



# Management Consulting Services

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# Coronavirus Update

## Jan 22, 2022 -- US Supreme Court Blocks Vaccination Mandate

- Management consulting firms may benefit from clients' need for assistance in managing COVID-19 vaccination mandates. The Supreme Court blocked the Biden administration from enforcing its vaccine-or-test requirements for businesses with 100 or more employees. "Although Congress has indisputably given OSHA the power to regulate occupational dangers, it has not given that agency the power to regulate public health more broadly," the court wrote in an unsigned opinion. "Requiring the vaccination of 84 million Americans, selected simply because they work for employers with more than 100 employees, certainly falls in the latter category," the court wrote.
- More than half of respondents to a workforce survey conducted from August 11-16, 2021, by Ipsos said that they are burnt out. Younger workers are feeling the most strain, with 62% reporting burnout. Workers say that implementing a four-day work week and reducing workload would alleviate stress. More than a third of the respondents plan to leave their job in the next 12 months. About 51% said that the pandemic has triggered a re-evaluation of their personal priorities.
- Analysts say that the presidential mandate is likely to pressure private employers with fewer than 100 employees to require immunization as well. While vaccination rates have picked up speed in recent weeks as the delta variant spurred a surge in cases, they remain a fraction of what they were in the early months of the vaccine rollout. Just over 55% of the US population is fully vaccinated as of late September.
- Some businesses that took PPP loans in 2020 but don't apply for forgiveness soon will need to start making payments on the loan plus interest. The PPP loans will automatically convert to a standard loan at 1% interest if a small business does not apply to the SBA for forgiveness within 10 months of the end of the covered period under which they had to spend the money. For some businesses that received a loan when the PPP launched in April 2020, there was an eight-week covered period, which would put the forgiveness application deadline in the middle of July. For most loans operating under the more popular 24-week covered period, that meant a deadline in September 2021.
- Many industries may face a resurgence of turnover as employees begin to feel that they can make job moves that are being put off during the pandemic. "Company leaders are still knee-deep dealing with the pandemic, but they have to look ahead to fend off a talent tsunami," says Melissa Jezior, president and chief executive officer of Eagle Hill Consulting. "Now that vaccinations are underway, there's light at the end of the tunnel for employees. We all are feeling a sense that work will return to some sense of normalcy and the economy will rebound. And that means employees again will feel confident looking elsewhere for a job." Further complicating the issue for employers is that more than half of the workforce feels burnt out, much of which can be attributed to the COVID-19 work environment, Jezior added. Failure to retain top talent may make it more difficult for a business to move forward in a post-pandemic economy,
- Corporate executives are increasingly comfortable using freelance management consultants, according to a report from Harvard Business School. Pandemic-induced cost controls, remote workforces, and a growing familiarity with freelancers are important drivers of freelance consultancy growth.
- Management consulting services industry employment increased 10% year over year in November 2021 and 7.6% from the pre-pandemic month of October 2019, according to the US Census Bureau.

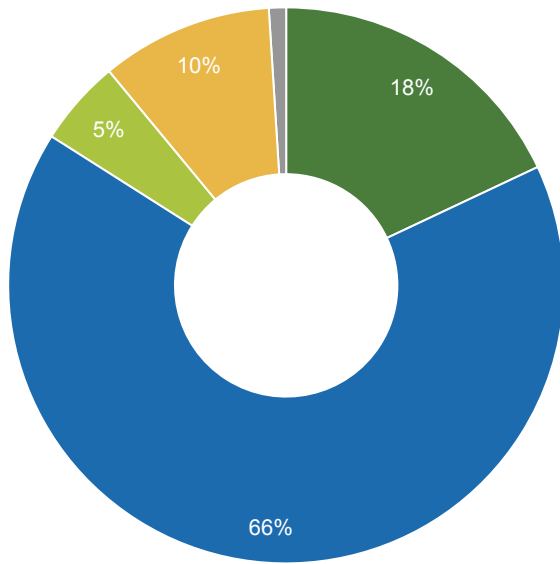
# Industry Structure



The average management consulting services provider operates out of a single location, employs 8-9 workers, and generates about \$3 million annually.

- The management consulting services industry consists of about 75,900 firms that employ about 664,000 workers and generate about \$232 billion annually.
- The industry is fragmented; the top 50 companies account for 41% of industry revenue.
- Large companies include McKinsey and Company, Booz Allen Hamilton, Boston Consulting Group, Bain, and Accenture. Most large firms offer comprehensive services and operate nationally and internationally.

# Industry Demographics



- Corporations (18.0%)
- S-Corporations (66.0%)
- Individual Proprietorships (5.0%)
- Partnerships (10.0%)
- Non-profit/Other (1.0%)

Source: US Census Bureau



**Female Owned**

25.0%



**Minority Owned**

13.0%



**Veteran Owned**

11.3%

Source: Census Bureau

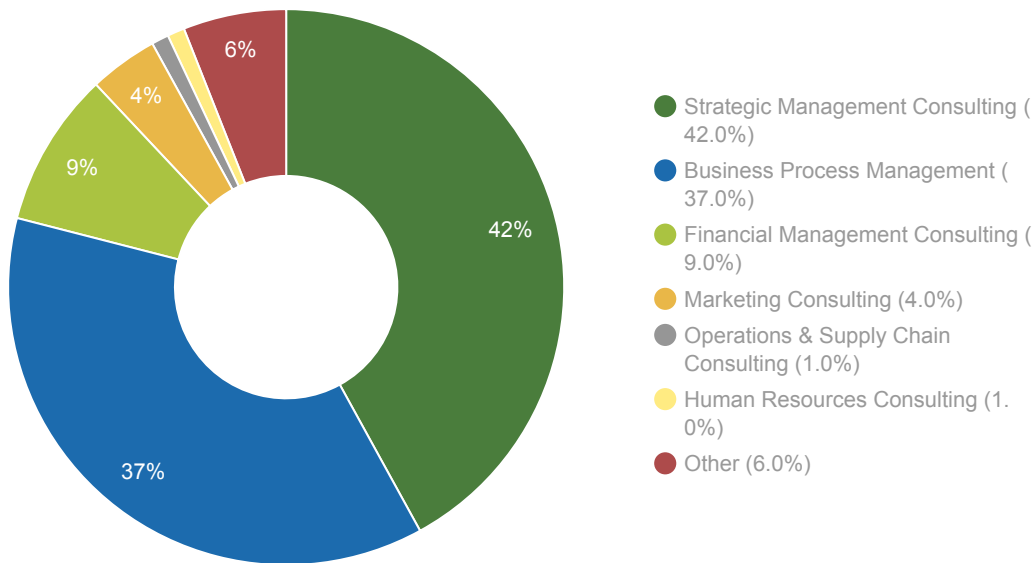
# How Firms Operate

## Products and Operations

Management consulting services assist businesses and organizations with administrative, strategic, and management-related issues.

