, rent and utilities costs are low, with each accounting for 3.0% of revenue distributions. Industry operators do incur a variety of other costs, including advertising, sales and other marketing costs, along with administrative expense. These costs comprise 20.2% of revenue and have increased as a share of revenue during the past five years due to heightened competition among management consultants during the recession.

Sector vs. Industry Costs

---|---
100 | 100
90 | 90
80 | 80
70 | 70
60 | 60
50 | 50
40 | 40
30 | 30
20 | 20
10 | 10
0 | 0

Profit | Wages | Purchases | Depreciation | Marketing | Rent & Utilities | Other
---|---|---|---|---|---|---
10.5 | 45.2 | 1.7 | 18.7 | 18.8 | 18.8 | 18.8
9.1 | 57.5 | 3.6 | 3.2 | 6.0 | 4.1 | 1.3

SOURCE: WWW.IBISWORLD.COM
**Basis of Competition**

The Management Consulting industry is composed of firms with the skills, expertise and flexibility to meet the needs of a variety of clients with varying budget constraints. Given the high level of competition for large consulting projects and the importance of repeat business, there is a strong emphasis placed not just on the quality of the insights provided, but also on generating tangible results in a cost-effective manner.

**Internal competition**

Before submitting a bid, a management consulting firm has already submitted a crucial component of its offer for scrutiny: its reputation. Over time, a management consultancy develops a record of success or failure in terms of the strategies implemented as a result of its advice. It is this reputation, substantiated by past client performance against a benchmark such as stock price, that is the biggest selling point for management consultancies, particularly large industry players.

Increasingly, management consulting firms advertise as one-stop shops, boasting an ability to provide insights and implementation strategies for the whole of large, complex corporations. In this area, consolidation among top firms evidences a race among consulting firms to expand their service base through acquisitions and mergers. Simultaneously, small and large firms compete for niche markets, promoting their industry-specific expertise and their experience in a particular set of topics important to management (e.g. corporate strategy, human resources and logistics).

As demand for consulting services fell during the recession, price-based competition intensified, with many firms offering lower fees or more flexible contracts. Although the largest firm accounts for less than 5.0% of industry revenue, the industry’s largest firms benefit from economies of scale in marketing and service distribution, giving them a greater capacity to serve clients around the country and win high-value contracts. Small- and medium-size firms, however, may have lower overhead costs, enabling them to provide a high quality service at a lower cost. Furthermore, small consultancy firms have greater flexibility and may undertake consultancies at a strategic loss in order to establish a hold within a particular consulting area.

**External competition**

As a result of this push to train specialist consultants in a variety of fields, competition has recently increased from firms in other industries, especially in the information technology (IT), finance and human resource areas. For example, the services provided by the IT Consulting industry (IBISWorld report 54151) have increasingly overlapped with this industry because IT has become more relevant to management, production and logistics strategy. Use of the terminology “managed services,” which encapsulates this merger of advisory and implementation services, is growing. In fact, Accenture is considered one of the largest players in both the management consulting and IT consulting sectors.

In addition to competition from consulting firms external to the industry, management consultants face competition from the in-house capacities of their clients. When businesses outsource management consulting rather than conducting the research in house, industry revenue increases. In contrast, growth in the in-house research and consulting departments of large corporations places a limit on consultancy outsourcing, causing industry revenue to decrease. While outsourcing does not depend exclusively on good economic conditions, weakening of business confidence may cause firms to terminate external consulting contracts in favor of smaller, in-house solutions.

**Level & Trend**

Competition in this industry is **High** and the trend is **Increasing**.
**Competitive Landscape**

**Barriers to Entry**

Management consulting firms face a low level of regulation and minimal startup costs, allowing for the development of a highly fragmented industry with regular new entrants. The only significant barrier to entry is the specialist knowledge in any given field in which an industry entrant chooses to consult.

Developing a network of clients that can provide regular flow of work, however, can be a significant challenge for new entrants. A new entrant would benefit from a reputation for success as a business owner in the field in which he or she consults and access to potential clients; still, a client network and reputation can be built through participation in relevant business associations.

