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Demand for services

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Session: Short term indicators

Abstract

Services are recognised as a key driver of modern knowledge intensive economies contributing to the performance of enterprises across all sectors of economies in European and other modern societies. The majority of economic entities use services as external input to their own production of goods or services.

Until now statistical surveys have focused much more on the production of services than the demand for services.

The relationship between supplier and user including the amount of services that are purchased as input is therefore a subject of which currently very little is known.

Recently, a Eurostat project was launched with the title “Demand for services”.

This survey will allow us to obtain new knowledge on this vital aspect of our modern economy.

Statistics Denmark is leading the project assisted by Statistics Sweden, and 7 other EU member states are participating.

The objective of the project is to give us a better understanding of the relationship between the services sector and other sectors of the economy. The project will, moreover, provide information about the dominant service supplier - national or foreign - and it will identify barriers to external trade in services. Furthermore, we will obtain new knowledge about the enterprises’ plans and expectations about their future acquisitions of services. Finally, the project will examine the possibility of extending the statistical coverage of the services sector by breaking down the variable “Total purchases of goods and services”.

Demand for services

Services are recognised as a key driver of modern knowledge intensive economies contributing to the performance of enterprises across all sectors of economies in European and other modern societies. Whether in industry, retail trade or hotel and restaurant businesses the majority of economic entities uses services as external input to their own production of goods or services. Until now statistical surveys have focused much more on the production of services than the demand for services. The relationship between supplier and user including the volume of services that are purchased as input is therefore an issue that should be developed and studied in more detail.

The project on Demand for services was launched by Eurostat, and nine EU member states – Denmark, Finland, Germany, Greece, Latvia, Lithuania, Poland, Slovenia and Sweden - participate in this development project that seeks to identify the importance of the service economy from the demand side.
Since October 2003 Statistics Denmark has been acting as project leader and the work is co-chaired with Sweden. Regular progress reports are prepared to Eurostat.

Relation to the OECD task force on services

The "OECD task force on services" is focusing on short term indicators on the production side of services, but in the future it will be fruitful to broaden the perspective to include the demand side. Right now the task force is dealing with this issue by following the work and results of Eurostat's project "Demand for Services". It is expected that this project should give a good indication of the possibilities for collecting information on the purchase of services on a detailed level in a very broad spectrum of activities.

The Demand for services survey

1. The objective and scope of the project

As noted earlier the objective of the project is to remedy the lack of knowledge about the service sector and its products, however, analysed from the demand side.

The project should first of all give us a better understanding of the relationship between the services sector and other sectors. A very big part of the economy uses services as input to their own production of goods or services no matter if you are in the manufacturing industry, retail trade or hotel and restaurant business. This interdependence and the volume of services that is purchased as input by enterprises is a subject of which currently very little is known.

Secondly, the project should provide us with a better understanding of the factors of growth in the services sector. From the mere calculation of purchased services it can be hard to analyse and determine if the massive growth that we have seen in the service sector is due to externalisation of production of services that was previously produced in-house, or it is due to growing demand from the enterprises and the households.

Some researchers claim that the growth in the services sector is primarily explained by the fact that a large share of the services produced is sold to other service producing enterprises. Externalisation of the service production also contributes but is less important.

With this knowledge we could ask the following question: Does the service sector only support the other sectors or does the service sector itself initiate economic dynamics.

Furthermore, the project should supply information about the level of and the barriers to internationalisation of the services sector. The survey will render statistical information on the reasons for enterprises not to select foreign suppliers. In this way we should be able to compile statistics about in particular the weaknesses of the internal market of the EU for services.

This is a very important topic for the European Commission. At this point of time we know very little about the reasons for not choosing a service producer from another country. Hopefully, the survey will allow us to know more about the importance of physical barriers, legal barriers, economic barriers and finally the cultural and language based barriers.

Last but not least the project will test the possibility of extending the statistical coverage of the services sector by breaking down the Structural Business Statistics variable 13110 (Total purchases of goods and services) into "goods" and "services", and maybe to disaggregate the purchase of services into different services products.