- Major revenue categories include strategic and financial management consulting and implementation services.
- Firms may also offer operations and supply chain, marketing, and human resources management consulting and implementation services.
- Customers include businesses, institutions, non-profit organizations, and government entities.

**Management Consulting Services Revenue**



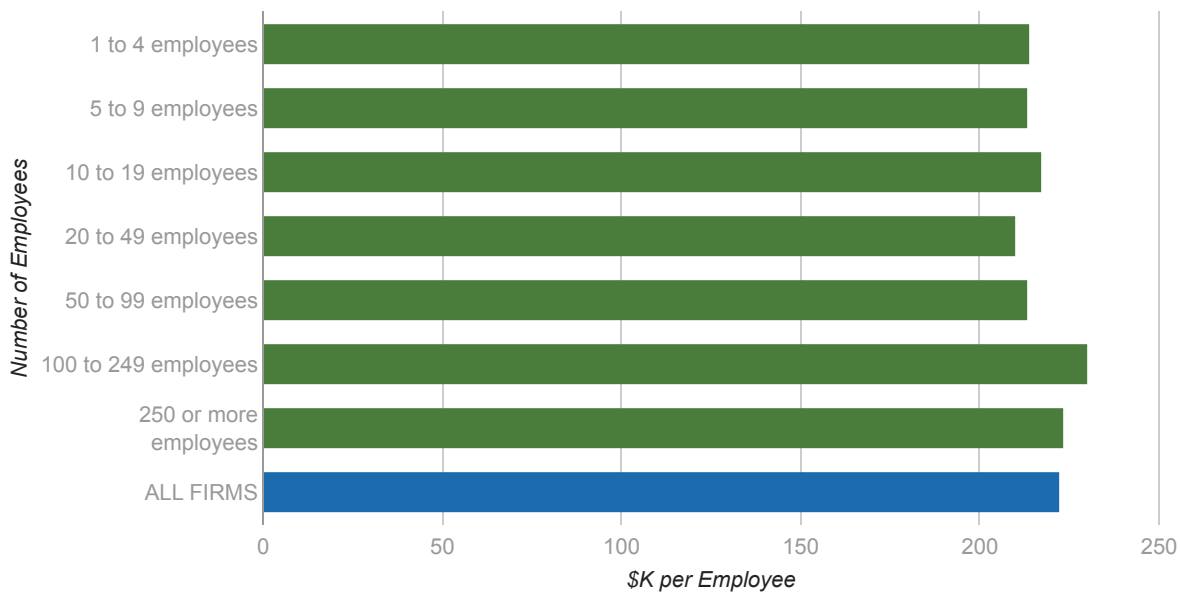
Source: US Census Bureau

Management consulting firms provide advice on a range of issues, including strategic, financial, or organizational planning; equity and asset management; records management; process improvement; and new business ventures. Firms may specialize in a particular industry (such as health care or technology) or discipline (such as human resources, marketing, or logistics). Other specialty areas include start-ups, acquisitions, and restructurings.

Projects vary depending on the needs of the client. Some clients seek advice on improving efficiency or reducing costs. Firms may assist clients with growth plans, and provide assistance with acquisitions or expansions. Large firms employ teams of consultants to gather and organize necessary information, analyze data, develop solutions, and implement plans. Information gathering may include conducting interviews, observing operations, and researching third-party sources. While some individual consultants specialize in a particular area of expertise and work on multiple engagements, others are assigned to a specific client. Project managers maintain relationships with clients and coordinate teams of consultants. The length of an engagement varies – government projects can span decades, while projects for small businesses can last just a few months.

Management consulting firms typically hire highly-educated professionals. Large firms may employ well-recognized industry or academic experts to establish credibility. Firms often provide extensive training programs for entry-level consultants. At large companies, senior consultants work with and manage junior staff on various projects to provide exposure and development opportunities. Small firms and independent management consultants may lack full service capabilities and outsource certain tasks to third party agencies.

Revenue per Employee by Firm Size



Source: US Census Bureau

## Profit Drivers

### Strong Project Backlog

By maintaining a strong backlog of contracted projects, management consulting firms can more efficiently plan and schedule their staffing resources to minimize unbillable hours. They can also be more selective in the projects they bid on and be less likely to underbid because they are desperate for new projects. Winning repeat business from satisfied clients can be key to building a strong backlog. Firms also rely on senior managers to lead business development efforts through industry networking and effective proposal development.

### Managing Projects For Profitability

Firms rely on project managers, typically senior management, to manage and track project activities to achieve satisfied clients and profitability goals. Effective project management is critical for fixed-price contracts to meet profit targets, but is also important for time and materials projects to avoid client dissatisfaction with cost overruns. Project managers must clearly define the project scope and work with clients to avoid unfunded “scope creep” as the project progresses.

### High Employee Retention

Management consulting firms invest heavily in training new consultants to ensure the consistency and quality of the firm’s work for clients. Firms can also experience high turnover rates due to the long hours and extensive travel often required for consulting projects. High turnover rates can prevent firms from realizing a return on their investment in employee training. Firms may also rely heavily on senior consultants with extensive industry experience and contacts and often lose clients when these individuals leave the firm. High performers are often recruited heavily by other consulting firms and by clients. Firms typically implement incentive programs and provide generous benefit programs to increase employee retention.

# Industry Trends

## **Trends are affected by the COVID-19 pandemic.**

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the “Coronavirus Update” chapter.

