
Artificial Intelligence's Impact of the Management Consultancy Sector over the Next Five Years

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Abstract

This essay explores the imminent impact of Artificial Intelligence (AI) on the management consultancy sector over the next five years. After tracing the historical context of technological innovation and societal unease with disruption, we delve into the current landscape of management consultancy, emphasizing its evolution and present dynamics. Specialized themes in the consultancy market today, such as internal consulting and data-centric approaches, highlight the industry's dynamism.

The core focus anticipates the implications of AI on management consultancy, with a shift towards AI-powered analytics and insights transforming consultants' roles. Market segmentation deepens as specialized AI-driven consulting firms emerge, challenging traditional players. The competitive landscape witnesses the entry of tech giants, intensifying competition and prompting strategic shifts in consultancy models. A forward-looking perspective considers changes in pricing and cost structures, emphasizing ethical considerations in AI deployment.

In this transformative landscape, a blended future emerges, envisioning AI-driven quick insights complemented by human consultants offering context, creativity, and empathy. This condensed exploration provides a crucial foundation for academics, industry practitioners, and policymakers navigating the evolving interplay between AI and management consultancy.

Introduction

For over 250 years, technological innovations have been key drivers of economic growth (Brynjolfsson and McAfee, 2022). Despite this, every era has had a prevailing fear of new technology, indicating people's unease when confronted with disruption. Artificial Intelligence (AI) stands as the most unsettling technology in our current era, invoking feelings of fear and apprehension (Laffitte, 2023).

This essay discusses AI and the changes it may hold for the management consulting sector, particularly its implications on the management consultancy market and consulting firms over the next five years.

Discussing Artificial Intelligence

“Artificial Intelligence is a machines ability to perform the cognitive functions we usually associate with human minds, like perceiving, reasoning, learning, interacting with an environment, problem-solving, and exercising creativity”
(McKinsey & Company, 2023).

It is useful across many sectors and applications, generating benefits across various fields (Smuha, 2021).

As the world of AI expands, generative AI (an AI model that generates content in response to a prompt) emerges as a potential game-changer, raising questions about its impact on the consulting sector (Novus Insights, 2023). Generative AI tools like ChatGPT can potentially change how a range of jobs are performed (McKinsey & Company, 2023). The World Economic Forum (WEF) predicts that a quarter of jobs will be affected over the next five years as many workers will not have the necessary skills to keep up with the changes. This fast-growing technology could lose or diminish 300 million jobs (Kelly, 2023). Garg 2021 also adds that AI could potentially disrupt industries due to its significant time savings and reductions.

The global Generative AI market is already valued at US\$13.7 billion in 2023, with an expected increase to US\$165 billion (CAGR 34.6%) by 2032, undoubtedly representing unparalleled opportunities. Furthermore, venture capital (VC) investment in Generative AI continues to grow (up 425% during 2020-22), marking a resounding vote of confidence in this sector from investors (Garg, 2021).

Management Consultancy Market and Consulting Firms

History and Today

In various forms, consulting has existed for centuries, with advisors guiding decision-makers dating back to ancient civilisations. However, consulting as we know it today only started to take shape in the early 20th century when there was a need for expertise in operations structure (Laffitte, 2022).

In today's world, tough economic times are responsible for both drag and opportunities in the sector. The net effect of this in the UK consulting market is a slowing growth from 12% in the past two years to 9.8% in 2023 (O'Dwyer, 2023).

Today's UK consulting industry has a market value of approximately £14.4 billion, playing a substantial role in the country's economy (MCA, 2023).

Understanding the Consultancy Market and Consulting Firms Today

Looking at consulting firms today, we can use several themes in understanding them, including (MCA, 2023):

- a) *Diverse Service Offerings*: Consulting firms provide many services beyond traditional strategy consulting. They provide expertise in areas such as digital transformation, cybersecurity, data analytics, sustainability, and more. This diversification allows them to cater to a broader range of client needs.
- b) *Specialization*: Many consulting firms have specialized industry or functional practices. These specialized teams bring deep industry knowledge and insights, allowing them to offer highly tailored solutions to clients.
- c) *Digital Transformation*: Management consulting firms are at the forefront of helping clients navigate digital transformation. They assist in adopting emerging technologies, automating processes, and developing digital strategies to stay competitive in the digital age.
- d) *Client-Centric Approach*: Consulting firms prioritize a client-centric approach. They work closely with clients to understand their unique challenges and goals, tailoring solutions to meet specific needs rather than applying one-size-fits-all strategies.

