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APPLICATION OF THE CENTRAL PRODUCT CLASSIFICATION CPC TO  
BUSINESS SERVICES:  
FINNISH EXPERIENCES AND COMMENTS

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## INTRODUCTION

This document reports Finnish experiences in and comments on the application of the CPC in a number of business service industries. The CPC groups reviewed are the following:

- CPC 861 Legal services
- CPC 862 Accounting, auditing and book-keeping services
- CPC 863 Taxation services
- CPC 865 Management consulting services
- CPC 866 Services related to management consulting
- CPC 867 Architectural, engineering and other technical services
- CPC 871 Advertising services.

In 1990–1991, the Central Statistical Office of Finland carried out an enterprise survey among several business services industries. This study reviewed, for the first time, firms' customer groups and the distribution of turnover or invoicing among their different services.

In planning the product classes of the enquiry, account was taken of national characteristics and links to the CPC classes in order to be able to obtain internationally comparable data. Product classes were planned in cooperation with industry organisations and firms providing the respective services. The discussions clearly showed the great diversity of existing and possible classes. The development of a uniform international classification is thus of great importance.

The application of the classification was made difficult by the lack of explanatory notes for the CPC. Recently, however, we have obtained Explanatory notes for services CPC, provisional central product classification (EUROSTAT reprint of manuscript received from the Statistical Office of the UN, November 15, 1990).

In our experience, the 4-digit classes are in general quite well defined, divided and usable. Some 5-digit subclasses seem too detailed (especially in groups 866 and 867), as in some industries only a few firms produce services classified in such a detailed way. Services of minor significance are worth classifying only if data are easily available. Moreover, some classes should be defined more precisely (especially within group 871).

Annex 1 shows the CPC classification of the commodities studied and the classification used in our surveys.

## CPC 861      LEGAL SERVICES

Firms providing legal services were asked to divide their invoicing according to both the rough CPC classification and by the classification of tasks used by the Finnish Bar Association.

For legal services, the CPC with its explanatory notes appears good and comprehensive and the content of the classes seemed to be clear to people working in this field.

In annex 2, we shall present, in broad terms, the linkages to the CPC of the established classification of tasks in Finland. The basis of the classification of tasks is different from that of the CPC in that the services of a single CPC class are produced in a number of task areas. The tasks classification contains eight classes:

- Criminal matters
- Traffic matters
- Family and inheritance law
- Bankruptcy matters
- Business law and contract law
- Tax matters
- Construction law
- Other tasks.

## CPC 862      ACCOUNTING, AUDITING AND AND BOOK-KEEPING SERVICES

CPC group 862 is divided in two 4-digit classes: 8621 Accounting and auditing, and 8622 Book-keeping services, except tax returns. Class 8621 has been further divided in four subclasses:

- 86211 Financial auditing services
- 86212 Accounting review services
- 86213 Compilation of financial statements services
- 86219 Other accounting services.

In Finland, accounting and auditing differ from the international practice, as these services are in Finland fully separated from each other. One firm or person may not both prepare and audit the closing of the accounts of a firm, whereas in many

countries a single firm may produce both services to the same customer. In practice, however, auditing firms audit and provide some consulting to those customers who keep their books themselves.

The enquiry was directed to accounting and auditing firms the activities of which include, in addition to CPC Group 862 Accounting, auditing and book-keeping services, also services belonging to CPC Group 863 Taxation services and to CPC Subclass 86502 Financial management consulting services.

The classification work was rendered difficult by the lack of explanatory notes to CPC Group 862. The contents of especially subclasses 86213 and 86219 are not made clear even by the explanatory notes, and there are no clear examples of services contained in the subclasses.

**CPC 86211 Financial auditing services**

**CPC 86212 Accounting review services**

These classes were treated as a single entity in the survey, because the significance of accounting review services is modest. An accounting review requiring less precision and accuracy is carried out in Finland only in connection with an interim closing of the accounts; this differs from the international practice. It would obviously also be hard for auditing firms to divide their turnover separately in these subclasses.

The Finnish auditing practice also means that in connection with the ordinary financial auditing the administration of the firm is reviewed. This is difficult to place in any CPC class.