## **Revenue Growth Stalls**

The management consulting industry has benefited from improved economic conditions and growing corporate profits. Revenue for management, scientific, and technical consulting services increased 4.7% in 2016, 2.7% in 2017, 5% in 2018 and 4.5% in 2019 before falling 4.4% in 2020. The fastest growing disciplines include technology and strategy consulting, according to a survey by Source Information Services. Demand is high for services related to digitization of documents and other information, streamlining of operations, and data and analytics. Client interest is rising for services related to robotics and artificial intelligence (AI).

## **Strong Demand For Consultants**

Corporate and government efforts to improve efficiency are expected to drive demand for more management consultants. Employment for management consultants is projected to increase 10.7% between 2019 and 2029, almost triple the average growth for all occupations. High growth specialties include information technology, media, telecommunications, cybersecurity and data analytics.

## **Evolution In Healthcare**

Healthcare reform, new delivery models, and constant pressure to reduce costs combine to drive change and demand for healthcare consulting. The existing complexity of the healthcare industry was further complicated by the problem-plagued implementation of the Affordable Healthcare Act. Accountable Care Organizations (ACO) promise savings and improved quality of care for Medicare patients but require coordination across doctors, hospitals, and other healthcare providers. Federal penalties for excessive readmissions force hospitals to fundamentally change certain operating procedures to avoid fines. Consolidation among healthcare providers favors larger consulting firms with integration experience.

## **Global Infrastructure Opportunities**

Economic growth in emerging markets and recovery in mature countries create opportunities for management consulting firms that specialize in infrastructure planning and development. Improving transportation and utility systems is a focus in emerging markets, such as China and India. Developing economies continue to struggle with effective water, wastewater, and electricity management as populations migrate towards urban centers. Faced with decaying infrastructure and limited funding, mature countries, such as the US and Europe, must decide whether to repair or rebuild. Throughout the world, public/private partnerships have become a popular way to help fund major projects.

## **Advances In Information Technology**

Rapid change and development that characterizes the information technology industry fuels demand for related consulting services. Key trends involve big data, cloud computing, and mobile technology. In addition, clients often need assistance to implement and improve social media, cyber security, and analytics programs. Large companies continue to rely on third-party consultants to integrate disparate systems and take advantage of new technologies. The looming shortage of IP (Internet Protocol) addresses caused by the massive number of devices accessing the Internet is expected to drive demand for migration services, as clients convert from IPv4 to IPv6 to accommodate more addresses.

## Employment and Wage Trends

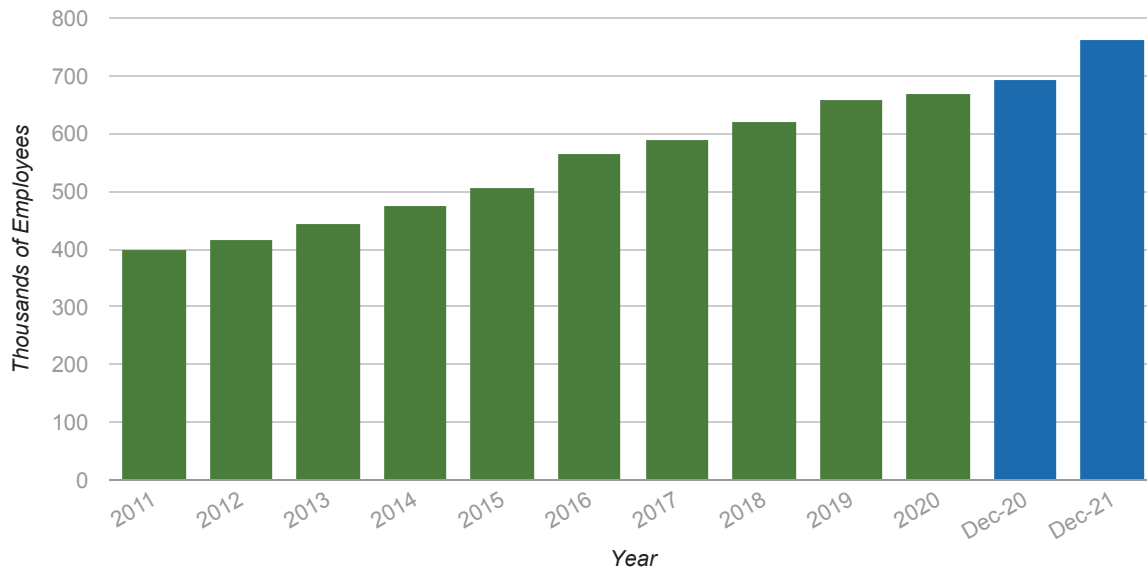
### **Employment by management consulting services increases**

Overall employment by management consulting services changed 10.1% in December compared to a year ago, according to the latest



data from the Bureau of Labor Statistics.

### Management Consulting Services Employment

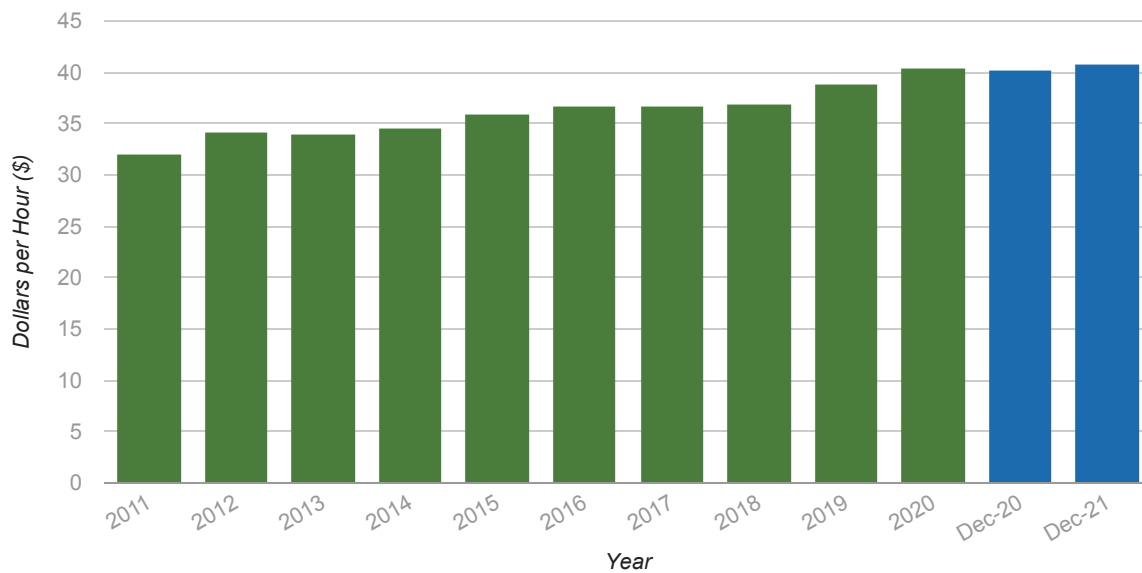


Source: Bureau of Labor Statistics

### Wages at management consulting services rise

Average wages for nonsupervisory employees at management consulting services were \$40.72 per hour in December, a 1.3% change compared to a year ago.

