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Producer Price Indices for Services
SPPI for Market Research
in Germany

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I. Industry Output

I.1. Description of the Sector (ISIC 6810/6820, CPC 836/837, NACE 74.13)

Market research deals with the collection of information and knowledge about the market situation, the market development and its opportunities and/or a more comprehensive understanding of the market participants´ behaviour. The aim is to support private or public clients to serve better their customers´ needs and their marketing decision-making in order to run their businesses more successfully. Market research is a service product that is conducted on the basis of scientific methods such as statistics and sociology.

Market research services can be differentiated into the following fields:
primary and secondary research.

Primary research is defined by the following analysis methods which involve direct inquiries of the respondents. Here the research inquiry tools phone, personal, written and online interviews are used.

<u>Quantitative analyses</u>

- Ad hoc surveys – individual surveys for a client on a specific issue, non-recurring
- Panel survey – recurring
- Other tracking studies - individual surveys for a client on a specific issue, non-recurring
- Omnibus surveys – multi-client studies on various issues, recurring and non-recurring

<u>Qualitative analyses</u>

- Group discussions
- Exploration interviews

Secondary analyses involve desk research of studies which were conducted by foreign institutes or organisations such as data and information of official sources or private chambers or associations.

Usually a market research institute puts its focus on one or more industry sectors. Only the large companies with high turnover figures cover all or at least the most important sectors. The most relevant sectors are consumption, media, advertising, trade, banking, telecommunication, health and the public sector.

In many countries the market is dominated by few large market players with a turnover per company of above 100 million EURO. These companies play a decisive role on a global base. They have gained market share in the past more by mergers than by increases in their operative businesses. The processes of mergers seem to be ongoing in the future. On the contrary, there are also many one-person enterprises that specialize in a research field or industry sector.

I.2. Overview over the Market Situation and Development in Germany

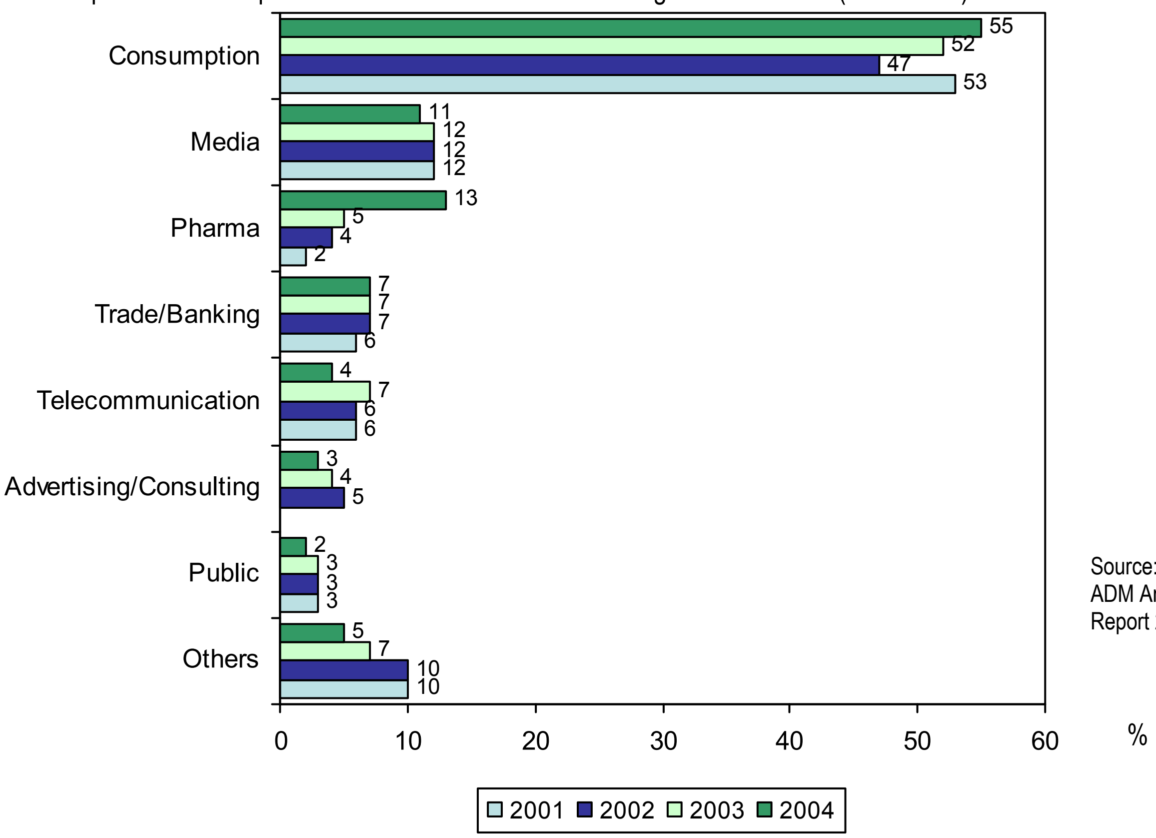
According to the service statistics (Dienstleistungsstatistik) of the Federal Statistical Office Germany (in the following FSO) the market research services sector generated an annual turnover of 1.7 billion EURO in 2003. The sector is dominated by few large institutes that achieve a market share of almost half of the overall turnover obtained by the sector.