**CPC 86213 Compilation of financial statements services**

In our view, this subclass contains the compilation of the customer's closing of the accounts to such a level that it is ready for final approval and auditing. In Finland, this work is typically carried out by accounting enterprises.

The subclass itself makes up a clear entity, but the explanatory notes could be clearer, and should also include those work stages that belong to the closing of the accounts (e.g., compilation of the income statement and the balance sheet, analyses of the balance sheet, etc.).

### **CPC 86219 Other accounting services**

In Finland, an important part of other accounting services produced by enterprises in the industry comprise preparation and monitoring of the budget, cost accounting, investment calculation etc., which at least partly belong to CPC Subclass 86502 Financial management consulting services.

Also here the explanatory notes should be clearer and offer a more detailed review of the services included in the subclass. In case some of the accounting services mentioned above are intended to be included in this subclass, they should be clearly defined, as should also the boundary to CPC Subclass 86502 Financial management consulting services.

### **CPC 8622 Book-keeping services, except tax returns**

According to the CPC, 'book-keeping services' consist of classifying and recording business transactions in terms of money or some other unit of measurement in the books of account. In Finland, services of the book-keeping type also include, for example, payroll computation and ledgers. The CPC does not indicate into which subclass such services should be placed. In Finland, also turnover tax calculation (CPC 86309) is generally included in book-keeping services.

The invoicing basis of routine services of the book-keeping type are much the same (generally hourly rates or invoicing based on volume). In contrast, more demanding services connected with the preparation of the closing of the accounts belonging to subclass 86213 are billed at a higher rate.

### **CPC 863 TAXATION SERVICES**

In many bigger countries there operate service firms specialised purely in tax consulting and tax preparation. In Finland, there are only a few firms specialised in the industry, and taxation services are mainly provided by accounting and auditing firms, law firms and also banks. In order to be able to classify the services in this group in a comprehensive fashion, one would have to carry out a survey among companies producing services of quite different type as their main activity.

The classification of taxation services was not separately tested in the enquiry. Thus, only a few comments will be presented in the following.

**CPC 86301 Business tax planning and consulting services**

**CPC 86302 Business tax preparation and review services**

**CPC 86303 Individual tax preparation and planning services**

In our opinion, CPC subclasses 86301 and 86302 are well defined. According to the explanatory notes, CPC 86303 includes preparation and planning services concerning income taxation. For example, accounting and law firms provide counsel to their private customers also in tax matters. However, a part of consulting relates to other than income taxation (e.g., inheritance tax), so that it should obviously be included in CPC Subclass 86309 Other tax services. If only income tax preparation and planning services are intended to be included in this subclass, this should also be mentioned in the heading.

In our view, the subclass could be more broadly defined including all tax preparation and planning services that influence an individual's taxes, not just income tax.

**CPC 86309 Other tax-related services**

This subclass includes other corporate tax planning than that relating to income taxation, and, for instance, filling of tax forms and turnover tax calculation, which in Finland are normally included in services provided by accounting firms.

**CPC 865 MANAGEMENT CONSULTING SERVICES**

This group is divided into seven 5-digit subclasses in the CPC. The subclasses we tested were almost the same as the most detailed level of the CPC. The only exception was that executive search services (CPC 87201) were combined to general management consulting (CPC 86501).

The most important services measured by invoicing were:

- CPC 86501 General management consulting services (60 per cent),
- CPC 86504 Human resources management consulting services and
- CPC 86503 Marketing management consulting services.

No invoicing was reported on the following services:

- CPC 86502 Financial management consulting services,
- CPC 86505 Production management consulting services and
- CPC 86506 Public relation services.

The empty subclasses and the large proportion of general management consulting services could be explained by the fact that it is difficult for firms to divide their revenues in accordance with the CPC classification, and that services were placed in the subclass 'general management consulting'. The appearance of empty subclasses is also influenced by the fact that products of Group 865 were asked about only from companies providing these services as their main activity. For example, many accounting and auditing firms produce financial management consulting services, and many advertising firms produce marketing management consulting and public relation services.