While the industry’s largest players bring strong brand recognition, these firms tend to target big-name clients and offer services across a wide variety of industries and activities. Such firms bring a high capacity worldwide network of offices and can provide services on a global basis. In general, firms entering the industry cannot expect to compete with these operators, particularly for high-value clients. New entrants, by contrast, tend to be highly specialized in a certain skill set or geographic region. Rather than compete with major players, new entrants often rely on larger firms for subcontracting. As the emergence of new specialist firms balances consolidation among major players, the number of enterprises is expected to stabilize with slow growth of 1.4% in 2013.

**Industry Globalization**

The largest industry players have expanded globally by establishing branch offices in Europe and the Asia Pacific and Middle East regions. Increasing connectivity between developed and developing economies is allowing large industry players to broaden their international approach, conducting consulting projects across international borders and increasing industry globalization. As a result of further growth opportunities, the overall level of industry globalization is projected to continue increasing gradually.

Industry clients demand a high level of customization of services and personal attention, minimizing the ability of firms to offer internationally homogeneous services. Client firms require advice tailored to the business culture of the geographic region in which they operate. For this reason, the major companies have focused on developing local offices around the world; this strategy produces a cost-effective and qualitatively superior product compared to alternative strategies that ship US experts to countries with which they may lack familiarity. Larger firms in this industry are increasing their offices around the world to build a global management consulting brand.
Major Companies

Accenture Ltd. | McKinsey & Company
Deloitte Touche Tohmatsu | Marsh & McLennan Companies Inc. | Other Companies

Player Performance

Accenture Ltd.  
Market share: 3.6%

Accenture Ltd. is one of the world’s leading management consulting, technology services and outsourcing companies. Accenture began as the consultancy arm of accounting firm Arthur Andersen but split from its parent company in 2000 — just a year before Andersen Worldwide effectively dissolved as a result of its participation in the Enron scandal. Chartered in Dublin but headquartered in New York, Accenture has a global presence, with operations in 54 countries and about 260,000 employees in 2013.

Accenture’s business is structured around the five major operating groups of its clients: consumer goods and services (e.g. consumer packaged goods or industrial equipment); communications, high technology and media; financial services (e.g. banking and insurance); resources (e.g. utilities, chemicals and energy); and government. Within each group, the company provides core services in management consulting, technology and business process outsourcing. This industry focus allows Accenture to provide clients with high-value expertise and insights from industry experts and professionals with local market knowledge. During fiscal 2013 (year-end August), all five operating groups experienced growth in revenue from consulting activities.

Management and technological consulting contribute a combined 57.0% to global net revenue in 2013. Accenture’s management consulting division works closely with professionals from relevant operating groups to develop and deliver solutions to clients in the areas of customer service, finance and performance management, process and innovation performance, risk management, strategy, supply chain management and organization performance.

Accenture Ltd. (US consulting segment) – financial performance

<table>
<thead>
<tr>
<th>Year*</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Net Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>4,802.5</td>
<td>3.6</td>
<td>321.0</td>
<td>19.6</td>
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<td>2008-09</td>
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<td>-5.9</td>
<td>332.0</td>
<td>3.4</td>
</tr>
<tr>
<td>2009-10</td>
<td>4,453.6</td>
<td>-1.5</td>
<td>365.4</td>
<td>10.1</td>
</tr>
<tr>
<td>2010-11</td>
<td>5,223.4</td>
<td>17.3</td>
<td>457.6</td>
<td>25.2</td>
</tr>
<tr>
<td>2011-12</td>
<td>5,717.4</td>
<td>9.5</td>
<td>524.0</td>
<td>14.5</td>
</tr>
<tr>
<td>2012-13**</td>
<td>6,153.5</td>
<td>7.6</td>
<td>546.7</td>
<td>4.3</td>
</tr>
</tbody>
</table>

*Year-end August; **Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD
McKinsey & Company is a premier provider of management consulting and a top employer for new MBA graduates. The company was founded in 1926 in New York. Currently, it employs 17,000 workers in 97 offices across more than 50 countries.

Although McKinsey competes directly with other major players, it possesses a competitive advantage in its ability to attract top corporate and government clients due to its reputation as well as its extensive board relationships. McKinsey boasts a client list that includes over 90.0% of the world’s 100 largest companies and two-thirds of the Fortune 1000 list. The company specializes in management consulting in a number of specific industries, including the finance, media and entertainment, and consumer goods sectors. It also provides strategic advice to clients in areas such as information technology, technology, pricing, corporate finance, marketing, leadership, and organizational structure and processes. Geographically based offices act as the main organizing cells, but the firm maintains cross-geographical practices around industry sectors and management areas.

