Industry Report: The Current State of Consulting

Growing Demand, Growing Opportunity

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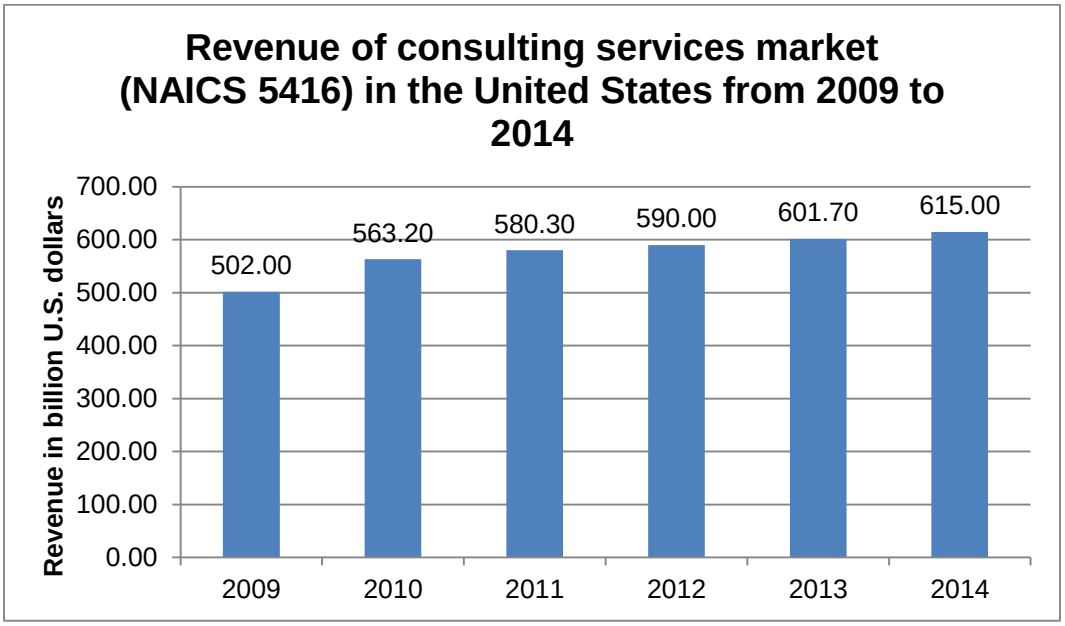
Since the 2008-2009 recession, one of the fastest growing industries has been consulting, which includes a wide range of professional service firms that focus on management consulting, advisory services, IT consulting, engineering consulting, outsourcing, managed services, and more.

According to the U.S. Census Bureau, U.S. consulting industry revenues grew from $502 billion in 2009 to $607 billion in 2015, a 20% increase in just five years.



Source: U.S. Census Bureau, 2015

The globalization of business in general has sparked globalization in the consulting industry, too. Most major professional service firms operate worldwide and have multiethnic, multilingual teams. In addition to expanding in North America and Europe, more companies are eyeing emerging markets in Brazil, India, and China. A handful of African nations also are experiencing rapid economic growth, which indicates Africa may be the next frontier of consulting.

Although this has been a prosperous period for consultants around the country, the industry tends to be somewhat cyclical. 2008 and 2009 marked two challenging years for the business community, as the global economy slowed down and corporate budgets shrunk. Many major professional service firms experienced substantial drops in business during this time and took several quarters to recover.

However, in 2013 and 2014, corporate profits grew dramatically, signaling that executives were more willing to invest in new consulting projects as long as they saw potential for good ROI. Because of this upward trend, most of the global professional service firms (particularly those based in the U.S. and E.U.) have enjoyed substantial growth in employee count and revenues.

The Factors Fueling Growth

Multiple economic and industry changes have converged over the past decade, leading to significant growth for professional service firms.

Recession Layoffs

During the recession in 2008 and 2009, thousands of highly qualified and experienced professionals were offered severance or laid off. Rather than seeking out new employment or retiring, many of them jumped at the chance to focus on their specialties and work for themselves as independent consultants. This migration to the consulting world also resulted in a surge of small companies and one-person shops, which now dominate the industry.

