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PRODUCER PRICE INDEX FOR SERVICES

THE FRENCH PPI FOR PROVISION OF TEMPORARY WORKERS AND LABOR RECRUITMENT

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Introduction

INSEE has been trying to build a production price index for **provision of temporary workers** since 1995. Due to its economic importance, investigations into this sector were soon started. However, after opposition from the professional organisation, analysis came to a halt in 1997. In July 2003, another meeting was organized with the professional organisation with a view to restarting investigations. Although this meeting was amicable, the professional organisation refused to cooperate with INSEE on this topic. As a result, INSEE decided to construct a price index for this area without any assistance from the professional organisation. This decision was motivated by the urgent need to define price indices for temporary employment in the light of European legislation on short-term statistics. In conjunction with our work on temporary employment, investigations have begun on related areas (in terms of product classification) : supply of staff who are not temporary workers, recruitment consultancy. This article will focus on provision of temporary workers, while other fields will be discussed in less depth.

Industry output

In terms of international product classification (CPC version 1.1), group 851 includes "executive search and employment agency services" (category 8511) and "supply of personnel services" (category 8512). Recruitment agencies therefore come under category 8511 whilst temporary job agencies are in category 8512. In terms of French product classification, the "selection and supply of personnel" (74.5) consists of two areas: employment services (74.50.1) and the supply of personnel (74.50.2). Employment services consist of all services relating to the search for and selection of candidates, and all ancillary services such as skills assessments. In terms of product, the supply of personnel consists of all forms of personnel supply including temporary employment. A distinction is then made between the type of personnel supplied : office staff, domestic staff, labourer or technician, paramedical staff, other types of personnel. Three sub-branches were identified for monitoring prices : temporary employment, supply of personnel who are not temporary workers, recruitment consultancy.

A temporary employment company supplies on a temporary basis personnel which it recruits and remunerates via temporary employment agencies, under conditions which are stipulated by the French employment code. A company can take on salaried staff from temporary employment agencies only in some cases : to replace a salaried employee, temporary increase in business, seasonal employment. In France, nearly 1,000 companies specialising in temporary employment supply their clients with staff, via a network of over 5,000 temporary employment agencies. Temporary employment companies have an annual turnover of 20 billion euros. Over two million people undertake a temporary job assignment per year. Industry is the principal sector using temporary workers : it alone employs half of the personnel supplied by temporary employment companies. The construction industry is next (17%) followed by services (13%), the retail trade (10%) and transport (7%). The climate in temporary employment is closely linked to the economic situation. Trends in the number of assignments is often an early indicator of economic turnarounds. **The**

temporary job market is very concentrated in France: the three leaders have 70% of the market share. These three leaders are subsidiaries of foreign group : Adecco (Switzerland), Manpower (United States) and Védior (Netherlands). Behind these three leaders, the French groups Crit and Synergie have less than 10% of the market share. In order to track prices in temporary employment, we have used a classification which combines the sector of the user company (industry and agriculture, construction, services) with the temporary worker's qualification (executives, intermediate professions in health and social policy, technicians, administrative staff, skilled workers, unskilled workers, others).

The supply of personnel (outside temporary employment) mainly involves the employment of receptionists and models. Including the supply of personnel within the same group, we have identified almost 700 companies of this type in France which have a turnover of nearly 1.2 billion euros. However, the turnover generated is much lower when we exclude human resources management within the same group. To monitor prices in this area we have used a classification which distinguishes between three types of services: employment of receptionists, employment of models, other types of employment.

The recruitment agency market is very fragmented in France : we have identified over 1,000 agencies which generate a turnover of (only) 500 million euros. Recruitment consultancy consists of drawing up, in consultation with the client company, a description of the positions to be filled then searching for and selecting candidates. Recruitment agencies may use advertisements (increasingly online), the direct approach ("headhunting") or a combination of the two. To monitor prices in this area, we have used a classification which crosses the type of recruitment in three posts with the level of recruitment (new and recent graduates, middle management, company managers and senior executives).