2. Coverage

The survey will cover a broad spectrum of activities including the following NACE sections:

D Manufacturing
F Construction
G Trade
H Hotels
I Transport
K Business services (excl. 70 Letting and sale of real estate)
O Other services (*only* division 90 Sewage and refuse disposal, sanitation and similar activities *and* groups 92.1 Motion picture and video production *and* 92.2 News agency activities)

The expected sample size in Denmark will be about 2.000 enterprises.

In the project description the employment-size-classes breakdown is foreseen to be :

- 50-249 persons employed
- 250 + persons employed

- We will introduce an optional size class with 20-49 employees. In many of the participating countries a large part of the economy is characterised by a relatively large number of small and medium sized enterprises.

3. The results of the methodological study and the national pilot tests

Early this year (2004) a methodological study was carried out in the participating countries. The methodological study consisted of two main parts.

First an inventory was established of existing national data collection on the demand for services. The aim of this overview is to know if the participating countries have any official data collection in the area of demand for services. For every type of service that is to be surveyed in “Demand for services”, the participating countries could indicate if they already have some kind of data collection and if so indicate the frequency and the activities covered.

The inventory showed that many countries do already collect information about the purchase of different types of services. The services types are not covered in a homogeneous way. The primary data source is accounting statistics. In several of the participating countries the purchase of services are covered for the manufacturing industries, whereas only few countries collect data for the service sector’s own purchases of services.

Secondly, the participating counties have made a user need study among key users. Generally, the feedback has been positive and undoubtedly the results of the survey can be useful for several purposes. Several countries have had contacts with business federations, researchers etc., Consultations within the National Statistical Institutes have been made in particular with National Accounts. The business federations have indicated that the results of the survey can be useful for different kinds of analysis. They have especially welcomed data that can illustrate the location of the service provider which can provide important and new information about the internationalisation of services. Some federations have emphasised the need for introducing further questions on some of their key interests. National Accounts divisions are very interested in obtaining the quantitative data from the survey, as this represents new and useful information especially for the calculation of input/output tables.

At the end of the day the user consultation round resulted in a recommendation to keep both the qualitative and the quantitative questions. In general, however, the federations supported the objective of keeping the questionnaire as simple as possible – knowing that the subject is complex - and not too time consuming to fill it in.

To sum up the methodological study gave us an important knowledge about the available data related to service statistics with focus on the demand side, and the questionnaire has been designed according to the experiences from this study

The revised questionnaire could hereafter be used for the national pilot tests.
The pilot tests have been carried out in all the participating countries. The methods have been very different. Most of the countries have chosen a few enterprises and

asked them either to comment on the questionnaire or to fill it in and at the same time give their comments. One country have undertaken intensive interviews where the respondents were interviewed while they filled in the questionnaire. One country has carried out the pilot survey with 1000 enterprises.

Generally, the results of the pilot test were good. The interviews with the enterprises were successful. They resulted in useful comments that brought important aspects into consideration. The test raised several questions that should be considered before launching the final version of the questionnaire. Some were small details and layout problems. A few findings needed more consideration before we could conclude what to include in the survey and what to exclude.
On the whole, the reaction was that the project seemed very interesting and the prospects for successful data collection are therefore promising.

After this test the project leader group have in cooperation with DG-Enterprise of the EU developed the final version of the questionnaire including definitions to be used.

4. The questionnaire

The questionnaire consists of five qualitative questions and two quantitative questions, cf. enclosed annex.

The questionnaire begins with a question to uncover the enterprise's relations to an enterprise group. Recently, we had some results from our Inter- Enterprise relations survey that showed that enterprises being part of an enterprise group, are involved in considerably more inter-enterprise relations than other enterprises. This may very well influence their purchases of services.

The second question should give us information on the level of externalisation of services. The enterprises are asked who is their most important service provider for every of the 14 specified types of services. Is it the enterprise it self, another enterprise belonging to the same enterprise group or is it an external service provider?

Secondly, we ask about the duration of the contracts with external service providers. The duration of the contract is another good measurement of the nature of the externalisation. This will give us knowledge about the conditions for the service providers and their relations to the buyers of the services. Is the market dominated by short-term or one-off purchase relations? Or is the situation characterised by long term relations to service providers? The project on Inter-Enterprise relations gave the impression that there are a lot of non-permanent relations between enterprises. The answers will give us a good opportunity to test if this is also the case concerning the relations regarding purchase of services.