### Average Wages for Nonsupervisory Employees



Source: Bureau of Labor Statistics

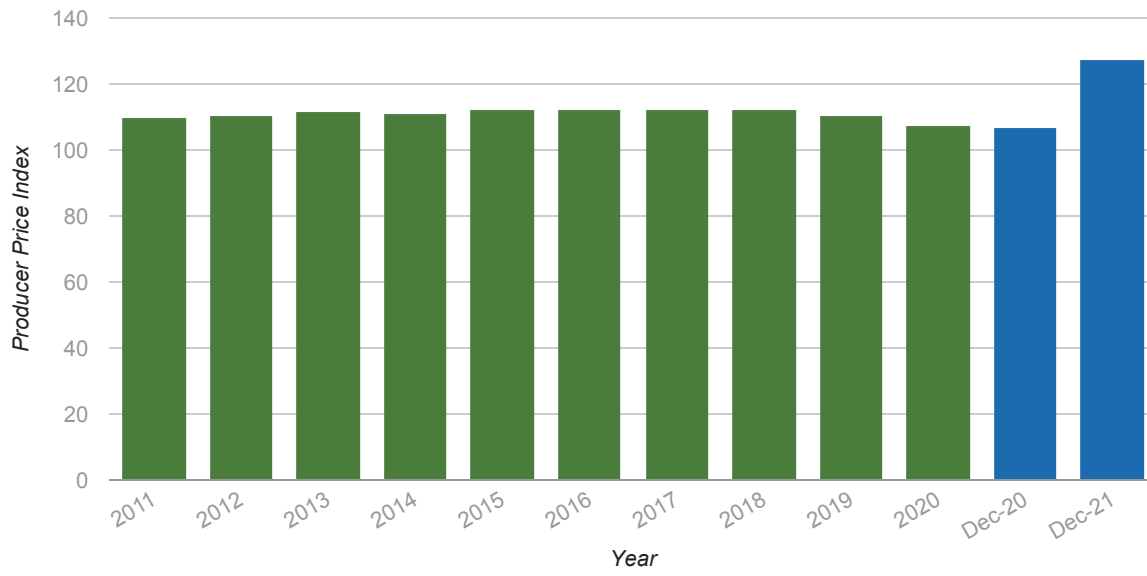
### Price Trends

### Producer Prices for management consulting services rise

The Producer Price Index for management consulting services changed 19.25% in December compared to a year ago, according to the

latest data from the Bureau of Labor Statistics.

### Producer Price Index for management consulting services



Source: Bureau of Labor Statistics

# Credit Underwriting and Risks



<b>Business Exit Rates:</b>	8.0	Much higher than US average for all businesses
<b>Cyclical Sensitivity:</b>	5.5	Moderate sensitivity
<b>Barriers to Entry:</b>	5.6	Low initial capital; moderate regulatory/technical barriers; moderate concentration
<b>External Risk:</b>	3.9	Low external risk
<b>Industry Outlook:</b>	3.7	Higher than GDP; some cyclical risk
<b>Financial Summary:</b>	3.5	High margins; high liquidity; low leverage

## Key Metrics

METRIC	VALUE	COMPARISON
<b>Performance During 2007–2009 Recession</b>	-5.6%	0.0% GDP
<b>Business Exit Rate 2019–2020</b>	12.5%	9.0% All Industries
<b>Compound Annual Growth Forecast (2020–2025)</b>	8.31%	6.1% GDP
<b>SBA 7(a) Default Rate by Number of Loans (2010–2019)</b>	4.90%	3.82% All Industries
<b>SBA 7(a) Default Rate by Gross Loan Amount (2010–2019)</b>	2.17%	1.21% All Industries

## Underwriting Considerations

- With a service industry, Lines of Credit would be collateralized by AR. Review a current AR Aging looking for Concentrations and AR over 90 Days.
- Cyclical industries should have stronger balance sheets (lower leverage and higher liquidity). How does the company's balance sheet compare to the industry average?
- Does the company generate revenues on a contractual basis? How many contracts does the company current have in place? How big is the backlog?
- What types of projects generate the highest margins?

## Industry Risks

### Vulnerability To Client Performance And Economic Factors

Demand for management consulting services is dependent on the health of clients' businesses and the industries they serve. Economic uncertainty affects business performance and often causes clients to reduce or defer spending on consulting projects. Declining tax bases force government organizations to cut back. Management consulting firms that serve cyclical industries are especially vulnerable to erratic demand. During the last recession, revenue for the management, scientific, and technical consulting services industry dropped.

### Competition From Alternative Sources

The management consulting services industry is highly competitive, with firms facing competition from a variety of alternative sources. Off-shore consultants in low-cost locations offer comparable services at extremely competitive prices. Large technology providers and vendors can deliver vertically-integrated comprehensive IT solutions. Accounting and financial firms have expanded offerings to

include management consulting services. In addition, clients may opt to rely on internal resources to minimize costs and protect confidential information.

### **Dependence On Highly-Skilled Labor**

Management consulting firms solve complex business problems and rely on highly-skilled, educated, and experienced industry professionals to provide consulting services. Staff which possess advanced degrees and extensive industry experience command high salaries, and are courted regularly by other employers. Professionals with the appropriate expertise or, in the case of government projects, security clearances may be in short supply. Senior staff typically have long-standing relationships with clients, and are key to retaining business. Firms invest heavily in entry-level consultants through sophisticated training programs. Extensive travel, long hours, and tight deadlines can lead to burn-out among consultants.