In our view, the subclass general management consulting (CPC 86501) could be divided in two subclasses of the 5-digit level: corporate strategy and organisation development, and management systems development and analysis.

**Corporate strategy and organisation development services** aim at the development of the functioning of the entire organisation, including policy formulation, development of organisational structure, business turnaround plans, development of profit improvement programmes, corporate analysis, strategic planning and execution, etc.

**Management systems development and analysis services** are related to management operation conditions, such as development and improvement of management information systems, development of management reporting and supervision, management audits, development of boardroom work etc.

## **CPC 866 SERVICES RELATED TO MANAGEMENT CONSULTING**

This class is divided into three subclasses in the CPC:

- CPC 86601 Project management services (other than for construction),
- CPC 86602 Arbitration and conciliation services and
- CPC 86609 Other management services n.e.c.

These products were not enquired about separately but were included in 'other services', which contained both other management consulting and other services. The significance of these products is, at least at the moment, in Finland so small (only a few per cent of total invoicing), that a separate 3-digit group appears unnecessary. Neither does the division of the group in three subclasses appear sensible. In our view, products in Group 866 could combined with other management consulting services (CPC 86509), or they could make up their own 5-digit subclass in CPC Group 865.

#### **CPC 867      ARCHITECTURAL, ENGINEERING AND OTHER TECHNICAL SERVICES**

In our opinion, the 4-digit classes in this group are well defined and divided. However, some 5-digit subclasses should be defined more precisely (CPC 86729). Also, we have another way of classifying engineering services (CPC 8672).

In the CPC, these services are divided into six 4-digit classes and 28 5-digit subclasses. In Finland, all firms producing these services as their main activity are classified in the same industry. In our enquiry, we generally made use of the product groups of the 4-digit level of the CPC, as the 5-digit level was deemed to be too detailed, and would have resulted in a rather long product list if applied in full.

Firms can divide their invoicing fairly easily into the 4-digit level classes of the CPC (with the exception of CPC 8673 Integrated engineering services). At least a proportion of the firms in question can divide their invoicing in a more detailed fashion, as the Finnish Association of Consulting Firms, which represents companies in the industries, collects invoicing data from its members divided in 30 product groups. The Association only comprises a small part of firms in the industry.

The most important 4-digit classes in Finland are:

- CPC 8672   Engineering services,
- CPC 8671   and 87907 Architectural and interior decoration services and
- CPC 8675   Related scientific and technical consulting services.



**CPC 8671 Architectural services and  
CPC 87907 Specialty design (interior decoration)**

This class comprises planning of buildings and groups of buildings, planning of renovation and restoration of old buildings and groups of buildings, and interior decoration.

Architecture and interior decoration were combined because the same firms frequently produce both services and it would have been difficult for them to give revenues separately for the two services. Sweden has also arrived at the same conclusion in a corresponding survey (Business services, computer and related services, CES/AC.67.11)

**CPC 8672 Engineering services**

This class is divided into eight subclasses in the CPC. We grouped engineering services into three subclasses, because the 4-digit level of the CPC was considered too rough and the 5-digit level too detailed. Our division was:

- Engineering services related to building construction,
- Engineering services related to civil engineering and
- Engineering services related to machinery and process design.

The division is based on the product grouping applied by the Finnish Association of Consulting Firms. The basis of their classification is division according to the industry purchasing the services (building construction, civil engineering, manufacturing and other branches). Each main product group by branches is further divided into different services in the Association's statistics.

**Engineering services related to building construction**

This group comprises structural and geo-structural technology, heating, water supply, air conditioning, electric and telecommunications technology connected with building construction, acoustics and real estate technology and evaluation.

Design services for mechanical and electrical installations for buildings (CPC 86723) and design services for the construction of foundations and building structures (CPC 86722) are included in these services in their entirety, as are those parts of the following subclasses that are related to building construction:

- CPC 86721 Advisory and consultative engineering services
- CPC 86726 Engineering design services n.e.c. (acoustical and vibration engineering designs)
- CPC 86727 Other engineering services during the construction and installation phase.

#### **Engineering services related to civil engineering**

The services included are traffic technology, road, street and district technology, bridge construction, water supply and water way construction technology and rock construction and geoconstruction technology related to community building.