McKinsey’s business model centers on a controversial non-exclusivity policy: Different teams may simultaneously consult for direct competitors. Many of McKinsey’s clients, in fact, have sought the firm’s services precisely because they know or suspect that a competitor has already done so. Though tacitly offering

### Financial performance

Accenture’s US consulting revenue is expected to increase at an annualized rate of 5.1% to $6.2 billion in the five years to 2013. Revenue declined during 2009 and 2010 due to falling demand for consulting services as a result of the recession. Due to the short-term nature of Accenture’s consulting contracts (typically shorter than 12 months and easily terminated), the management consulting segment is vulnerable to declines in business sentiment, as evidenced by weak performance during 2009 and 2010. In fiscal 2013, revenue is expected to increase 7.6% as rising corporate profit generates renewed demand for management consulting. Having weathered a period of macroeconomic volatility that brought down many businesses, Accenture is poised to expand both organically and through future acquisitions.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Employees</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
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<td>12.6</td>
<td>8,594</td>
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<td>2009</td>
<td>3,437.5</td>
<td>10.0</td>
<td>8,854</td>
<td>3.0</td>
</tr>
<tr>
<td>2010</td>
<td>3,645.8</td>
<td>6.1</td>
<td>8,854</td>
<td>0.0</td>
</tr>
<tr>
<td>2011</td>
<td>4,124.2</td>
<td>13.1</td>
<td>9,363</td>
<td>5.7</td>
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<tr>
<td>2012</td>
<td>4,644.9</td>
<td>12.6</td>
<td>9,817</td>
<td>4.8</td>
</tr>
<tr>
<td>2013</td>
<td>4,953.2</td>
<td>6.6</td>
<td>9,995</td>
<td>1.8</td>
</tr>
</tbody>
</table>

*Estimates

SOURCE: IBISWORLD
Major Companies

Deloitte Touche Tohmatsu Limited (DTTL) is well known as one of the Big Four accountancy firms, but it also ranks high in consultancy. In 2010, Deloitte was reorganized as a private British company headquartered in New York. It operates as a global professional services network of member companies working in over 150 countries with about 185,000 employees in 2013.

A relative newcomer, Deloitte Consulting (formerly the Deloitte and Touche Consulting Group) was founded in 1995. In 2013, consulting revenue contributed to about 30.0% of total DTTL revenue. Deloitte Consulting provides management consulting and implementation planning across industries in the areas of strategy and operations, human capital and technology. Based on the reputation of its parent company, Deloitte Consulting is able to compete with top-tier players such as McKinsey but also has the global scale to compete against larger firms such as Accenture on a cost basis. Where Deloitte Consulting truly excels, however, is in its full-service model, providing clients with both strategic advice and a tangible implementation plan.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Employees</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>3,533.4</td>
<td>5.4</td>
<td>7,992</td>
<td>18.4</td>
</tr>
<tr>
<td>2009</td>
<td>3,645.5</td>
<td>3.2</td>
<td>8,759</td>
<td>9.6</td>
</tr>
<tr>
<td>2010</td>
<td>3,062.6</td>
<td>-16.0</td>
<td>9,603</td>
<td>9.6</td>
</tr>
<tr>
<td>2011</td>
<td>3,526.0</td>
<td>15.1</td>
<td>10,295</td>
<td>7.2</td>
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<tr>
<td>2012</td>
<td>4,014.0</td>
<td>13.8</td>
<td>11,430</td>
<td>11.0</td>
</tr>
<tr>
<td>2013</td>
<td>4,225.0</td>
<td>5.3</td>
<td>11,960</td>
<td>4.6</td>
</tr>
</tbody>
</table>

*Estimates based on Deloitte Annual Reviews

SOURCE: IBISWORLD
Major Companies

Player Performance

As a number of mid-tier firms have merged or been sold in the recent economic downturn, Deloitte Consulting has drawn on the financial resources of parent company DTTL to expand through aggressive acquisition. In 2009, DTTL acquired the vast government consulting practice of BearingPoint (formerly KPMG Consulting). Again in 2011, DTTL acquired two more consulting firms specializing in sustainability. With staff utilization rates above 80.0% throughout Deloitte, newly acquired capacity is quickly being put to work.

Marsh & McLennan Companies Inc.