### **Unpredictable Work Flow**

The cyclical nature of client industries can lead to significant variation in work flow and revenue over time. In addition, many clients award consulting projects based on a competitive bidding process, and contract renewals are not guaranteed. Consulting firms often work under short-term contracts, and must deliver services and prospect for new business simultaneously. Unpredictable work flow creates challenges for staff and resource utilization. Firms that deal with government accounts often experience a surge in demand just prior to September 30 of each year, the date when the federal government's fiscal year ends.

## **Company Risks**

### **Competitive Bidding**

Many clients use competitive bidding when soliciting management consulting services and preparing bids is a costly process for consulting firms and requires significant amounts of managerial time and effort. The bidding process typically limits the prices firms can charge and still remain competitive. Government projects typically involve competitive bidding, and allow firms that are not awarded contracts to protest decisions.

### **Dependence On Key Personnel**

Independent management consulting firms, particularly owner-operated firms, may be overly dependent on one or a few key staff members. Extended illness, injuries, or personal issues can prevent key staff from performing assigned duties. A shortage of staff with the appropriate security clearance can prevent a firm from bidding on sensitive government projects. Owner-operated firms typically have no back-up should the consultant become unable to work.

### **Dependence On Key Clients**

Firms may be overly dependent on a single client or limited number key clients for a substantial percentage of business. For example, Booz Allen Hamilton generates a significant percentage of revenue from government accounts. Small firms may lack the resources to serve existing clients and prospect for new business at the same time. The loss of a key client is financially devastating, and finding a replacement requires significant time and resources.

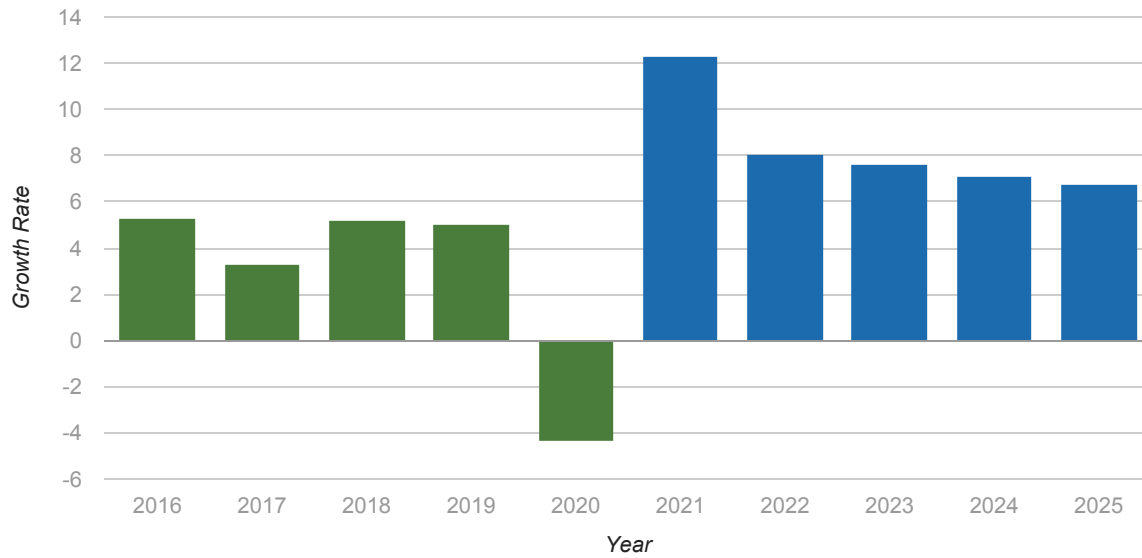
# Industry Forecast

Sales for the US management consulting services industry are forecast to grow at a 8.31% compounded annual rate from 2020 to 2025, greater than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021

**Management Consulting Services Industry Growth**



Source: Interindustry Economic Research Fund, Inc.

# Working Capital

## Sell and invoice

Management consulting services providers generate the majority of revenue through project fees. Firms typically work under contract for a specific project. Cost-reimbursable contracts include fixed or performance-based fees. Time and materials contracts reimburse firms for labor and other expenses. Under fixed-price contracts, firms deliver services for a pre-determined amount. Some firms earn fees through retainers. Firms generally charge an hourly billable rate, which varies depending on the type of staff and level of expertise required for an engagement. Elite consultants may charge several hundred dollars per hour.

51% of management consulting services said they go to their accountant or bookkeeper for cash flow advice, while 7% turn to their banker, 22% turn to a colleague or industry partner, and 27% do not seek advice, according to a survey of small businesses by Barlow Research Associates.

*Source: Barlow Research Associates.*

## Collect

Most firms offer customer credit. Billing frequency varies depending on the type of contract. Firms may invoice monthly or as costs are incurred. Some contracts require payment based on percentage of project completion. Collection periods average about 51 to 58 days and receivables average 32-34% of assets. Some firms require a deposit before starting a project.

## Manage Cash

Cash flow can be uneven, and is dependent on the timing of individual projects. The cyclical nature of client industries may cause revenue to vary over time and competitive bidding for contracts creates uncertainty. Approval of government projects typically increases just before the end of September, when the US government's fiscal year ends. A firm's backlog can be a good indicator of future revenue and cash flow. Funded backlog represents contracts with appropriated funding, while unfunded backlogs are orders for services under existing contracts that are not yet funded.

Gross margins vary according to project mix, but average 42-43% of sales. Fixed price contracts generally earn higher margins compared to other types of contracts because consulting firms shoulder the risk of cost overruns (although firms benefit from cost savings). Government projects are more likely to involve fixed price contracts. Firms that underbid to win business run a greater risk of incurring losses. Managing workload and staffing is a challenge - understaffing forces firms to use subcontractors, while overstaffing creates higher overhead costs. Excessive use of subcontractors can reduce margins.

## Pay

Payroll averages 16-17% of sales. Direct labor associated with an engagement is typically included in the cost of sales. Management consulting is a high-paying profession, and compensation often involves large significant bonuses or incentive plans. Consultants with specialized skills or qualifications are typically in high demand and command lucrative salaries and attractive benefit packages. Large firms invest heavily in consultant training and development. Travel expenses can be significant for firms that serve clients outside of local markets. Rent averages 1% of sales and advertising averages less than 1% of sales. Independent management consultants can operate out of home offices and minimize operational costs.