Management Consulting Enterprises by Employment Size, 2013

No. of Employees	No. of Enterprises	Share (%)
0 to 4	97,063	84.4
5 to 9	8,096	7.0
10 to 19	4,334	3.8
20 to 99	3,798	3.3
100 to 499	986	0.9
500 +	686	0.6
Total	114,963	**100.0**

Source: U.S. Census Bureau

Mergers and Acquisitions

The number of small, non-employing firms and independent contractors increased due to the low cost of entry and operations. At the same time, demand grew for all-inclusive consulting services, which inspired a wave of mergers and acquisitions between larger players and smaller, specialized companies.

The Rise of Emerging Markets

Growth in up-and-coming markets like Brazil, Russia, India, China, Africa, Indonesia, and Malaysia has sparked more international corporate expansion, creating greater demand for consultants who are familiar with mergers and acquisitions.

Healthcare Changes

Rising healthcare costs and significant shifts in healthcare coverage have triggered a huge need for guidance on how to implement digital health records, increase efficiency, minimize costs, and decrease employee benefits expenses.

Greater Scrutiny on Profitability

Corporations have been feeling more pressure to boost profitability quickly, creating a ripe market for consultants who focus on improving cash flow, supply chain efficiency, and manufacturing processes.

New Regulations

New U.S. and European laws have made many organizations realize they need assistance maneuvering fast-changing relationships between the government and their industry, and dealing with government oversight. These issues are particularly complex in the financial, environmental, and healthcare sectors.

Today: Top 3 Consulting Trends and Opportunities

With so much market expansion and advancements in technology, the professional services industry is evolving faster than ever before. To keep up with the pace of change and maintain a competitive edge, consultants must stay in touch with where the market is headed and strategically plan which opportunities to pursue.

Here are the top 3 trends consultants are seeing across industries.

1. Increased Specialization and Segmentation

Professional service firms are transitioning from being generalists to specialists. Industry expertise has always been a hallmark of the top consultancies, and research like TBR's 2015 Management Consulting Benchmark Report shows that industry-specific knowledge will become a key differentiator.

Some firms are gaining a competitive advantage by pursuing projects based on size and function. For example, big players like Bain, BCG, and McKinsey focus on global, strategy-oriented engagements. Meanwhile smaller, more specialized firms like L.E.K. and Oliver Wyman focus on strategy, operations, risk management, and organization transformation for high-end clientele.

Professional service firms who prefer to remain generalists are developing segmented services, such as IT deployment and retail sales analysis, that complement their main offerings and attract high-volume, low-margin projects. Other teams are segmenting by targeting new industries, like government, quasi-government agencies, and not-for-profit organizations.

2. Working in the Energy Sector

TBR's 2015 Management Consulting Benchmark Report also shared that professional service firms have been hiring more consultants and senior-level executives to bring their much-needed experience to the energy sector.

Demand is particularly high for consulting services related to smart grids, which are modernized electric grids that use technology and automation to increase energy efficiency. Nearly every vendor in TBR's report touted a new client or service offering that involves smart metering, smart distribution, and/or smart electricity supply chain management.

3. Building Partnerships and Alliances

Professional service firms are branching out into new verticals and services, but not by themselves. Instead, they are taking a more collaborative approach by building strategic relationships with other organizations and leveraging each other's strengths.

For instance, Accenture recently launched a joint venture with Siemens, which has an entire Sustainable Energy division. This partnership allows Accenture to provide their clients with energy expertise and break into a new market that would otherwise have been hard to enter. In return, Siemens is boosting their brand value by aligning with such a well-known firm, while mutually benefiting from Accenture's knowledge and resources.

Consulting Trends in 2014 and 2015

Management consulting firms have been **hiring professionals** and more **senior level executives** to bring much-needed experience in the energy sector. Industry expertise has always been a hallmark of the top consulting firms, but TBR heard repeatedly from consulting customers that industry-specific knowledge provided a key differentiator — and consultancies responded to that market demand.