After serious decreases in turnover due to the weak overall economic situation in the first years of the new millennium the market research sector starts growing at reasonable speed again since 2003.

The following graphs give an overview about the focus of research activities according to industry sectors and about the market research products /analysis methods sold in Germany (products and analysis methods are described in chapter I.1).

In the following graph 1 the institutes´ turnover is classified according to the research focus regarding the industry sectors. Dominant industry sector is the consumption area. More than half of the research work is conducted in this field. In 2004 the pharmaceutical research has gained a lot of relevance regarding turnover figures in comparison to the past.

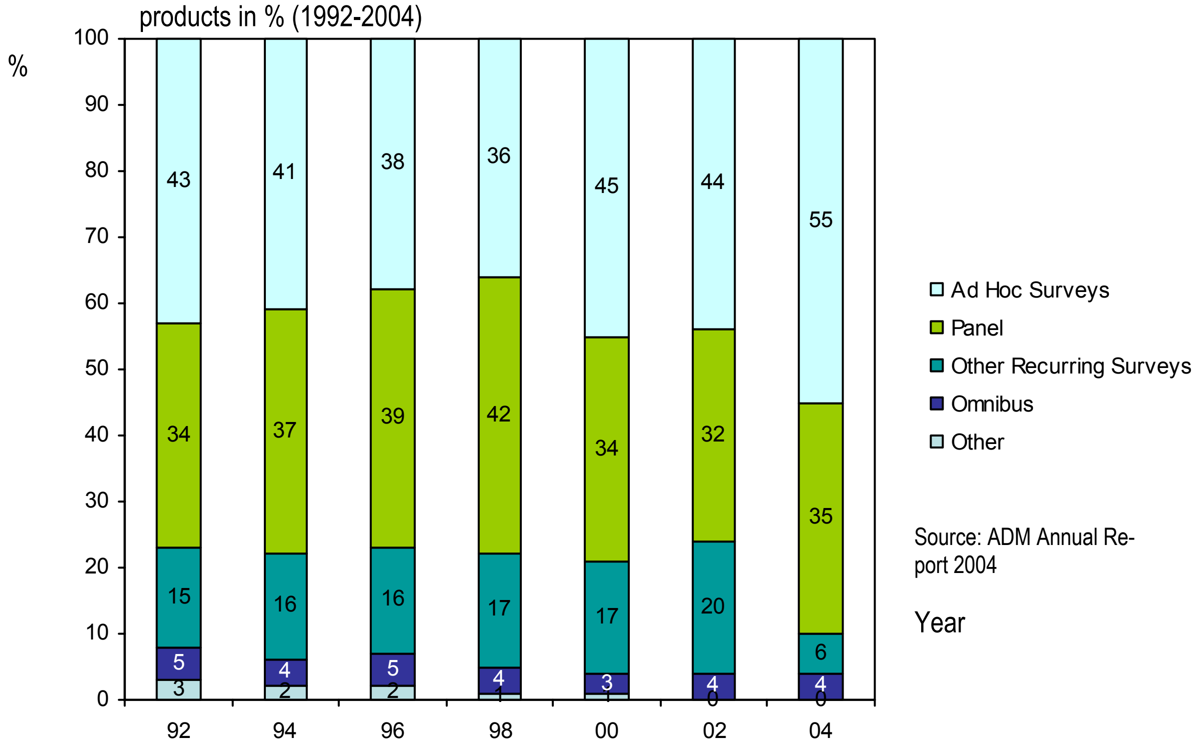
Graph 1 – Development of institutes´ turnover according to sectors in % (2001-2004)