Design services for the construction of civil engineering works (CPC 86724) are included in these services in their entirety, as are those parts of the following subclasses which are related to civil engineering:

- CPC 86721 Advisory and consultative engineering services
- CPC 86726 Engineering design services n.e.c. (traffic control design services)
- CPC 86727 Other engineering services during the construction and installation phase.

#### **Engineering services related to machinery and process design**

This group comprises automation technology and instrumentation, energy, machine construction, transportation, materials handling, shipbuilding and process technology, heating, water supply, air conditioning, electric and telecommunications technology related to machine and process design, and environmental management technology.

Design services for industrial processes and production (CPC 86725) are included in these services in their entirety, as are those parts of the following subclasses that are related to civil engineering:

- CPC 86721 Advisory and consultative engineering services
- CPC 86726 Engineering design services n.e.c. (prototype development and detailed designs for new products)
- CPC 86727 Other engineering services during the construction and installation phase.

**CPC 86726 Engineering design services n.e.c.**

**CPC 86727 Other engineering services during the construction and installation phase**

**CPC 86729 Other engineering services**

Three subclasses of the 'other services' type in succession may produce confusion. In our opinion, subclasses 86726 and 86727 could be combined to CPC 86729 Other engineering services. Geotechnical engineering services providing engineers and architects with subsurface information to design various projects (included in CPC 86729) are very close to geological and geophysical prospecting services (CPC 86751) and subsurface surveying services (CPC 86752). There is a risk that these services will get mixed up with each other.

**CPC 8673 Integrated engineering services**

This class was not a separate item in our survey. Integrated engineering services were included in the respective subclasses of CPC 8672. The CPC class 8673 is divided into four subclasses:

- CPC 86731 Integrated engineering services for transportation infrastructure turnkey projects,
- CPC 86732 Integrated engineering and project management services for water supply and sanitation works turnkey projects,
- CPC 86733 Integrated engineering services for the construction of manufacturing turnkey projects and
- CPC 86739 Integrated engineering services for other turnkey projects.

The subclasses separated in the CPC are connected with civil engineering (86731 and 86732) and manufacturing (86733). In addition, one could have integrated engineering services for building construction turnkey projects (functioning as a developer).

**CPC 8674 Urban planning and landscape architectural services**

**CPC 8675 Related scientific and technical consulting services**

**CPC 8676 Technical testing and analysing services**

These product classes were tested separately on the 4-digit level of the CPC. The heading of the class 8675 was changed to 'cartographic, soil-mechanical and hydrological services', because it was considered to be more descriptive than the

title of the corresponding CPC subclass. In our view, these subclasses have fairly clear boundaries and definitions.

## **CPC 871      ADVERTISING SERVICES**

In Finland, the majority of firms producing these services are advertising agencies (Group 74.4 of NACE, Rev. 1). These firms divide their revenues into three main groups; sale or leasing services of advertising space or time (CPC 8711), planning, creating and placement services of advertising (CPC 8712) and purchased production (not separated into a class of its own in the CPC).

The explanations of all product classes in this group should be specified more precisely than in the current explanatory notes for the CPC. Moreover, the concepts advertising and marketing should be specified.

### **CPC 8711    Sale or leasing services of advertising space or time**

We propose that the class be divided into three 5-digit subclasses:

- **Sale or leasing of advertising time** (tv, radio, cinema),
- **Sale or leasing of advertising space** (newspapers, magazines and other publications) and
- **Sale or leasing of other advertising media** (outdoor advertising, direct mail and other).

Also Sweden has proposed a division into corresponding subclasses (Business services, computer and related services, CES/AC.67.11).

### **Purchased production**

These services have not been classified separately in the CPC. They include the intermediation of products other than time and space used in advertising; that is, products manufactured elsewhere and acquired for reselling (e.g., film production, printing, research). For these commodities, an advertising agency bills its customers and transmits the payment to the producer. For compensation, the customers pay a commission to the agency.