Marsh & McLennan Companies Inc. (MMC) is a US-based global conglomerate headquartered in New York City. MMC provides professional services in two operating segments: risk and insurance services and consulting. MMC currently operates in more than 100 countries with 51,000 employees.

In the past five years, MMC has become a major presence in the US management consulting market through its holdings in Mercer and the Oliver Wyman Group. Mercer has more than 25 years of experience providing consulting services in human resources and related financial advice. The company counts among its clients a majority of the companies in the Fortune 1000 and FTSE 100. Some of its largest clients include Bristol-Myers Squibb, Corning and the New York Times Company. MMC’s Oliver Wyman Group provides economic and management consultancy through about 3,400 professionals in 25 countries. Wyman pairs clients with industry experts specializing in strategy, operations, risk management and organizational transformation. Together, the consulting operations of MMC account for about 45.0% of company revenue, while the US consulting segment of MMC accounts for 20.0% of the same.

Financial performance

IBISWorld estimates MMC’s US consulting revenue in 2013 to be $2.6 billion, a 2.7% increase from the previous year attributable to a resurgence in demand following weak performance in 2009 and 2010. Mercer consulting revenue increased 5.0% in 2010, driven by renewed demand for health, benefits and compensation consultation. Oliver Wyman Group revenue increased 6.0% in 2010, driven by double-digit growth in financial services, healthcare, transportation and consumer sector consulting.

US consulting segment revenue has increased at an annualized rate of 3.1% to $2.6 billion during the five years to 2013, while operating profit has decreased at an average 6.3% annually during the period. MMC saw global operating income from consulting rise to $588.0 million in 2011 from $129.0 million the previous year. This was due primarily to MMC subsidiary Mercer’s payment of $400.0 million to the Alaska Retirement Management Board to settle a claim of negligence in providing actuarial consulting services in 2010.

Financial performance

IBISWorld estimates Deloitte US consulting revenue to grow 5.3% to $4.2 billion in 2013. Although financial records are not available for this private company, IBISWorld estimates that revenue for the company has grown at an annualized rate of 3.6% in the five years to 2013. With positive growth in all years except 2010, Deloitte has generated sustained growth in demand for its products by offering a growing diversity of services, due largely to acquisition activity.

Player Performance

Continued

As a number of mid-tier firms have merged or been sold in the recent economic downturn, Deloitte Consulting has drawn on the financial resources of parent company DTTL to expand through aggressive acquisition. In 2009, DTTL acquired the vast government consulting practice of BearingPoint (formerly KPMG Consulting). Again in 2011, DTTL acquired two more consulting firms specializing in sustainability. With staff utilization rates above 80.0% throughout Deloitte, newly acquired capacity is quickly being put to work.
While exceptional costs partially explain decreased profitability, cyclical forces remain a driving force of operating profit. As client business activity slowed in previous years, so have utilization and pricing rates for MMC’s consultants. In a low-demand environment, personnel devoted a reduced portion of work time to billable hours, while simultaneously the market rate for their consultancy services declined. One further aspect of MMC’s business model that makes the company particularly vulnerable to general macroeconomic fluctuations, and therefore makes its revenue particularly volatile, is a high level of acquisition and disposition activity, including 26 separate acquisitions from 2008 to 2010. While MMC’s acquisitions were intended to improve competitiveness, poor economic conditions punished expansion by reducing profit margins and imposing balance sheet write-downs, including over $800.0 million in goodwill impairments in 2008 and 2009.

**Marsh & McLennan Companies Inc. (US consulting segment) – financial performance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>2,273.1</td>
<td>38.0</td>
<td>242.8</td>
<td>-18.1</td>
</tr>
<tr>
<td>2009</td>
<td>2,079.7</td>
<td>-8.5</td>
<td>182.7</td>
<td>-24.8</td>
</tr>
<tr>
<td>2010</td>
<td>2,157.6</td>
<td>3.7</td>
<td>57.6</td>
<td>-68.5</td>
</tr>
<tr>
<td>2011</td>
<td>2,369.3</td>
<td>9.8</td>
<td>177.9</td>
<td>208.9</td>
</tr>
<tr>
<td>2012</td>
<td>2,576.8</td>
<td>8.8</td>
<td>167.5</td>
<td>-5.8</td>
</tr>
<tr>
<td>2013</td>
<td>2,646.5</td>
<td>2.7</td>
<td>175.3</td>
<td>4.7</td>
</tr>
</tbody>
</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD

While there is some consolidation among the industry’s larger players, no single company controls more than 5.0% of the industry’s revenue. Many of the industry’s operators are independent management consultants. The majority of these firms account for a very small portion of market share, so even firms with a 1.0% market share are significant players. Even though larger firms have increasingly pursued expansion through acquisition, the industry remains highly fragmented and continues to be very competitive.