> We have been investing a lot in talent from Australia through acquisitions in energy consulting firms and absorbing their resources and innovcation. So talent investments are being made for geologists, geophysicists and chemical engineers. This is because resource exploration is of utmost importance at the moment for us.
>
> *Senior Manager, Big Four consulting and audit firm, Seattle*

2014 included a surge in activity around **Smart Grid consulting services.** Nearly every vendor in TBR's *Management Consulting Benchmark* touted a new client or offering centered on smart metering, smart distribution and/or smart electricity supply chain management.

> We have launched a joint venture with Siemens under the banner of Omnetric Group to deliver services to global smart grid market. We will start working from Europe and U.S. initially with plans for expansion in LATAM and APAC regions.
>
> *Partner, Solutions-led Management Consulting company*

Consultancies found alliances and partnerships with **traditional engineering companies provided expertise in energy** and entree into new markets that would otherwise be hard to obtain.

> To Integrate analytic and technology consulting we team up energy consultants with our technical consultants to work on assignments in the energy sector.
>
> *Senior Manager, strategy-centric consulting firm, San Fransisco*

Source: TBRI.com

Tomorrow: Market Risks and Common Challenges

Professional service firms who provide solutions to complex problems will be in high demand, but only if they can address the challenges that lie ahead.

The Top Business Challenges for Management Consulting Firms

Attracting & Developing New Business	81.1%
Dealing With a Difficult Economy/ Competitive Marketplace	25.2%
Finding/ Keeping Good People	24.4%
Innovation/ New Ideas	24.4%
Strategy/ Planning Issues	24.4%

Source: Business 2 Community

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2. Going Virtual

Inspired by globalization, consultancies of all kinds have cut back on brick and mortar locations and become more virtual. However, virtual teams and projects encounter their own set of unique challenges. In *The Challenges of Working in Virtual Teams*, 30,000 employees from multinational companies reported that the top challenge for virtual team members is the inability to read nonverbal cues (94%).
The survey also found:

- Most virtual team members (90%) said they don't have enough time during virtual meetings to build relationships.
- There is an absence of collegiality among virtual team members (85%).
- It is difficult to establish rapport and trust in virtual teams (81%).
- Managing conflict is more challenging on virtual teams than on conventional teams (73%).
- Decision making is more difficult on virtual teams than on conventional teams (69%).
- It is more challenging to express opinions on virtual teams than on conventional teams (64%) (Hastings, 2010).

Although many professional service firms are going virtual to save money and give employees more freedom, they will need to take additional steps to help their teams overcome these challenges and be successful over the long term.

3. Government Budget Cutbacks

Although corporate profits have been bouncing back in a big way, the government sector is still feeling the pinch. U.S. and European government budgets have been under tremendous pressure at the national, state, and local levels due to low tax revenues. Subsequently, government and agency budgets have been scrutinized and cut in many cases, presenting new challenges for consulting firms that primarily serve government clients.

Like their corporate counterparts, government clients will be more focused on ROI. Consultants who can deliver measurable results, such as increasing revenue, reducing debt, or making progress toward strategic initiatives, will have the best chance of success.

A Bright Future Ahead

Today's consultants face unprecedented opportunities to help clients learn, grow, and improve – if they can successfully navigate the challenges coming their way.

For now, the industry outlook is positive. As the Eurozone crisis eases, global economies continue to improve, and market spending increases, research analysts expect the demand for consulting to keep growing in both 2016 and 2017.

The key challenge for professional service firms will be staying afloat as market growth plateaus, wide margins become a thing of the past, and bitter price wars become a reality of the present. To not only survive but also thrive, consultants must make strategic decisions about how to solve the most pressing problems they face today, while preparing to address the obstacles ahead.

About ForeIQ

ForeIQ's profitability management tool helps professional service firms track and forecast profitability through resource usage, allowing them to manage their business by looking through the windshield, not the rearview mirror.