



## **29th Voorburg Group Meeting**

Mini-presentation for SPPI on Specialized Design  
Activities

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## 1. Introduction

This paper provides a brief overview of the SPPI for ISIC Rev.4 Group: 741 – Specialized design activities and issues involved in pricing its outputs. The paper draws on the ABS experience in developing and compiling a price index for ANZSIC Class 6924 Other Specialised Design Services.

## 2. Standard classification structure

ANZSIC 2006 defines Class 6924 Other Specialised Design Services as consisting of businesses mainly engaged in providing specialised design services not elsewhere classified. Activities primary to this class are commercial art service; fashion design service; graphic design service; interior design service; jewellery design service; signwriting; textile design service; ticket writing.

The class excludes businesses mainly engaged in providing architectural services (including landscape design services and architectural draughting services), engineering design services, computer system design services, and set designing, costume designing or theatre lighting design services.

ISIC Rev.4 Class: 7410 – Specialized design activities corresponds with ANZSIC 2006 Class 6924 Other Specialised Design Services, apart from its inclusion of industrial design services, an activity which in ANZSIC 2006 is primary to Class 6923 Engineering Design and Engineering Consulting Services. Web design is excluded from both ANZSIC 6924 and ISIC 7410.

ANZSIC Class 6924 is a new class established by the ANZSIC 2006 review to more closely align with international standards. The review updated ANZSIC 1993 Class 7852 Commercial Art and Display Services to cover fashion design, interior design and jewellery design services.

The standard classification structure in ISIC Rev 4 and ANZSIC 2006 is provided below.

### ISIC Rev 4

Section	Division	Group	Class
M	Professional, scientific and technical activities		
	69	Legal and accounting activities	
	70	Activities of head offices; management consultancy activities	
	71	Architectural and engineering activities; technical testing and analysis	
	72	Scientific research and development	
	73	Advertising and market research	
	74	Other professional, scientific and technical activities	
		741	Specialized design activities
			<b>7410 Specialized design activities</b>
		742	Photographic activities
		749	Other professional, scientific and technical activities n.e.c.
	75	Veterinary activities	

**ANZSIC 2006**

Division	Sub-division	Group	Class
M Professional, Scientific and Technical Services			
	69 Professional, Scientific and Technical Services (Except Computer System Design and Related Services)		
		691 Scientific Research Services	
		692 Architectural, Engineering and Technical Services	
			6921 Architectural Services
			6922 Surveying and Mapping Services
			6923 Engineering Design and Engineering Consulting Services
			<b>6924 Other Specialised Design Services</b>
			6925 Scientific Testing and Analysis Services
		693 Legal and Accounting Services	
		694 Advertising Services	
		695 Market Research and Statistical Services	
		696 Management and Related Consulting Services	
		697 Veterinary Services	
		699 Other Professional, Scientific and Technical Services	
	70 Computer System Design and Related Services		

**3. Pricing Unit of Measure**

The pricing mechanisms used in this industry include hourly consulting fees, contracts and fees quoted as a percentage of project value (for work involving projects, such as interior design).

Price determining characteristics include the type of design activity or discipline (for example interior design versus graphic design), the level of qualifications and experience of the designer undertaking the work and the size and type of the project. Information collected by the Design Institute of Australia (DIA) from its members shows that for all design disciplines, hourly consulting fees vary according to the role or level of responsibility of the designer. Fees also vary according to the design discipline. Percentage fees for interior design projects varying according to the size of the project and whether the project is office, retail or residential). There is also some indication that the market in which the business operates (such as capital city versus regional) can have some impact on price. [David Robertson and the Design Institute of Australia, Fees & Salary Survey PN014, Melbourne, March 2014.]

The determination of lump sum contract prices and percentage fees would take into account the expected composition of staff working on the project, their remuneration, the staff hours expected to be spent on the project, materials and other expenses such as outsourcing, overheads and margin.