Index Methodology

In the case of supply of personnel (including temporary work), the client pays the service company, which in turn pays some of this amount to the person supplied. In temporary employment, the temp agency pays the temporary worker his salary. **The principle on invoicing consists of applying a multiplier coefficient to the temporary worker's hourly gross salary in order to obtain a price per hour.** This price per hour then has to be multiplied by number of hours charged. The gross hourly salary must be at least the same as the minimum hourly salary of the job in the user company. The client company must in theory provide the temporary employment company with its salary scale. The temporary employment company can also use the salaries set out in the relevant collective agreement as a basis. The hourly salary is negotiable between the temporary employment company and the client company, according to the temporary worker's qualifications and the economic circumstances. All things being equal, changes in salaries result in changes in prices.

The multiplier coefficient is a strategic variable for the temporary employment company. It may depend on many parameters : the temporary worker's qualifications, type of client or length of assignment. The longer the assignment, the lower the multiplier coefficient - particularly if the work is unskilled. On average, the value of the multiplier coefficient seems to be about two.

Reductions in employers' social security contributions have a considerable influence on prices and the profit made by temporary employment companies. These reductions have become increasingly important in France, particularly following the introduction of a 35 hour week (Aubry laws 1 and 2). In theory, the temporary employment company receives the reductions in employers' social security contributions. In this case, it does not have a direct effect on price. This explains why prices can remain stable in very favourable economic circumstances, if there are more reductions in employers' social security contributions. The very healthy position of temporary employment companies during some periods is explained by massive reductions in employers' social security contributions. The client company, knowing that the temporary employment company is going to benefit from these reductions, can negotiate a lower multiplier coefficient. In this situation, the mechanism by which employers' social security contributions are reduced has an effect on prices. The temporary employment company may even transfer on some of the reductions to the client company which changes the price then paid by this company. Generally speaking, variations in reductions in employers' social security contributions impact on the prices charged and in particular the link between the economic climate and price variation.

With major, regular clients, framework contracts exist which specify according to qualifications the hourly rate which must be charged. These framework contracts seem to be honoured quite frequently, even when there is a change in the economic situation. Generally, in this type of contract, temporary employment companies want a volume of activity, with comparatively low multiplier coefficients. The value of the multiplier coefficient for the same client seems to be quite stable over time.

There are two methods of monitoring prices in temporary employment : the average price by qualification and user sector on one hand, and monitoring the client's contract price on the other.

When monitoring **average prices by qualification** and user sector, hourly invoicing rates are calculated which take gross hourly salaries and multiplier coefficients into account. Assignments relating to the level of qualification and user sector required are selected, an average charged hourly rate is calculated based on the number of hours invoiced. This can be achieved, in theory, with the management system used by temporary employment companies. However, they are not indicators which small and medium-sized businesses normally use. Admission into the survey system therefore can be a great burden for the firm. We could decide, for example, to track the average price of a welder in the shipbuilding industry. We would link this to the "skilled worker for industry" post in our classification. The choice of qualifications and client sectors would of course depend on the companies' specialisation. Monitoring average prices by qualification and sector can introduce two

main types of bias associated with reductions in employers' social security contribution on one hand, and the average length of assignments on the other. With regard to reductions in employers' social security contribution, the greatest problem remains when some of the reductions are transferred to the client. It seems impossible to deal with this problem. It is the variation in the refunded reductions which is the problem. Average prices are calculated whatever the length of assignment. For long assignments, the multiplier coefficient may be lower. If the average length of assignments increases over time, there will be a reduction in the average price due to this fact alone. After talking to companies, it seems that these two limits are not very important : reductions are only refunded to clients in a marginal way, the average length of assignments seems stable and the link between hourly price and length of assignment does not seem to be as obvious as that. In any case, it is of course very important not to monitor an average hourly price with all qualifications and all user sectors taken into account.

When a temporary employment company cannot calculate average prices, we can adopt **the client approach**. The principle consists of monitoring hourly prices charged for some qualifications based on the contract signed with a given client. One must ensure that this type of service can be monitored every quarter (regular client, qualification often required by this client). Of course, one must take qualifications and clients which are "representative" of the temporary employment company's business. If there are many clients, few of whom are regular, with different prices charged, it will be difficult to identify a particular number of "representative" clients.

Choosing between these two methods largely depends on the following two parameters : firstly, the burden of response and the companies' wish to calculate average prices by qualification and client's economic sector and secondly, the structure of the clientele and the specialisation of the temporary employment company.