Source:
ADM Annual
Report 2004

Graph 2 illustrates the product distribution (analysis methods) over the last decade. “Ad hoc” surveys and panels are the most dominant market research product regarding turnover. It is obvious that “ad hoc” surveys occur more often nowadays – in a climate of decreasing economy – than recurring surveys. The client does not want to be bound to a product for a longer period of time. Panels, though they belong to the category of recurring surveys, do not meet a lot of changes in turnover rates over the time because panels are meanwhile a firmly installed research and marketing tool especially in the consumption sector.

Graph 2 – Development of institutes´ turnover according to analysis methods / products in % (1992-2004)



II. Index Methodology

II.1. Price Mechanisms

Firstly an overview is given over the price mechanisms in the market research services sector.

In contrast to the official providers of statistical information and data which provide most of their data for free, prices in the market research services sector run according to free price negotiations between the client and institute. The market research institute delivers its quotation on the basis of a precedent briefing with the client about the study contents. Afterwards price negotiations start in which in most cases the institute grants price abatements nowadays. Here it depends on the fact if the client is a new or old client and on the client´s annual turnover with the institute.

There are different price types charged for the various research performances:

- Charge-out rates (person day)
  The most important price type according to the institute turnover figures is the **person-day rate**, i.e. the hourly rate multiplied by the time a market researcher works for a client per day (the calculation is based on an eight-hour working day). Kick-off meetings with the client about the study design, the development of questionnaires, the sampling, the organisation of field works, the data entry, the analyses and interpretation, the reporting and the presentation are key-steps in a market research project and are usually charged according to person days.

  Here, usually in middle-sized to bigger companies (according to turnover figures), the person-day rates are differentiated between staff positions such as executive manager, senior and junior researcher, support staff and secretary.

- Unit prices
  As already mentioned prices for the research tools in the field of quantitative analyses can be distinguished between

  - Personal interviews (non-omnibus surveys)
  - Telephone interviews (non-omnibus surveys)
  - Written interviews
  - Omnibus (face-to-face)
  - Omnibus (phone).

  The **interview prices** are unit prices for the classical data collection tools mentioned above. This means that a price per interview is charged. In the cases of personal and telephone interviews the client is charged the net price per conducted interview. This means that the costs of contacting the interviewee and of persuading him / her to be inquired are not billed by the market research institute but are calculated in the interview price on the basis of the institute´s experiences of the expected response rates. In the case of written interviews the printing and courier cost of the questionnaires that are sent out to the respondents are charged neglecting the expected response rate – here the client takes over the risk of low response rates. The courier and printing costs run directly proportionally to the number of questionnaires. Therefore, they are unit-cost.

As shown in chapter I, due to the fast developments of internet technologies it has been developed a fourth type of interview method in the last years: the online interview. This type of interview method, however, rather belongs to component prices – see below.

Omnibus prices are also unit prices. Usually market research institutes provide lists which contain the price for a closed and a price for an open-ended question in the omnibus. List prices here are usually transaction prices, price reduction is granted only in rare cases.

- <u>Component pricing</u>
  Component prices that integrate all performance modules for a service are billed in the case of online interviews. The net or gross case number of interviews is not relevant for the price calculation. The price for a single module is not transparent for the client. The price for web-based interviews depends on the complexity of the online questionnaire (number of filters, links etc.) and the software skills and installation requirements.