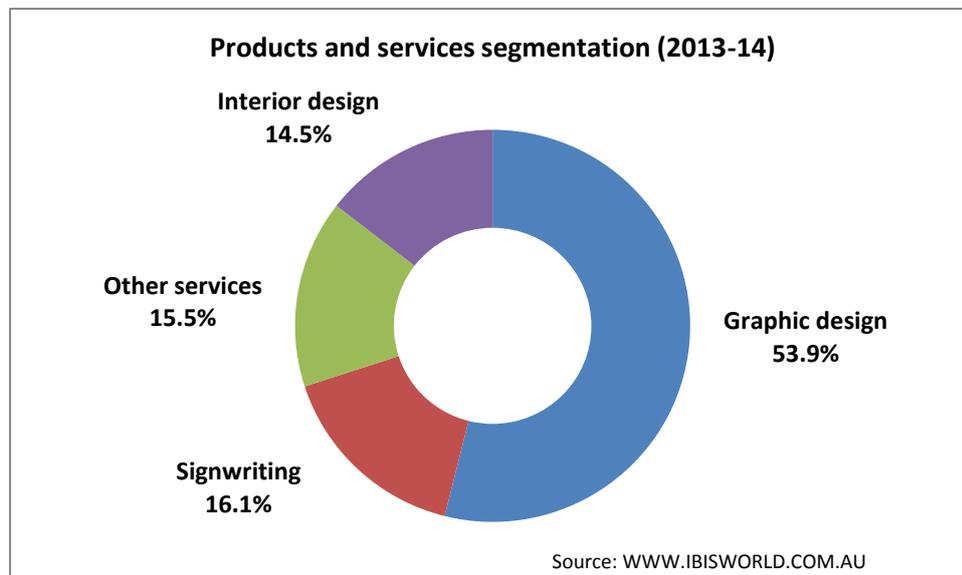
As services provided under contract in this industry are often unique, this poses some challenge in identifying comparable products for the measurement of price change. Long term contracts, particularly those involving repeated services, may have a price change mechanism built into them, for example escalation with a price index or annual renegotiation.

#### 4. Market conditions and constraints

As per 2009-10 Australian Input Output Tables, Australian supply of the product Commercial art and display services by the ANZSIC Division M Professional, Scientific and Technical Services Industry was \$1413million with secondary production by other industries amounting to \$281million, mainly in the printing industry.

Supply of Specialised design services n.e.c. (including fashion, interior and jewellery design) by Division M was \$961million, with secondary production amounting to \$341million, mainly in the clothing (\$121m), furniture (\$64m), leather (\$37m) and textile product (\$24m) manufacturing industries. Imports accounted for \$60m of total supply. These two products accounted for 1.4% of the supply at basic prices of Division M.

From the perspective of activities or disciplines, graphic design is the major activity with an estimated 53.9% share of industry employment in 2013-14 (see chart below). [IBIS World 2014]. In the 2011 Population Census, 25,507 graphic designers were recorded, a number far exceeding any other design occupation (for example there were 7,021 interior designers, 1,268 interior decorators, 3,419 fashion designers, 505 jewellery designers and 1,769 illustrators). [David Robinson and the Design Institute of Australia, April 2013]



One of the characteristics of this industry is its dependence on other industries. The decline of some sections of Australian manufacturing has impacted related design, for example textile design has “become a marginal activity with the demise of Australia’s textile industry.” [Robertson, DIA 2013, p6]. Graphic designers and signwriters depend on the advertising and publishing industries, and for

example “in 2008-09 and 2009-10, the Specialised Design Services industry followed the Advertising Agencies industry into decline, as companies brought their marketing work in-house and cut or delayed advertising expenditure”. [Kerin, IBIS World 2014, p4]

Specialised design services are services which companies in other industries can choose to do in-house or out-source. According to IBIS World “design firms and freelance designers have benefited from the increasing willingness of advertising firms and the internal marketing departments of companies to outsource visual design work to external experts. This trend has driven strong revenue growth over the past decade, mostly from the provision of graphic design and signwriting services.” [Kerin, IBIS World 2014, p4]. On the other hand, “the huge supply of graphic designers means that most businesses are aware of the skill set and can hire a designer at a modest wage level.” [Robertson, DIA, 2013, p8]

Advances in information technology has helped to increase supply and has provided opportunities for the export and import of design services. While face to face contact may be an advantage in some forms of design, such as interior design, “in the area of graphic design sections of the Australian customer base see no barrier or commercial detriment to using remote designers or internet enabled services such as crowd sourcing to provide marketing and sales materials. Purchasers are becoming comfortable with digital transactions that include no face-to-face contact.” [Robertson & DIA, 2013, p 7].

According to IBIS World, “the growth in digital technology has also opened up opportunities for smaller graphic design firms. A shift towards digital design has allowed many small players and sole proprietors to carve out a niche. This is being assisted by the falling start-up costs, an oversupply of graduates and falling technological costs.” [Kerin, IBIS World 2014, p4]

In general the industry is not regulated, nor is there tariff protection. The interior design services may need to take into account Australian standards and building regulations, and legislative changes may sometimes impact the industry (for example laws regarding cigarette and tobacco packaging).

