

Generative AI & The Management Consulting Industry

Impacts on the Management Consulting Industry



How quickly will consultants embrace AI?

Some have argued that the management consulting industry will be an early adopter of this new generation of AI, making the case that:

AI can significantly augment the capabilities of human consultants.

AI can enhance many of the functions performed by management consultants, such as data analysis, trend prediction, risk assessment, and strategy formulation. AI tools can process massive datasets, identify patterns, and generate insights at a scale and speed that humans simply cannot match. Such capabilities can lead to more accurate, data-driven decisions and strategies.



AI can convey significant competitive advantages to early adopters.

In a rapidly evolving business environment, staying ahead of the curve can provide a significant competitive advantage. AI offers the potential to improve efficiency, generate more accurate predictions, and reduce costs and timelines to delivery.

Management consultants are well-educated and possess reasonable technological sophistication.

Their comfort with technology should make them more likely to be early adopters.

AI is being further integrated into much of the software that we already use.

Many of the software solutions already employed by consultants, such as Microsoft Office Suite and various survey tools and analytical software, are aggressively investing in further incorporating AI capabilities. As these familiar tools gain AI functionalities, the transition to AI-enhanced workflows becomes less disruptive and more intuitive, encouraging quicker adoption.



Does that mean the management industry will embrace the potential opportunities created by AI over the next three to five years? We don't think so.

There will be pockets of major activity. For example, the larger professional service firms are already making significant investments in AI, partly to improve their own operations but especially to help their clients incorporate AI into their operations. In May, for example, PwC Canada announced plans to invest \$200 million over the next three years to expand and scale its artificial intelligence (AI) offerings, leveraging a planned investment of \$1 billion by PwC in the US.

However, in recent discussions with leaders of other consulting firms in the spaces in which we participate, we found very few who were even experimenting with AI in a meaningful way. While most management consulting firms will test the waters, we anticipate that few will dive in.

Why do we expect most consulting firms to be slow in embracing AI?

The industry consists mostly of small firms, which tend to have limited resources to dedicate to AI adoption.

Fewer than 4% of consulting firms in Canada have five or more employees. Small firms often have fewer resources to dedicate to researching opportunities, developing applications, and adapting their processes. The lack of resources can make it challenging for smaller consulting firms to keep abreast of the rapidly evolving AI landscape and implement AI solutions.

Implementing AI effectively is hard.

While some applications for AI may be easy to adopt, generative AI is commonly difficult to use effectively, needs to be tailored to specific use cases, and can require a shift in the way consultants approach their work and changes to long-established processes and divisions of labour.



Costs associated with adopting AI into well-established processes may be perceived as greater than the benefit.

Early adoption will focus mostly on incorporating AI into existing company-specific processes. The consulting industry is characterized by its diversity, which means that processes can vary significantly from firm to firm. The financial cost of implementing AI can be a significant barrier, particularly for smaller consulting firms. This includes not just the cost of the technology itself (which is still largely undefined), but also the cost of training staff, integrating with existing systems, and maintaining and updating the technology over time.

Privacy concerns, biases, and uncertainty about future regulations will encourage many firms to go slow.

The regulatory environment for AI is still evolving, and there is significant uncertainty about future regulations. High-profile examples of hallucination or privacy breaches add to consultant and client resistance to its adoption. Generative AI-produced text, designs or images can raise questions about IP. AI algorithms can sometimes reinforce existing biases in data, leading to unfair or discriminatory outcomes.