## Report

After-tax net profit averages 8-10% of sales. Key factors that affect revenue include total billable hours, hourly rates, number of active clients, and number of active projects. Consulting firms attempt to minimize non-billable hours. Large firms break out revenue by contract type, industry, or geographic region. Companies may track the number of awarded contracts compared to the number of proposals to determine a bid/award rate.

## Cash Management Challenges

### Cash Shortfalls Due To Timing Of Projects

Management consulting services face uneven cash flow due to the timing of client projects. Delays in the start or completion of projects can reduce revenue and make it difficult to cover high expenses for staff salaries and overhead. The cyclical nature of many industries can result in periods of reduced client demand, which also leads to cash shortfalls.

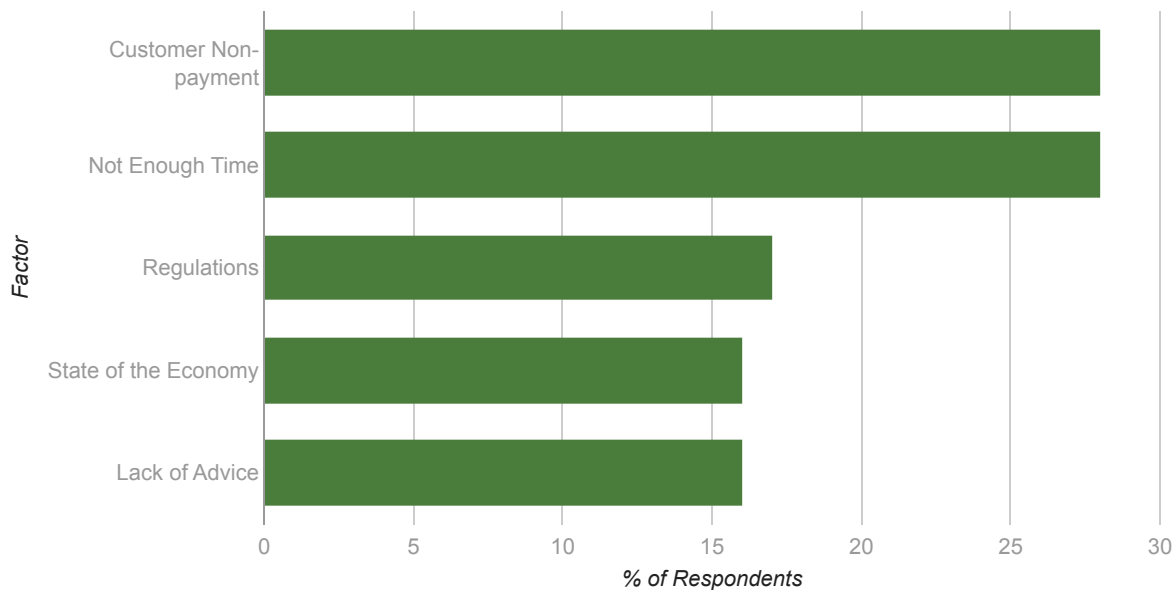
### Funding Cost Of Preparing Proposals

Firms often win new business by submitting competitive bids in response to clients' requests for proposals. Preparing proposals for large contracts can involve hundreds of hours of work by management and staff members. Besides the cost of preparation, the time spent by staff on proposal development is time that can't be billed to clients, reducing revenue. Preparing multiple proposals at the same time can lead to cash shortfalls, particularly if the firm has a low win rate for bids.

### Avoiding Cost Overruns

Firms must manage projects within budget to avoid cost overruns for fixed-price contracts and customer dissatisfaction for time and materials contracts. Avoiding cost overruns begins with properly pricing a project during the proposal process and clearly defining the project scope. Project managers must effectively manage customer expectations to prevent additional work from being added to the scope without additional funding.

## Factors Causing Cash Flow Stress: Management Consulting Services



Source: Barlow Research Associates

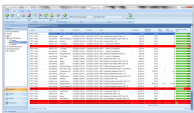
# Capital Financing

Projects that require capital financing include the purchase of property, buildings, furnishings, fixtures, equipment, and technology and information systems. Large firms operate out of office buildings which house staff and computer systems. To better serve important clients, firms may open satellite offices close to client headquarters. Consulting firms can opt to lease space to reduce upfront capital commitments. Independent management consultants typically have minimal start-up costs, and may operate out of home offices.

Computerized information systems help consulting firms manage day-to-day operations more efficiently. Specialized software programs automate a variety of tasks, including scheduling, payroll, project management, accounting, and financial reporting. Sophisticated computer systems allow firms to participate in complex engagements that involve managing and analyzing large amounts of data. Major firms serve clients throughout the world through extensive computer networks.

Consulting firms also require capital to fund growth plans, through expansions and acquisitions. New offices allow firms to enter additional geographical markets and serve more clients. Acquisitions provide sources for new talent, expertise, and clients. Sources of financing for large companies include stock, debt, cash, or a combination. Financing for acquisitions frequently involves cash or a combination of cash and earn-outs or equity. Small and medium-size companies rely on commercial loans. Independent management consultants use personal savings, credit cards, and private investors as sources of capital funding.

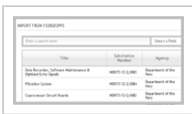
## Examples of Equipment Purchases



### **Project Management Software**

*\$2,500 - 150,000*

Software for planning and managing tasks of complex projects, including work by subcontractors.



### **Business Development Software**

*\$2,500 - 100,000*

Software for managing bid proposals and pricing. May also include modules for identifying and analyzing contracting opportunities through links to federal and state procurement systems.