A common feature of advertising media (CPC 8711) and purchased production is that advertising agencies in the main only intermediate these products. In Finland,

the proportion of intermediated products amounts to nearly 90 per cent of turnover. For that reason the adopted practice is that the extent of production in this branch is measured by the sales margin, containing commissions from sales and the value of own production. The sales margin is on average distributed as follows: sale or leasing services of advertising space or time 30 per cent, purchased production 20 per cent, and planning, creating and placement services of advertising 50 per cent.

We think that purchased production should be included in the CPC classification as a separate 4-digit class in group 871, because it is one of the most important products in this group.

#### **CPC 8712 Planning, creating and placement services of advertising**

This class comprises all work mainly carried out by advertising agencies such as artwork, commercial texts, translation, advice on the choice of media etc. Explanatory notes for this CPC class could refer to these types of examples.

#### **CPC 8719 Other advertising services**

According to the CPC, products in this class include outdoor and aerial advertising, and delivery of samples and other advertising material, and other advertising services not elsewhere classified. In our opinion, a more detailed definition should be made for aerial advertising and advertising services n.e.c.

It is not clear to us whether this class also includes direct and telephone marketing, decoration of shop windows, services of model agencies and acquisition of sponsors. In case these are not included in this subclass, then they should, in our opinion, be placed for instance in their own 3-digit group in the vicinity of advertising services.

# ANNEX 1

## THE RELATIONSHIP OF CLASSES USED IN THE SURVEY AND CPC

CURRENT CPC		TESTED CLASSES	
<b>861</b>	<b>Legal services</b>	<b>861</b>	<b>Legal services</b>
8611	<u>Legal advisory and representation services in the different fields of law</u>	8611	<u>Legal advisory and representation services in the different fields of law</u>
86111	Legal advisory and representation services concerning criminal law		
86119	Legal advisory and representation services in judicial procedures of concerning other fields of law		
8612	<u>Legal advisory and representation services in statutory procedures of quasi-judicial tribunals, boards, etc.</u>	8619	<u>Other legal advisory and information services (CPC 8612, 8613, 8619)</u>
8613	<u>Legal documentation and certification services</u>		
8619	<u>Other legal advisory and information services</u>		
<b>862</b>	<b>Accounting, auditing and book-keeping services</b>	<b>862</b>	<b>Accounting, auditing and book-keeping services</b>
8621	<u>Accounting and auditing</u>	8621	<u>Accounting and auditing</u>
86211	Financial auditing services	86211	Auditing (CPC 86211, 86212)
86212	Accounting review services		
86213	Compilation of financial statements	86219	Other accounting services (CPC 86213, 86219)
86219	Other accounting services		
8622	<u>Book-keeping (except tax returns)</u>	8622	<u>Book-keeping</u>
<b>863</b>	<b>Taxation services</b>	<b>863</b>	<b>Not tested as a separate group.</b>
86301	Business tax planning and consulting		Are included in classes 8622 and 86219.
86302	Business tax preparation and review services		
86303	Individual tax preparation and planning services		
86309	Other tax related services		
<b>865</b>	<b>Management consulting services</b>	<b>865</b>	<b>Management consulting services</b>
86501	General management consulting services	86501	General management consulting and CPC 87201 executive search services
86502	Financial management consulting (except business tax)	86502	As CPC 86502
86503	Marketing management consulting	86503	As CPC 86503
86504	Human resources management consulting	86504	As CPC 86504
86505	Production management consulting	86505	As CPC 86505
86506	Public relation services	86506	As CPC 86506
86509	Other management consulting services	86509	Other services