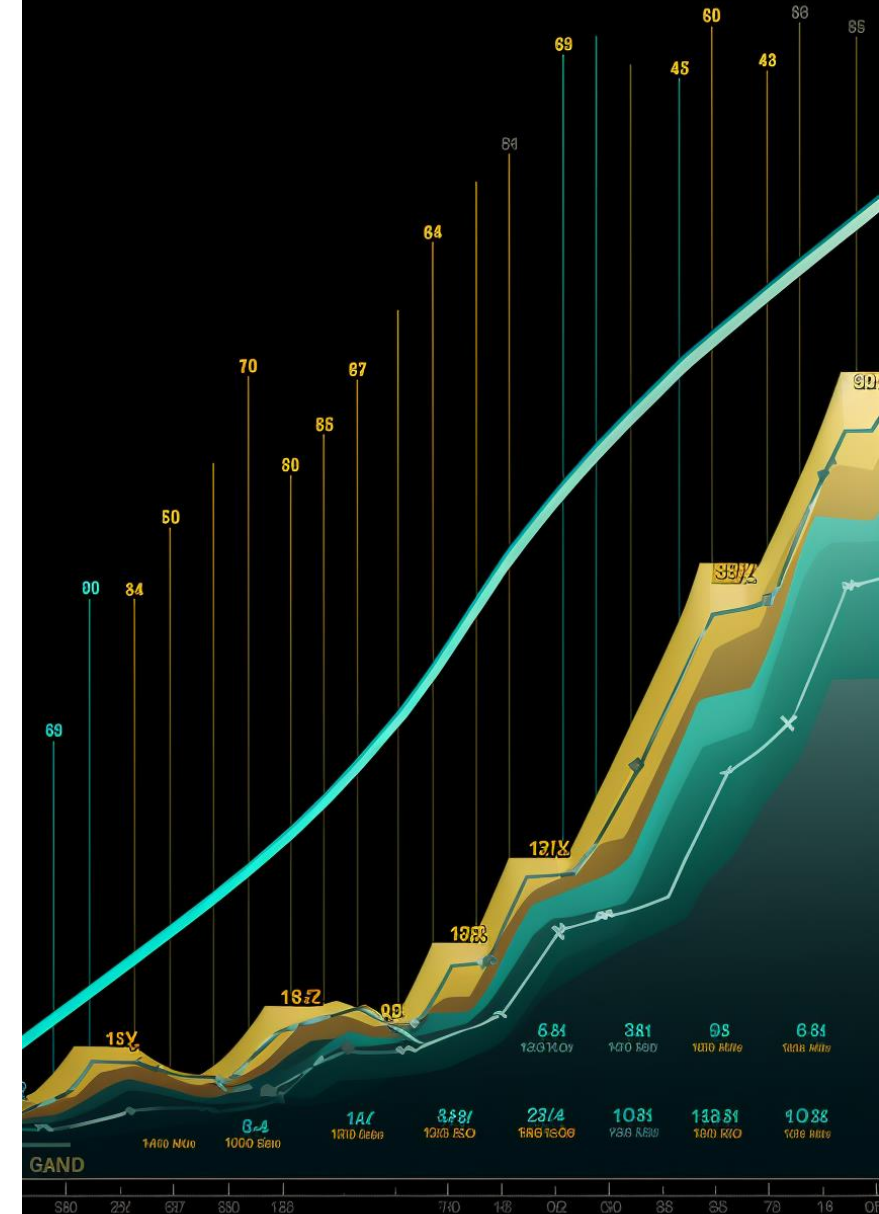
Conclusions

1. Adoption of AI will be slower than anticipated, providing potential competitive advantages for firms that are able to move effectively and quickly.
2. Early adoption will focus on the low-hanging fruit (applications which can be used by management consultants but are not developed strictly for management consultants). AI capabilities will be further integrated into the software that consultants already use.
3. The impact of AI will be greatly magnified as consultants first adapt how we perform certain functions (e.g., data collection, analysis, and reporting) to take advantage of AI capabilities and then eventually, take a step back, revise the entire system through which we deliver services to clients.

What Impact Will AI Have on the Management Consulting Industry?

1. The adoption of AI will help to sustain and even accelerate the growth of the management consulting industry in the short to medium term.

The management consulting industry has grown steadily since the last economic downturn. According to Statistics Canada, the management consulting industry in Canada generated \$15.4 billion in revenues in 2018 and has been growing at 5.8% over the previous 12 years including 8.4% over the previous seven years. While the adoption of AI may eliminate some jobs in consulting and enable some clients to undertake some functions which were previously supplied by consultants, the expectation is that the adoption of AI by consultants and their clients will create new market opportunities for consultants in areas such as strategy development, development of decision support programs, business transformation, organizational design, impact assessment and evaluation, and training and education related to AI.



2. Consultants will have to shift farther up the value-added curve.

As AI reduces the cost of data collection, analysis and reporting, firms will have to compete more heavily on the basis of their value-added services, processing data into insights and insights into strategy. One area of concern is that, as fewer lower-level workers are needed for data collection and analysis, it may become difficult for firms to develop the next generation of senior consultants.