The third question concerns the location of the main external service provider. This question should give us a measure of the internationalisation of purchases of services. The potential for internationalisation is surely very different for the different types of services and probably also for the different types of buyers, i.e. the activity or the size of the enterprise. We ask if the service provider is located in the same region (trade area) as the enterprise, in another region within the country, in EU15, rest of EU or outside EU.

Then we turn to the fourth question about barriers for purchasing services in another country. We would like enterprises that do purchase services in foreign countries and those who don’t to answer this question. We believe that enterprises that do purchase services might encounter different barriers, than the ones who don’t. This should give an indication of the internationalisation opportunities and difficulties. Some of the barriers can be only be changed through legislative steps taken by the politicians while others are inherent in cultural differences that are difficult to change at least in the short term.

In the last of the five qualitative questions we focus on the perspectives for the future. The question concerns the potential growth of service. Will the services be produced more within the company, will they be purchased more from outside the company or will the situation remain as today? This question should be answered by all the enterprises.

Then we turn to the quantitative questions.
First we ask the enterprises to break down their purchase of services. As noted earlier the project will test the possibility of extending the statistical coverage of the services sector by breaking down the Structural Business Statistics variable 13110 (Total purchases of goods and services) into “goods” and “services”, and to disaggregate the purchase of services into further services products. This will be done by asking the enterprises to provide figures of their purchase of services broken down by 11 different types of services including how much they spend on buying these services in 2003.

The second part of the quantitative questions relates to the service related investment. It is a subject that is very interesting and indeed also a challenge. How can we make a clear distinction between investments and purchases when we know that there is not a clear definition of what purchase is and what investment is? It has been difficult to formulate a question to cover the subject. The project leadership have chosen to use the definition that a purchase is investment if the purchase is recorded in a balance-sheet. The types of services that we are asking about are not exhaustive, but will give an impression of investments in some of the more interesting types of services.

The time schedule for the further work

The survey should be running right now in most of the participating countries, and the final results from the member states should be ready early next year (2005).
A presentation of the results will be made at the 2005 Voorburg meeting.

Demand for Services 2003

ID-No of enterprise

Name of enterprise

Address

Postal code City

Person to contact at enterprise

Name of person to contact (PLEASE PRINT)	Telephone (area code and subscriber's number)
Email	Fax

General information

Main economic activity of the enterprise (as per main turnover contribution; NACE)		Number of full-time equivalents 2003.	

1 Are you part of an enterprise group?

- ☐ 1 Yes, it's the headquarter
- ☐ 2 Yes, a subsidiary →
- ☐ 3 No

Where is the headquarter of the group located?

In the same country	In another EU country	Outside the EU
☐ 1	☐ 2	☐ 3

This form is issued by	Persons to contact	Telephone	Email	Fax

A Current situation concerning purchases of services

In question 2-4, we ask you about the current situation in your enterprise. The service types in this part of the questionnaire are services of special interest and do not constitute an exhaustive list of services.

Main service provider

2 Who is the most important service provider, in economic terms, for each service?

Please tick mark **once** for each line.

If the main service provider is external, what is the type of purchases?

	The enterprise itself	Within the same group	External	The service is not used	Do not know	Current purchases ❶	Purchases based on long term contracts ❷
01. Transport, logistics and postal services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
021. IT services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
031. Market research	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
032. Advertising	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
041. Legal services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
042. Accounting and book-keeping	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
043. Business management, consultancy	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
05. Human Resources related services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
061. Financial services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
062. Insurance services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
07. Renting and operational leasing	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
09. Architectural, engineering and related technical consultancy	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
101. Industrial cleaning services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2
102. Investigation and security services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 1	☐ 2

❶ Purchases not based on a contract or on a contract of max 1 year duration.

❷ Contracts of more than 1 year duration.

The location of the main service provider (if external)

3 If your main service provider is external, where is the main service provider located?

Please tick mark once for each line for each service you have marked as external in question 2.