**Boston Consulting Group**

Estimated market share: Less than 1.5%

The Boston Consulting Group (BCG) is a global management consulting firm with more than 70 offices in over 40 countries. The firm prides itself on an employee-focused culture and is recognized as one of the best consulting companies to work for in Fortune magazine. The company was formed in 1963 when Bruce Henderson became the head of a new management consulting division of the Boston Safe Deposit and Trust Company. BCG works with some of the world’s largest and most innovative companies.
Other Companies

The majority of BCG clients rank among the 500 largest corporations in North America, Asia, Europe and Australia. BCG also advises midsize companies, nonprofit organizations and government agencies. Worldwide, the firm also works on a pro bono basis for worthy organizations and efforts.

Boston Consulting has been one of the industry’s star performers over recent years. The company generated an estimated $2.4 billion in revenue in 2013. The majority of growth over recent years has been the result of geographical expansion into strategic emerging markets such as China and India.

Bain & Company

Unlike other management consulting firms, most notably McKinsey, Bain’s early policy forbade the company from having multiple firms in the same industry as clients. This policy was enacted to avoid the potential for, or appearance of, a conflict of interest. Facing financial duress in the 1990s, Bain later lifted the one-client-per-industry policy. As such, the firm massively expanded its potential client base, growing more than 25.0% a year thereafter.

Bain’s primary competitors are McKinsey and Boston Consulting Group; together, these three firms form a tier of the most prestigious consulting firms, referred to by industry insiders as “MBB.” Bain differentiates itself with a marketing strategy that includes presenting previous clients’ performance according to metrics such as stock price appreciation as an indicator of consulting success. The company suggests that its clients’ stock price has outperformed the S&P index fourfold over the past 30 years.
Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

Capital Intensity

Because the Management Consulting industry is fundamentally service-oriented, capital intensity remains low despite economy-wide increases in the use of labor-saving technology. IBISWorld estimates that for every dollar spent on capital, industry operators spend an average $44.23 on capital investment in 2013. Although capital depreciation expenditures have decreased very slightly, capital intensity has increased as a result of declines in wages both in absolute terms and as a share of revenue (refer to the Cost Structure Benchmarks section of this report).

The marginal increase in capital intensity during the past five years was primarily driven by decreases in the much larger and much more volatile category of labor costs. In 2013, direct labor costs account for about 40.5% of industry revenue. Including indirect labor costs via the outsourcing of niche projects to specialized consultants, that figure increases to 57.5%. The high share of labor costs in revenue indicates the high level of education and experience required of management consultants in general. Further, a premium is paid for consultants with a name, reputation, and professional network that will draw business to the firm; contracts can be won or lost if a certain expert enters or departs a company. The consultation process is very personalized, and a firm’s most respected consultants are often requested by name.

Tools of the Trade: Growth Strategies for Success

New Age Economy

Recreation, Personal Services, Health and Education. Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labor skills are key to product differentiation.

Management Consulting

Accounting Services

Tax Preparation Services

Computer Stores

Engineering Services

Investment Economy

Information, Communications, Mining, Finance and Real Estate. To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.

Old Economy

Agriculture and Manufacturing. Traded goods can be produced using cheap labor abroad. To expand firms must merge or acquire others to exploit economies of scale, or specialize in niche, high-value products.
Operating Conditions

Capital Intensity continued

Capital intensity within the Management Consulting Industry is relatively low compared to the sector-wide average. Though still labor-intensive, the other industries in the sector, Environmental Consulting Services and Scientific & Economic Consulting Services (IBISWorld reports 54162 and 54169, respectively) have a relatively greater reliance on costly scientific equipment, resulting in a higher level of capital intensity. In contrast, management consulting firms’ capital investments are largely limited to the computer programs, networking and computer hardware necessary to conduct analysis and communicate with clients. Because the majority of industry expenditures go toward personnel costs rather than the purchase of equipment, depreciation of these fixed assets represents just 1.3% of revenue in 2013.