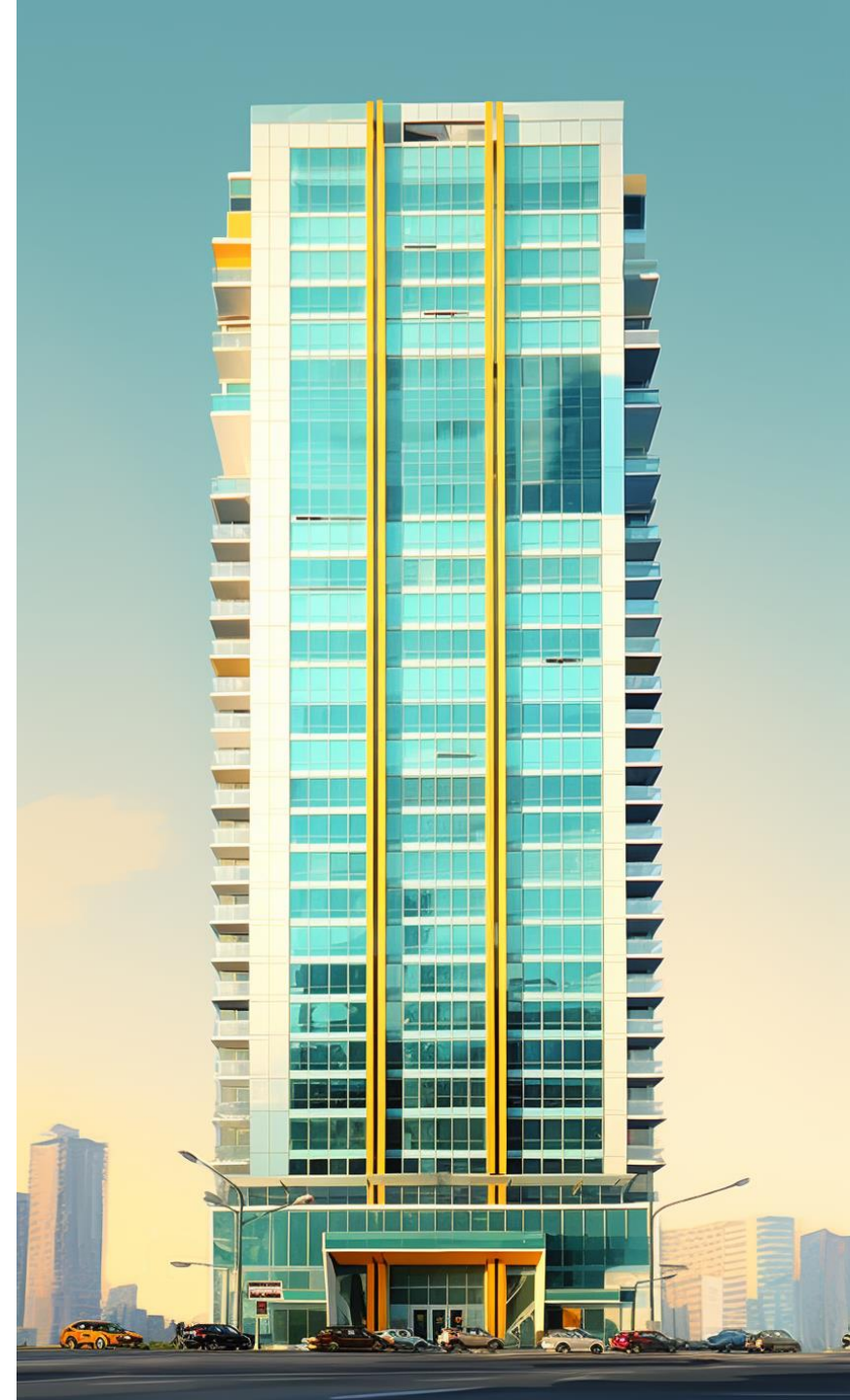
3. AI will further erode the relative competitive position of traditional small consulting firms.

The introduction of new technologies such as the PC, internet, mobile, and cloud was accompanied by an increase in the market share held by the major international firms and a significant decrease in the market share held by middle-sized firms. While these technological advances had a moderate impact on the overall size of the industry, they allowed for greater specialization, increased barriers to entry, and reduced geographic barriers which allowed firms to provide services over a widening geographic area.



Some sources indicate that major professional services and consulting firms (e.g., PWC, Deloitte, EY, KPMG, Accenture, McKinsey, BCG, and Bain) account for 30% to 35% of the global consultancy market. These firms have been growing faster than the market overall, as a result of organic growth combined with a strong program of mergers and acquisitions. Larger firms regularly acquire small and mid-size specialist service providers to expand the range of their skill sets and consulting services to grow economies of scale and scope, a trend which is expected to continue.

Some have argued (as they did with the arrival of the Internet) that AI will be a great equalizer, lowering barriers to entry and better enabling small firm to compete with medium and large sized firms. Smaller firms or even individual consultants could use AI tools to provide services that traditionally required a large team. However, this seems unlikely. While AI applications will be available to all, the range of applications, the complexity of using AI well, and the need to tailor its use to characteristics of each operation suggest that medium and larger-firms will be in a much better position to use AI effectively. Developing, training, and maintaining advanced AI models can be expensive and require significant expertise. Even if we assume that AI will ease some competitive disadvantages facing smaller firms, there are still many others including experience with the higher end of the value-added curve.



4. Effective adoption of AI will enable some firms to improve their profit margins in the short-to-medium term.

However, the experience of previous technologies suggests the margin improvements will be transitory, and will be sustainable only if the firm is able to maintain significant competitive advantages over its competitors. Improved productivity (i.e., being able to do more with the same budget or the same with a lower budget) across the industry will eventually place some downward pressure on rates.

5. AI will provide opportunities for new market entrants and disruptive innovation.

New companies with business models, systems, and service lines built around the capabilities of AI will enter the management consulting industry. Newer entrants can have a competitive advantage in that they are not tied to outdated processes, technologies, or business models, and better able to differentiate themselves, pivot quickly as the industry evolves, and offer new ways of doing things.