	In your country: In the same region	In your country: Other region	In another EU-country: Old Member States ❸	In another EU-country: New Member states ❹	Outside the EU	Do not know
01. Transport, logistics and postal services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
021. IT services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
031. Market research	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
032. Advertising	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
041. Legal services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
042. Accounting and book-keeping	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
043. Business management, consultancy	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
05. Human Resources related services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
061. Financial services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
062. Insurance services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
07. Renting and operational leasing	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
09. Architectural, engineering and related technical consultancy	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
101. Industrial cleaning services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
102. Investigation and security services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6

❸ Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Portugal, Netherlands, Sweden, Spain, UK

❹ Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia

Perceived barriers for purchasing services outside your country

4 What barriers do you perceive are related to purchasing services outside your own country?

Please tick **the two most important barriers** for each line independent on how you acquire these services today.

	Barriers related to location (proximity to service provider important)	Legal and regulatory barriers	Language or cultural barriers	Trust barriers (standards, quality etc.)	Economic barriers (foreign services too expensive)	Difficulties to identfy suitable foreign service providers	No barriers perceived	The service is not relevant	Do not know
01. Transport, logistics, postal services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
021. IT services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
031. Market research	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
032. Advertising	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
041. Legal services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
042. Accounting and book-keeping	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
043. Business management, consultancy	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
05. Human Resources related services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
061. Financial services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
062. Insurance services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
07. Renting and operational leasing	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
09. Architectural, engineering and related technical consultancy	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
101. Industrial cleaning services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9
102. Investigation and security services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	☐ 8	☐ 9

Future purchases of services

5 How do you expect your purchases of services from external (both domestic and foreign) suppliers to change over the next two years?
Please tick mark **once** for each line.

	Decrease considerably	Decrease somewhat	Remain at current level	Increase somewhat	Increase considerably	Do not know
01. Transport, logistics, postal services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
021. IT services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
031. Market research	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
032. Advertising	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
041. Legal services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
042. Accounting and book-keeping	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
043. Business management, consultancy	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
05. Human Resources related services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
061. Financial services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
062. Insurance services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
07. Renting and operational leasing	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
09. Architectural, engineering and related technical consultancy	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
101. Industrial cleaning services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
102. Investigation and security services	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6

B Purchases of services in 2003

In this part we ask you to specify your purchases of services for the reference year 2003. The term "purchases" refers to costs for purchases for consumption, costs that are recorded in the profit and loss account. Capitalized costs that are recorded in the balance sheet are included in question 7.

The list of services in question 6 is directly related to total purchases of services and does constitute an exhaustive list.

	Purchase amount in national currency		
6.1 Total purchases of goods and services (SBS code 13 11 0)			
6.2 Total purchases of services			

6.3 Please estimate the breakdown of purchases of services Please answer either in amount or in per cent of total purchases of services. If exact figures are not available, please provide a qualified estimate.	Purchase amount in national currency of total purchases of services	*or*	Purchase amount in per cent of total purchases of services
01. Transport, logistics and postal services.			%
02. ICT services			%
03. Marketing and sales–related services			%
04. Professional and business services			%
05. Human Resources related services			%
06. Financial and insurance services			%
07. Renting and operational leasing			%
08. Research and development services			%
09. Architectural, engineering and related technical consultancy services			%
10. Auxiliary services			%
11. Royalties and license fees			%
19. Other services n.e.c. Please specify			%
. . . .			**100** %

C Service-related investments in 2003

Purchases of assets for long-term use might also be considered an investment, where the asset is activated in the balance sheet and the costs are depreciated over the life-cycle of the asset. The investments of interest here are mostly intangible assets recorded as such in the balance sheet, but also some types of ICT investments that might be recorded as tangible assets. In order to estimate the total purchases of services during the period, we ask for the investments in service-related assets.

In this part we ask you to specify your service-related investments for the reference year 2003. If exact figures are not available, please provide a qualified estimate.

7 Please estimate the purchases of services which is activated in the balance sheet.	Amount in national currency
ICT services: Customized software and balanced costs for ICT development. (Packaged software and hardware are excluded.)	
Tradable rights: Concessions and franchising, patents, industrial design, trade marks, copyright incl. film and music rights.	
Balanced costs for research and development and similar investments: R&D and experimental development, engineering and related technical consultancy, technical testing, analysis and certification.	
Balanced costs for marketing and sales-related services: Market research, advertising and other marketing or sales services.	
Other balanced costs related to services. Please specify	
. . . .	