## **5. Pricing Methodologies**

### **5.1 Percentage of project value**

As fees quoted as a percentage of project value are determined by factors which include the size and type of project, the pricing method could take this into account. The pricing could be done with model pricing or through the collection of the fees relating to current projects. Both approaches would work the best if the business applied its percentage fee pricing strategy to ranges of project values (for example 15% for interior design services on office fit out projects between \$1m and \$2m in value). In either approach, the percentage fee would need to be converted to a dollar value prior to its input into the calculation of the price index. One challenge would be taking into account any inflation or deflation in the price of projects. For more information on the application of this approach refer to OECD 2005, p 38.

## 5.2 Contract services

With services provided under contract often being unique in this industry, it may be difficult to identify comparable products for the measurement of price change. In this situation, model pricing may be the best option.

Index analysts could also investigate the possibility of collecting realised hourly charge rate for contracts (for example if contracts included estimates of billable hours). If it were possible to limit the impact of compositional change in contracts compared from period to period, this method may be viable.

Long term contracts may offer the opportunity of the measurement of price change when they are renewed, or if they include escalation with a price index, however care would need to be taken to ensure that the service did not change (or quality adjustment was used to account for any change in the service provided). The OECD Methodological Guide for Developing SPPIs provides more information on contract pricing.[OECD, 2005]

Short term contracts, if in sufficient numbers, could be suitable for the measurement of price change in contracts due to the increased likelihood of finding comparable contracts from period to period.

## 5.3 Hourly consulting fees

The ABS currently collects prices for Commercial art and display services on a quarterly basis. This collection is a carryover from the previous industry classification, ANZSIC 1993, which separately identified these activities. The sample hasn't yet been expanded to include other specialised design services (e.g. interior designers) due to the relatively small contribution of these services to the Australian economy.

To *estimate* the price change the ABS uses a direct measurement of working time – hourly charge-out rates as a unit of measure. This method has been viewed as a second best option, with the ideal method comparing actual contract prices deemed to be impractical to collect due to quality changes in services from contract to contract.

The hourly charge-out rates collected are for designated graphic design services by staff level and/or type of service provided (e.g. design development and development service provided by creative director). The pricing specifications are individualised for each provider based on interviews.

*Example:*

#### COMMERCIAL ART & DISPLAY

Please provide the hourly rate applicable for the following graphic design services

Staff Level: Design and Development – Rate

	Final Price	Previous Final Price	% change
Creative Director			
Design Director			
Graphic Designer			

The DIA collects information from members on hourly consulting fees by level of responsibility across a number of design disciplines. The levels of responsibility used in their collection are: director (including owner/self employed), associate, senior designer, designer, assistant designer, CAD operator, model maker and administrative/secretarial. [David Robinson and the Design Institute of Australia, March 2014]

Information obtained from DIA surveys suggests that collecting hourly consulting fees might not necessarily be a second best option. In the December 2013 survey, 61.4% of interior designers who responded to the survey reported the use of an hourly rate (up from 34.6% in the previous survey in 2011). [David Robinson and the Design Institute of Australia, March 2014].

#### **5.4 Quality adjustments**

Like most services provided under contract there are a list of issues that need to be addressed when trying to price the service. The OECD Methodological Guide for Developing SPPIs provides information on quality issues which is relevant to this industry.

Model pricing can involve a specific historical contract being used as the basis of pricing. Even if the exact services in that original contract are no longer provided, an estimate can be made of what the price would have been in the current period by taking into account similar current contracts which reflect changes in the economic environment. When services in the model contract are no longer offered, it must be replaced with a new contract which represents services offered by the designer. An attempt should be made to obtain information from the designer to estimate the value of the differences in services between the old and new contracts. This information, if it exists, can be used to make a quality adjustment. [OECD 2005 p 124]

Changes in technology may impact pricing methods which use billable hours or charge out rates. For example charge-out rates may increase due to technology which allows tasks to be completed quicker. The index analyst must determine if any such impacts occur. [OECD 2005 p43]

#### **6. Summary**

- The Australian Bureau of Statistics produces a price index for ANZSIC class 6924 Other specialised design services.
- The index only contains statistics on prices for Commercial art and display services. The collection does not yet cover other specialised design services.

- The pricing method is a time based approach – hourly charge-out rates for applicable graphic design services based on staff level and/or type of service provided. This method is representative of a charging mechanism which is widely used in the industry and is more straightforward than methods based on contract pricing and percentage fees.

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