The decline is very slight relative to 2008; facing compressed profit margins, management consulting firms likely delayed updates to their information technology systems in the recent period.

Technology & Systems

Level
The level of Technology Change is Low

Although the Management Consulting industry benefits from rapid innovations in communications technologies, the general mix of inputs required to produce and deliver consulting services has not changed dramatically in the past five years. The industry is labor intensive; productivity is more dependent on the human capital embodied in its employees than on the technology those employees use. Nonetheless, major companies in the Management Consulting industry will need to devote considerable resources to maintaining the security and integrity of their technological infrastructure, or else risk compromising sensitive client data and experiencing costly interruptions to operations.

The most important technological innovations for management consultants are those that improve the speed and connectivity between firms and their clients. Familiar communications technologies, including email and telecommunications services, enable firms to quickly and efficiently transmit time-sensitive information. For large firms, specialized intranet systems facilitate information-sharing through internal company databases, web sites and documents. Consequently, consultants can increasingly take advantage of the knowledge, techniques and lessons learned within their company through access to previous reports and evaluations. At the same time, many firms are expanding their access to external internet-based libraries and databases for research purposes.

While developments in internal online databases facilitate information-sharing within a firm, they simultaneously compel adopters to invest in heightened security measures to protect sensitive proprietary firm knowledge and client information. Given that consultants have access to sensitive client information,
Operating Conditions

Revenue Volatility

The Management Consulting industry has a moderate level of revenue volatility. In the five years to 2013, year-on-year revenue changes averaged 8.0% in absolute value. During that time, annual industry revenue has declined by as much as 11.7% in 2009 and grown as much as 5.4% in 2013.

Management consulting revenue is linked to, but not determined solely by, macroeconomic conditions. Corporate profit levels determine the availability of funds private sector consulting, while tax revenue largely determines the funds available to the public sector. In some cases, consulting expenditures are viewed as discretionary and firms facing compressed profit margins can quite often defer them. Historically, however, volatility within the industry has been mitigated by countercyclical demand for cost-saving measures. Management consultancies have been employed to restructure client companies during periods of slow growth or decline.

While countercyclical demand components smoothed industry revenue in the past, the recent recession shows that this trend is no longer such a significant factor. Although industry revenue picked up early in the recession in 2008 due to demand for restructuring from companies already struggling or anticipating future trouble, this trend did not continue into 2009. For many companies that might have become clients in milder economic dips, no amount of reorganization would compensate for a prolonged decline in aggregate demand. Large consultancies employ expert consultants in a variety of

Technology & Systems continued

Industry operators have must invest in constantly evolving security software to mitigate the risk of the security breaches. A final technological expenditure crucial for large and small management consulting firms is website maintenance. An appropriate website delivers information to additional clients at little to no cost, giving clients an interface they can use to locate relevant consulting services, identify experts with whom they would like to work and eventually manage and monitor the progress of their consulting contracts.
Operating Conditions

Revenue Volatility continued
fields; this practice can minimize the effect on revenue of economic shocks affecting only one or two industries. The benefits of diversification, however, dissolve in widespread economic crisis, such as in 2009.

Regulation & Policy
As a whole, the Management Consulting industry is subject to a light and steady level of regulation, with variation depending on the firm’s consulting specialization. While there is no generic licensing for management consultants, human resources consultants are subject to additional regulation and licensing. Human resources consulting companies, such as Marsh & McLennan subsidiary Mercer, provide public and private sector companies with assistance in the design and management of their employee healthcare and pension plans. Firms engaged in similar benefits and insurance consulting are subject to the same licensing requirements and regulatory oversight as insurance intermediaries. Similarly, retirement-related consulting services, including trustee services are subject to pension law and financial regulation within the United States under the SEC. Both health and retirement consultancies must comply with numerous state and federal laws governing the protection of health and other personally identifiable information.

While the licensing requirements for human resources consultants have not changed dramatically in recent years, the laws with which their clients’ pension and healthcare plans must comply will likely change in the near term under the Affordable Care Act of 2010. This could represent an opportunity for consulting firms. As the law’s provisions go into effect, clients will require consulting to bring existing employee healthcare plans into compliance. As the funded status of defined benefit pension plans has declined in recent years, many employers are switching to defined contribution pension plans to more easily comply with local pension laws. This trend represents a threat to the industry because these plans are easier to manage and are less likely to require extended consulting expenditures. For more information on the legislative changes facing the Human Resources Consulting sub-sector, refer to IBISWorld report 54161B.