CURRENT CPC		TESTED CLASSES	
<b>866</b>	<b>Services related to management consulting</b>	<b>866</b>	<b>Not tested as a separate group.</b>
86601	Project management services other than for construction	Are included in subclass 86509.	
86602	Arbitration and conciliation services		
86609	Other management services n.e.c.		
<b>867</b>	<b>Architectural, engineering and other technical services</b>	<b>867</b>	<b>Architectural, engineering and other technical services</b>
8671	<u>Architectural services</u>	8671	<u>Architectural and CPC 87907 interior decoration services</u>
86711	Advisory and pre-design architectural services		
86712	Architectural design services		
86713	Contract administration services		
86714	Combined architectural design and contract administration services		
86719	Other architectural services		
8672	<u>Engineering services</u>	8672	<u>Engineering services</u>
86721	Advisory and consultative engineering services	86721	Engineering services related to building construction
86722	Engineering design services for the construction of foundations and building structures	86722	Engineering services related to civil engineering
86723	Engineering design services for mechanical and electrical installation for buildings	86723	Engineering services related to machinery and process design
86724	Engineering design services for the construction of civil engineering works		
86725	Engineering design services for industrial processes and production		
86726	Engineering design services n.e.c.		
86727	Other engineering services during the construction and installation phase		
86729	Other engineering services		
8673	<u>Integrated engineering services</u>	8673	<u>Not tested as a separate class.</u> Are included in class 8672.
86731	Integrated engineering services for transportation infrastructure turnkey projects		
86732	Integrated engineering and project management services for water supply and sanitation works turnkey projects		
86733	Integrated engineering services for the construction of manufacturing turnkey projects		
86739	Integrated engineering services for other turnkey projects		
8674	<u>Urban planning and landscape architectural services</u>	8674	<u>As CPC 8674</u>
86741	Urban planning services		
86742	Landscape architectural services		

CURRENT CPC		TESTED CLASSES	
8675	<u>Related scientific and technical consulting services</u>	8675	<u>Cartographic, soil-mechanical and hydrological services</u> (includes same products as CPC 8675)
86751	Geological, geophysical and other scientific prospecting services		
86752	Subsurface surveying services		
86753	Surface surveying services		
86754	Map making services		
8676	<u>Technical testing and analysis services</u>	8676	<u>As CPC 8676</u>
86761	Composition and purity testing and analysis services		
86762	Testing and analysis services of physical properties		
86763	Testing and analysis services of integrated mechanical and electrical systems		
86764	Technical inspection services		
86769	Other technical testing and analysis services		
871	<b>Advertising services</b>	871	<b>Marketing services</b>
8711	<u>Sale or leasing of advertising space or time</u>	8711	<u>As CPC 8711</u>
8712	<u>Planning, creating and placement services of advertising</u>	8712	<u>As CPC 8712</u>
8719	<u>Other advertising services</u>	8713	<u>Purchased production</u> (not classified as a separate product in CPC)
		8719	<u>Other marketing services</u>



## **ANNEX 2**

### **LEGAL SERVICES: THE TASKS CLASSIFICATION**

The functional classification has been used by the Finnish Bar Association already for a long time, and law firms are used to reply queries relating to it. The classification of tasks offers a rather comprehensive picture of legal services, but is not good for definition of the actual CPC services, as services in each task area are generally divided in several CPC classes. The tasks classification contains the following eight classes.

#### **Criminal matters**

This task belong to CPC 86111 Legal advisory and representation services concerning criminal law.

#### **Traffic matters**

The majority of traffic matters are criminal cases and belong to CPC subclass 86111. Traffic matters further include indemnity disputes in courts with insurance companies, which are included in CPC Subclass 86119 Legal advisory and representation services in judicial procedures concerning other fields of law.

#### **Family and inheritance law**

This includes disputes (CPC 86119), preparation of marriage settlements and wills (CPC 8613) and acting as an executor of an estate (CPC 8619).

#### **Bankruptcy matters**

This includes the management of a bankrupt estate on court order. It belongs entirely to CPC class 8619.

#### **Business law and contract law**

This task contains preparation of documents and legal council. The majority of these services belong to CPC 8613 Legal documentation and certification services.

Disputes connected with contracts and cleared in court nevertheless belong to CPC Subclass 86119.

### **Tax matters**

Tax matters handled by tax boards belong to CPC class 8612. Tax matters also include tax planning and consulting (CPC 863). However, tax fraud matters belong to the sphere of criminal law (CPC 86111).

### **Construction law**

This includes, inter alia, operation of partnership agreements, contracts of sale and building contracts (CPC 8613) and disputes on zoning matters with authorities (CPC 8612). Disputes with contractors belong to CPC Subclass 86119.

### **Other tasks**

This group includes tasks not classified above.