# Business Valuation

# Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

## Financial Ratios (Management Consulting Services, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio <sup>?</sup>	1.44	1.51	1.46
Quick Ratio <sup>?</sup>	1.19	1.25	1.27
Days Inventory <sup>?</sup>	3.96	3.27	4.21
Days Receivables <sup>?</sup>	58	51	65
Days Payables <sup>?</sup>	14.71	12.91	17.7
Pre-tax Return on Revenue <sup>?</sup>	6.15%	5.94%	6.29%
Pre-tax Return on Assets <sup>?</sup>	11.30%	10.55%	9.50%
Pre-tax Return on Net Worth <sup>?</sup>	30.05%	29.16%	29.30%
Interest Coverage <sup>?</sup>	9.04	8.72	8.97
Current Liabilities to Net Worth <sup>?</sup>	.97	.93	1.21
Long Term Liabilities to Net Worth <sup>?</sup>	0.69	0.83	0.88
Total Liabilities to Net Worth <sup>?</sup>	1.66	1.76	2.08
<i>Number of Firms Analyzed</i>	<i>675</i>	<i>492</i>	<i>287</i>

## Income Statement (Management Consulting Services, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	57.29%	57.9%	55.23%
Gross Margin	42.71%	42.1%	44.77%
Officers Compensation	3.66%	3.29%	2.59%
Salaries-Wages	13.52%	12.68%	14.2%
Rent	1.03%	1.03%	1.6%
Taxes Paid	1.61%	1.55%	1.46%
Advertising	0.31%	0.3%	0.62%
Benefits-Pensions	2.07%	2.03%	1.78%
<i>Number of Firms Analyzed</i>	<i>675</i>	<i>492</i>	<i>287</i>

ITEM	2018-19	2019-20	2020-21
Repairs	0.18%	0.18%	0.25%
Bad Debt	0.1%	0.1%	0.1%
Other SG&A Expenses	7.57%	6.88%	7.58%
EBITDA	12.65%	14.06%	14.59%
Amortization-Depreciation	1.88%	2.62%	2.61%
Operating Expenses	31.93%	30.66%	32.79%
Operating Income	10.78%	11.44%	11.98%
Interest Expense	1.48%	1.77%	2.16%
Other Income	0.2%	0.28%	-1.33%
Pre-tax Net Profit	9.09%	9.39%	11.16%
Income Tax	0.47%	0.42%	0.74%
After Tax Net Profit	8.62%	8.97%	10.42%
<i>Number of Firms Analyzed</i>	<i>675</i>	<i>492</i>	<i>287</i>

## Balance Sheet (Management Consulting Services, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	25.07%	24.87%	35.59%
Receivables	32.82%	31.96%	25.83%
Inventory	1.37%	1.83%	2.12%
Other Current Assets	5.95%	6.99%	4.31%
Total Current Assets	65.21%	65.65%	67.85%
Net Fixed Assets	11.94%	11.62%	10.93%
Net Intangible Assets	9.82%	10.07%	10.46%
Other Non-Current Assets	13.03%	12.67%	10.76%
<i>Total Assets</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>
LIABILITIES			
Accounts Payable	9.35%	8.96%	8.45%
Loans/Notes Payable	14.2%	13.33%	14.82%
Other Current Liabilities	23.47%	24.24%	22.84%
<i>Number of Firms Analyzed</i>	<i>675</i>	<i>492</i>	<i>287</i>

**LIABILITIES**

Total Current Liabilities	47.02%	46.54%	46.11%
Total Long Term Liabilities	23.53%	21.24%	28.58%
Total Liabilities	70.56%	67.78%	74.69%
Net Worth	29.45%	32.22%	25.33%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
<i>Number of Firms Analyzed</i>	675	492	287

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at [RMA](#) and [Powerlytics](#).

# Bank Product Usage

## Top Bank Products Used by Management Consulting Services

The following table provides the frequency of bank product usage by Management Consulting Services with less than \$10 million in annual revenue. It is provided by Barlow Research Associates, Inc., the premier market research firm in the financial services industry.

BANK PRODUCT	% OF FIRMS
Business checking account services	95.0
Overdraft protection for business checking	65.0
Business savings or money market account	64.0
Electronic payments initiated through the Internet (Bill Payment)	61.0
Business debit card or business check card	59.0
Automated clearing house services (ACH)	59.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	56.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	54.0
Wire transfer services	50.0
Point-of-sale credit card processing	44.0
Money market mutual funds or short-term investments	39.0
Company sponsored 401(k), SEP, pension or profit sharing plan	29.0
Unsecured short-term loans or working capital line of credit (less than one year)	27.0
SBA loans	23.0
Credit lines secured by receivables, inventory, property or other assets	23.0
Certificates of deposit	22.0
Payroll processing	21.0
Commercial real estate mortgage	18.0
Overnight investment or sweep accounts	18.0
International (foreign exchange, import/export letters of credit)	16.0
Commercial real estate mortgage (investment property)	16.0
Account reconciliation processing (ARP)	15.0
Term loans or equipment financing (one year +)	13.0
Commercial real estate mortgage (company occupied building)	12.0
Accounts receivable collection (lockbox)	10.0
Equipment leasing	7.0

Barlow's Small Business Banking program is a multi-client research program sponsored by leading banks. Each quarter, a stratified random sample of businesses throughout the United States with sales between \$100,000 to \$10 million compiled from an independent list provider are invited to participate in a comprehensive banking survey of over 100 questions. The results measure channel adoption, bank satisfaction, brand power, account management, service quality, business product usage and the selling abilities of leading providers. The results in this chapter are calculated directly from the business product usage section and represent usage for the average small business (\$100K-\$10MM).

For more information on Barlow's banking research, go to <http://www.barlowresearch.com/>

# Quarterly Insight

1st Quarter 2022

## Salaries Are Increasing

Compensation at management consulting firms is increasing, especially at the junior levels, according to a survey conducted by online community, news site, and career center WSO for its 2022 Consulting Industry Report. Base salary at some firms is close to \$100,000. Boston Consulting Group paid its summer analysts (18 respondents) an average of \$94,200 (or \$7,850 per month) with a \$40,000 bonus. Summer associates made an average of \$68,800 (\$5,733 monthly) with a \$10,000 bonus while first-year analysts pulled in \$84,700 with a \$12,800 bonus. McKinsey & Company paid summer analysts \$72,100 per year (\$6,008 monthly), summer associates \$94,600 per year, and its first-year analysts \$83,800 with a \$12,800 bonus. It was followed by the other firm in the Big Three: Bain & Company, which paid \$66,700 per year (\$5,558 monthly) plus a \$1,000 bonus to summer analysts, \$93,300 (\$7,775 monthly) to summer associates, and \$88,900 plus a \$10,200 bonus to first-year analysts.