The principle is the same for supplying personnel outside of temporary employment : price per hour or day depending on the person's qualifications. However, the monitoring method seems to be easier to implement in the case of **employing receptionists**. In this sector, there are a great many regular contracts which specify, for a given year, the daily or hourly rates for the receptionists supplied. The general idea is therefore to select a representative sample of these contracts and we will monitor the price in these contracts every quarter. When **employing models**, the situation is more complicated. A distinction must be made between fees associated with the length of service and **picture royalties**. In theory, we could monitor average prices according to type of services and type of personnel supplied. However, the management tools used by model agencies are rather rudimentary and cannot be directly used for monitoring in this way. Talks are currently being held with the largest model agencies about a feasibility study for this method. Picture royalties are the fees paid so that a model's image can appear on advertising material. Picture royalties are fiercely negotiated. As in advertising, there is very little connection between service and the notion of time. Furthermore, the price appears very "variable". Above all, it seems to be fixed according to the client's budget and his negotiating power.

This may seem logical because there is really no direct cost when considering the price for this type of service. As our investigations currently stand, we have not found any suitable method in this area.

There are three main methods of invoicing for **recruitment consultancies**: a set price, a percentage of the new recruit's salary or re-invoicing of costs with profit. Taking a percentage of the new recruit's annual salary seems to be the main method. In this sector, we are currently testing the monitoring of average prices (the result of applying a percentage of salary) according to the type of service (direct approach, approach through advertisements, combined approach) and the level of new recruit (new or young graduates, middle management, company managers and senior executives).

Sampling and Weights

As with other studies of this type, companies are selected on the basis of the results of the annual survey of service companies. In this survey, companies are asked to break down their turnover by product. Temporary employment companies can be located very easily from this source so this was used directly. The principle of the survey is to choose the largest companies and to take a random sample of the others by level of turnover. Companies with a turnover of more than 20 million euros were chosen automatically, a total of 56 companies. The final sample contains 120 companies. The visits in firms began with the smallest one. Meetings with leaders of the profession began in July 2004. The aim of this strategy was to test the monitoring methods on the smallest companies. We should mention that the profession made us welcome on the whole despite the professional organisation's refusal to cooperate. We used the same survey base and the same principle of sampling for recruitment consultancies. The final sample consists of 20 companies in this sector. Regarding the supply of personnel outside of temporary employment, we could not make direct use of the base consisting of results from the annual survey of service companies. Many of the largest firms transfer staff between companies in the same group, with no market price. We excluded these companies from the survey base and we used trade union's source in order to complete the sampling base. Some companies which were listed by the trade union as supplying receptionists come under the product code "organisation of trade fairs and exhibitions".

Each company in the sample is visited by an INSEE field officer. His task is to obtain a breakdown of the company's turnover according to the classification used. Weighting for each service whose price we are tracking every quarter will therefore be calculated on the basis of information obtained at the visit.

Issues on maintaining constant quality

In this section we are only concerned with provision of temporary workers. For monitoring prices, we often use the method of "average prices by qualification" in France. If we look at IT services, the client is obviously not only buying man-days of work but it is also the result of the IT project which

interests him. As each project is unique, we have decided to use by proxy "prices per day and per qualification". One of the limitations of this type of approach is that we are not monitoring the prices of the service provided but some (or many) of the elements which make up that service. This limitation is not found to the same extent in temporary employment. The client company directly buys a number of hours' work by qualification, which will enable him to produce output by combining the different factors of capital and labour.

We must ensure when we measure prices that the volume of production and the quality of service are constant. We can see that part of this problem is very closely related to the study of temporary workers' **productivity**. If the productivity, per hour worked, of temporary workers increases over time and we do not take account of this in the measurement of prices, we will overestimate the price variation. In fact, we are incorporating some of the volume effect in the price measurement. To avoid doing this, we can assume that the variation in temporary workers' productivity in a given user sector is the same as all the salaried staff in the same sector. We can calculate an annual productivity indicator. This idea raises several difficulties. In order to calculate this productivity indicator, one must ensure that temporary workers are reclassified in their user sector and not left in the "temporary employment" sector. Given the method of measuring prices, productivity must be calculated by relating a product volume to a number of hours worked (and not a number of people or full time equivalent, even though the latter must be acceptable). Using this calculation, we will obtain an annual variation in productivity which will need to be converted to quarterly figures due to the frequency of price measurement. Likewise, given the available sources, variation in productivity can only be calculated with some delay : the value of the price indices must therefore be revised.