Similarly, the consultancy market today can be explored in specific themes, including:

- a) *Industry-Specific Consulting*: There is a growing demand for industry-specific consulting services. Clients want consultants who understand the intricacies of their sector and can provide targeted solutions (Symanto Communications 2023).
- b) *Internal Consulting*: The consulting market is plagued by many organizations building internal consulting capabilities to address their specific needs without relying solely on external consultants (Laffitte, 2022c). This reflects a trend toward insourcing consulting expertise.
- c) *Execution over Strategy*: In the evolving landscape of consulting, while strategy remains relevant, clients are placing greater emphasis on consulting firms that can not only formulate strategies but also execute them effectively and deliver measurable outcomes commensurate with their fees. For instance, the proportion of work dedicated solely to classic strategy has consistently declined, currently accounting for approximately 20% of engagements. This represents a notable reduction from the 60% to 70% prevalence observed some 30 years ago (Nagarajan, 2022).
- d) *Connectors and Navigators*: Consultancies serve as both connectors and navigators. While their networks offer connections to partners and potential clients, they also provide a valuable depth of perspective, offering an "external viewpoint" on problems. As the challenges clients encounter become more

complex and the array of choices grows, having an organization that can help decipher this complexity is increasingly crucial (Consultancy.uk, 2023).

- e) *Hybrid Consulting Models*: Various organizations, including professional services firms, IT firms, and engineering companies, engage in management consultancy alongside their primary offerings (Laffitte, 2022c), contributing to the broadening definition of consulting.
- f) *Data and Analytics*: Data-driven decision-making is a dominant trend. Clients expect consultants to provide actionable insights based on data analysis, helping them gain a competitive edge (Ross, 2023).

Taking these together, it becomes evident that consultants put on several hats and could work across different areas and sectors to alleviate clients' problems.

Implications of AI for the Management Consultancy Market and Consulting Firms over the Next Five Years

It is no secret that AI is transforming the way we do business. From chatbots to predictive analytics, AI-driven solutions are revolutionizing industries (Laffitte, 2023). For consulting, there have been arguments around the possibility of AI replacing consultants; some believe it is only a matter of time before this happens (Libert and Beck, 2017). However, others believe it would be a collaboration between AI and consultants (De Creamer and Kasparov, 2021). The implications of AI on the management consultancy market and consulting firms over the next five years are considered in the following points.

a) AI-Powered Analytics and Insights

Traditionally, management consulting firms have thrived by offering clients their expertise, experience, and industry knowledge. They have been valued for their data analysis and problem-solving skills.

However, AI-powered tools like ChatGPT are changing the value proposition of consulting firms. AI-powered tools can, for instance, process vast amounts of data in real time, analyze market trends, and generate insights that would have taken human consultants weeks or even months to produce (Laffitte, 2023).

Consequently, consultants may shift their focus from data analytics to data interpretation by interpreting AI-generated insights and applying strategic and creative thinking to complex problems (Nagarajan, 2022).

Furthermore, upskilling in AI and data-related competencies will be necessary (Consultport, 2022) in order to remain relevant. Large consulting firms are already investing in AI and acquiring AI firms, such as McKinsey's acquisition of QuantumBlack (Dilmegani, 2023). Deloitte's acquisition of SFL Scientific's Business, Accenture's acquisition of Japanese big data and AI consultancy ALBERT (Laffitte, 2022), and BCG setting up Gamma (Dilmegani, 2023).

We can expect this trend to continue for the foreseeable future as AI is expected to change how consultants work (Consultport, 2022).

b) Market Segmentation

AI's impact on the management consultancy market will likely deepen market segmentation. While traditional consulting firms continue to offer a broad range of services, specialized AI-driven consulting firms will continue to emerge to cater to niche sectors.

Consulting services enhanced by AI are currently in specialized domains like cybersecurity, supply chain management, and legal advisory. These offerings harness AI-driven analytics to provide faster and more cost-effective services, leading to improved client satisfaction (B12, 2023). These specialized firms will continue to emerge and leverage AI technologies to provide highly tailored solutions in even more niche areas.

c) Competitive Landscape

The competitive landscape of the management consulting sector is poised for significant changes.