Industry Assistance
The industry obtains no special assistance or protection from government. The Association of Management Consulting Firms (AMCF) provides professional development opportunities, industry research, legislative monitoring and referrals, and other services to its members. Since the mid-1980s, it has undertaken an annual survey of the management consultancy industry in which it publishes operating and financial ratios for member firms. Membership is only open to firms that meet minimum size requirements and have been in operation for at least five years. Although membership is voluntary, members are required to observe a strict code of professional conduct. Of the four major companies described in this report, Deloitte is the only AMCF member.
## Key Statistics

### Industry Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($m)</th>
<th>Industry Value Added ($m)</th>
<th>Establishments</th>
<th>Enterprises</th>
<th>Employment Employment</th>
<th>Exports</th>
<th>Imports</th>
<th>Wages ($m)</th>
<th>Domestic Demand</th>
<th>Corporate Profit ($b)</th>
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<tbody>
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### Annual Change

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<th>Year</th>
<th>Revenue (%)</th>
<th>Industry Value Added (%)</th>
<th>Establishments (%)</th>
<th>Enterprises (%)</th>
<th>Employment Employment (%)</th>
<th>Exports (%)</th>
<th>Imports (%)</th>
<th>Wages (%)</th>
<th>Corporate Profit (%)</th>
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### Key Ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Value</th>
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</thead>
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<tr>
<td>IVA/Revenue (%)</td>
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<tr>
<td>Imports/Demand (%)</td>
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<tr>
<td>Exports/Revenue (%)</td>
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</tr>
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<td>Revenue per Employee ($1,000)</td>
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<tr>
<td>Wages/Revenue (%)</td>
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</tr>
<tr>
<td>Employees per Est.</td>
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</tr>
<tr>
<td>Average Wage ($)</td>
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</tr>
<tr>
<td>Share of the Economy (%)</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**Figures are inflation-adjusted 2013 dollars. Rank refers to 2013 data.**

**SOURCE: WWW.IBISWORLD.COM**
**Jargon & Glossary**

**Industry Jargon**

**DEFINED BENEFIT PENSION PLAN** A retirement pension plan in which an employer commits to paying its employee a specific benefit for life beginning at his or her retirement.

**DEFINED CONTRIBUTION PENSION PLAN** A retirement pension plan in which an employer’s annual contribution is specified. The value of future benefits at the time of retirement is not specified.

**HUMAN RESOURCES CONSULTING** The contracting of a consultant for advice on structuring human resource and personnel policies, employee benefits, compensation systems and wage and salary administration.

**BARRIERS TO ENTRY** High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

**CAPITAL INTENSITY** Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.

**CONSTANT PRICES** The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the “real” growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the US Bureau of Economic Analysis’ implicit GDP price deflator.

**DOMESTIC DEMAND** Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

**EMPLOYMENT** The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

**ENTERPRISE** A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

**ESTABLISHMENT** The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

**EXPOSURE** Total value of industry goods and services sold by US companies to customers abroad.

**IMPORTS** Total value of industry goods and services brought in from foreign countries to be sold in the United States.

**INDUSTRY CONCENTRATION** An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

**INDUSTRY REVENUE** The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

**INDUSTRY VALUE ADDED (IVA)** The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry’s contribution to GDP, or profit plus wages and depreciation.

**INTERNATIONAL TRADE** The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

**LIFE CYCLE** All industries go through periods of growth, maturity and decline. IBISWorld determines an industry’s life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry’s products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

**MANAGEMENT CONSULTANT** A consultant who provides advice and assistance to businesses and other organizations on various issues, including management.

**STRATEGIC CONSULTING** The contracting of a consultant to advise on long-term planning with an eye toward minimizing costs and maintaining profit, often in conjunction with the development of new products and services.

**IBISWorld Glossary**

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**EXPORTS** Total value of industry goods and services sold by US companies to customers abroad.
Jargon & Glossary

**IBISWorld Glossary continued**

**NONEMPLOYING ESTABLISHMENT** Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

**PROFIT** IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

**VOLATILITY** The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

**WAGES** The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.
At IBISWorld we know that industry intelligence is more than assembling facts
It is combining data with analysis to answer the questions that successful businesses ask

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions

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