4th Quarter 2021

## Values Alignment Is Key To Employee Retention

Management consulting firms may see more demand from firms hoping to ensure accurate communication of their core values to employees. About 52% of knowledge workers surveyed for a new study from Blue Beyond Consulting and Future Workplace said that they are likely to quit their job if company values do not align with their own. Just 25% of knowledge workers are likely to accept a job if company values do not align with their own. Over 75% of all respondents expect their employer (76%) and business in general (77%) to be a force for good in society. The force-for-good expectation extends across demographic groups: Over 70% of all respondents from nearly every age group, region, company size, and demographic group say business in general and their employer in particular have an obligation to be a force for good in society.

3rd Quarter 2021

## Small Firms Benefit From Software As A Service

Smaller consultancies are beginning to take on a much larger role and are becoming more visible by taking advantage of technology systems that were traditionally only available to the largest of corporations with the deepest of pockets. Services which only a decade ago required a multi-million dollar custom software installation are now available on a software-as-a-service basis for a few hundred dollars a month. The technology connects consultancies and other subject matter experts with the companies that need them, over live videoconferencing, and often in real-time. This allows smaller consultancies to help smaller businesses which may not be able to afford a multi-million dollar six-month contract. It may also help businesses with modest requirements, such as the need for an on-demand subject matter expert to give occasional advice and counsel as needed.

2nd Quarter 2021

## Visa Ban Allowed to Expire

President Biden has allowed a ban on H-1B and other kinds of foreign work visas to expire. H-1B visas are heavily relied upon by management consulting services, as they are a source of skilled foreign workers. The White House also revoked policies that blocked entry for family members of US citizens, winners of the diversity lottery program, and some immigrants with employment-based green cards. Former President Trump blocked the entry of H-1B visa holders in June 2020.

## 1st Quarter 2021

### **Trump Administration H-1B Visa Program Changes Placed Under Review**

President Biden has frozen for 60 days the "midnight" rules finalized by the Trump administration that would allow only higher-wage foreign workers to be employed in the US. A final rule issued on January 8 by the Homeland Security Department would allow only the highest-paid applicants to the H-1B visa program – which allows companies to temporarily employ foreign workers in specialty occupations – to be selected. Currently, foreign workers are randomly selected through the annual H-1B visa lottery. The new rule was scheduled to go into effect March 9. Another rule issued on January 14 by the Labor Department would significantly increase H-1B holders' minimum wages. US employers seeking H-1B workers would be required to attest that they would pay H-1B holders higher wages than other employees with similar experience and qualifications. That rule was scheduled to take effect March 15.

## 4th Quarter 2020

### **Trump Administration Makes H-1B Visa Program Changes**

The US Department of Labor announced in early October a significant revision to the wage scale used by employers to price the salaries of high-skilled foreign workers. Meanwhile, the Department of Homeland Security indicated it would boost degree requirements among those applying for the H-1B visa program and amplify enforcement efforts to ensure compliance. The new rules are meant to discourage employers from paying foreign workers less than what US citizens in the same role might earn. Management consulting firms that rely on H-1B employees may be negatively impacted by the changes.

## 3rd Quarter 2020

### **Visa Restrictions Approved by President Trump**

Management consulting firms may be negatively impacted by an executive order signed by President Donald Trump in early August barring workers on H-1B visas from replacing American workers on federal contracts. The executive order requires employers to prove that they are not replacing qualified American workers with people from other countries and prevents federal contractors from shifting H-1B workers to other job sites in a manner that would "displace American workers." Industry leader Deloitte LLP is among the top H-1B visa seekers in the US, according to Bloomberg Law. A total of 57,259 H-1B visa workers were approved by the US Department of Labor (DOL) to work at the firm, including workers requested by itself and by staffing companies to place there, according to a Bloomberg Law analysis of fiscal year 2019 DOL data.

## 2nd Quarter 2020

### **Demand Decline Expected, with Some Exceptions**

The value of the global consulting market could decline 19% from \$160 billion to \$130 billion due to the coronavirus pandemic, according to Global Research. The US consulting market is projected to decline by 15%. The North American market, of which the US makes up approximately 90%, is expected to decline from \$78.7 billion to \$66.6 billion. Consultancies with expertise in healthcare and pharmaceutical sectors are looking to expand despite the expected overall industry downturn, according to statistics portal Statista. Turnaround consulting may experience significant growth because of expected rising demand for corporate restructuring in the coming years. Firms specializing in the motor, aerospace, and travel industries may experience the biggest downturns due to the pandemic. Financial advisories such as PwC and KPMG have slowed but have not stopped recruitment efforts. Meanwhile, the coronavirus outbreak may offer opportunities in restructuring or cost-cutting projects, which have become more common during the economic slowdown that began before the outbreak.



# Industry Terms

## **Cost-reimbursable Contract**

Contracts include a fixed or performance-based fee.

## **Earn-out**

Contractual obligation that gives the seller future compensation based on a business achieving certain goals.

## **Fixed-price Contract**

Firms deliver services for a pre-determined amount and bear the cost of overruns.

## **Kill Fee**

Fee paid if a project is cancelled.

## **RFP**

Request for Proposal

## **Time and Materials Contract**

Contracts that reimburse firms for labor and other expenses.

## **Vertical**

Group of industries or businesses that offer similar products or services.

# Web Links

## [Consulting](#)

News, trends, and company and consultant rankings

## [Institute of Management Consultants](#)

News, trends, and educational seminars from industry certification association

## [ALM Intelligence](#)

Trends and statistics for management consulting industry and specialties (for purchase)

# Related Profiles

## CPA Practices

NAICS: 541211 SIC: 8721

## Employment Services

NAICS: 5613 SIC: 7361

## Engineering Services

NAICS: 541330 SIC: 8711

## Financial Planners & Investment Advisors

NAICS: 523930 SIC: 6282

## Government Contractors

NAICS: 23, 54, 56, 61, 517, 5182, 7223 SIC: NA

## Niche Profiles

### Business Brokers

NAICS: 541990 SIC: 7389

### Business Coaching

NAICS: 541611 SIC: 8742

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