Technology companies, particularly those specializing in AI, are entering the 'consulting' space. These tech giants can offer AI-driven solutions directly to clients, posing a competitive threat. They also have the upper hand in AI-driven consulting services, with initiatives such as Google's Advanced Solutions Lab (providing clients with consulting services that draw on their AI capabilities) being a clear example (Laffitte, 2023).

Also, AI may increase entrants to the consulting market by reducing the barriers to entry as smaller consulting firms can leverage AI for insights generation and become a competing force in the sector.

The ability to seamlessly integrate AI into consulting services will be a crucial differentiator (B12, 2023). Over the next five years, we can expect:

- intensified competition from these players. This heightened competition will encourage firms to innovate and differentiate themselves. It may also lead to a wave of consolidation within the industry as larger firms seek to acquire AI-focused startups to enhance their capabilities. As seen above, we can already see large firms starting to invest in AI and acquiring AI startups (Dilmegani, 2023 and Laffitte, 2022).
- the market demands more data-driven insights and faster problem-solving. Clients will increasingly seek consulting firms that can deliver outputs faster than traditionally slower times.

Additionally, the future of consulting firms with AI could involve:

- a) clients only come to firms after using an AI platform/tool to identify and better understand their issues internally. According to Camel (2023), the consulting industry's future is expected to blend AI and human consultants. AI will keep

advancing, offering quick, valuable insights, while human consultants will contribute context, creativity, and empathy.

- b) currently, the bulk of the costs in consulting firms are the people (Lafitte, 2022b). In the future, costs could shift from people to being significantly expended on AI tools and platforms.
- c) a skewed growth of consultancy offerings in the sector occurring. AI consulting firms would grow, and a new breed of niche consultancies like Palantir would experience growth (Dilmegani, 2023). Internal consultancy firms would also grow, while traditional consulting may experience relatively slower growth as this gets overcome by AI.
- d) Pricing and cost structure: High-quality consulting services have typically come at a premium price. With the advent of AI, consultants no longer need to invest weeks in data collection and analysis, which means the pace of their work should be much faster (Consultport, 2022). Consequently, consulting may face pressure to adapt their pricing models to reflect AI-driven cost efficiencies. Changes in the fee structure may shift away from being based on the hours spent as AI-powered tools reduce the hitherto time-based processes. Fees in the future may be changed more in terms of:
 - “Success-based” - consulting fees will be charged based on the actual results achieved for clients, and consultants become more actively involved in ensuring those outcomes.
 - “Subscription-based” - subscription-based pricing models that allow clients to pay monthly or yearly for ongoing access to consultants’ expertise and guidance. Depending on how extensively clients utilize the consultants’ expertise, these subscriptions could also be structured with different tiers.
 - “Value-based” - consultants are likely to shift more towards pricing their services based on the value they bring to clients, moving away from billing by hours or materials. This approach involves setting fees that align with the perceived value of the consultant’s expertise and insights (Jain, 2023).
- e) A focus on ethical uses of AI, including regulation. As the use of AI in consulting grows; so will there be an increased focus on firms using AI and the related client data input ethically and in line with existing data regulations like GDPR. Furthermore, additional AI regulations would have to be created in line with the growth in AI to allow for “enforceable safeguards for human rights, democracy, and the rule of law” (Smuha, 2021).

Conclusion and Final Thoughts

AI promises to reshape the management consulting sector in the coming five years. AI-powered analytics will accelerate data processing, transforming consultants into interpreters and strategists. This shift could redefine the consultant’s role.

Internal cost structures for consulting firms may also shift from people-centric to AI-centric and there could be a skewed growth across the different consulting offerings. Ethical considerations and AI regulations should also gain prominence, and consulting fee structures will evolve.

However, AI cannot fully replace consultants' good reputation as experts who can solve problems. Many clients and businesses do not trust AI solutions as much as they trust well-known consulting firms. This is one area where machines cannot beat human consultants: trust and reputation (Laffitte, 2022).

Contrary to fears of AI replacing human consultants, the future will likely see AI as a powerful partner enabling consultants to provide clients with more relevant and timely insights. AI will handle mundane, repetitive tasks, allowing human consultants to focus on higher-value activities.

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