  At the moment the FSO assumes that web-based interviews belong to the type of component prices. This has to be proved with the help of experts.

II.2. Main Pricing Methods Used

Here the statistical approaches are listed how the SPPI for market research services is constructed from the given price types.

As already mentioned the most important approaches are the charge-out rate and the unit value method. Slightly less important, but relevant in the area of online research, are component prices.

- Time-based method (charge-out/person-day rates)

  At first sight it is easy to inquire the institutes about their person-day rates. However, these prices usually represent list prices. In many cases they have little to do with the transaction prices which can be realized in the market at the moment. Additionally it would be more accurate not to inquire about average person-day rates, but to split up the staff by category and level of experience or staff position in order to receive differentiated person-day rates.

  It has to be proved in the current pilot survey, if it is possible to receive such detailed data and if the market research institutes are able and willing to deliver price information which differentiate between the quotation and the prices that are actually paid by the client.

  The advantage of charge-out rates is that the inquiry can be kept short and simple and reduces the respondents´ burden. However, from the methodological and statistical point of view this approach is a method that is less preferred because there is no direct linkage between the price and the output – i.e. the service performance. But this would be one of the main requirements of price statistics.

- Unit value method (unit prices)

  Here it is the task to define precisely the “unit” to which the price refers. This is less difficult in the case of written surveys as courier and printing cost can be directly taken from bills. Regarding personal and telephone interviews the interview length, the contact cost of interviewees, the contents of the questionnaire (complex contents require well-trained interviewers, share of open-ended in relation to closed questions) and the type of respondent (education, expert knowledge) have to be taken into respect. Here the unit prices can vary tremendously.

- Model pricing

  For the price collection of online interviews this price method is used. Here a standard model case – a typical web-based questionnaire - has to be developed which then can be priced by the market research institutes as component price. The model interview has to be described precisely with all the relevant modules that define the price. So the prices quoted by the institutes are made comparable. Desk research and contacts with the associations and market research experts would support to construct model interviews.

III. Sampling, Weights and Data Collection

III.1. Sample Design

In order to gain insight into the structure of the target group of the market research services sector it is recommended to contact the market research associations. Bigger companies regarding their turnover can be followed up in the internet. By this information the sample of the Unternehmensregister – the official business register – can be revised.

Then the sample is stratified according to company size in the sense of turnover figures.

A random stratified sampling according to turnover is considered to be the most adequate method for the set-up of inquiries. Regarding increasing company size it should be evaluated to use a total sample as the big companies usually represent the dominant market players and price drivers (in Germany above 5 million EURO annual turnover).

III.2. Data Collection

The current price observation survey is conducted by direct inquiries via a written or online questionnaire (see appendix). By this method the weighting pattern is also developed which delivers the price representatives.
The German market research association ADM provides detailed data which is of help for the construction of the weighting pattern. As the ADM data is profound, detailed and reliable now for the last 15 years, the direct inquiry with questions about the weighting pattern is dropped and the respondents´ burden is minimized. In the inquiry of the current price observation questions about the weighting pattern are integrated in order to prove the ADM figures. The weights in the market research services sector are based on the price types. The share is calculated, to what extent a single price type (person day rate, unit price etc.) contributes to the overall turnover. Then the weights are related to the institute´s overall turnover.
The current price observation survey covers questions regarding the following prices:

1. Charge-out rates (person day rates)

   The person day rates which market research institutes deliver may be list prices but not the real transaction prices. For that reason the institute is asked about the degree of realisation that shows the gap between the institute´s quotation price and the realized price the client is willing to pay.

   Additionally many market research institutes differentiate their person day rates between staff position (senior, junior project leader, support staff etc.) This has to be taken into respect by the questionnaire.

2. Unit prices

Regarding personal and phone interviews firstly the interview type has to be defined well in a standard interview so that all respondents refer to the same “unit”. It is distinguished between interviewer labour cost and phone/travel cost. It is assumed that interviewer briefing, interviewee recruiting and response rate is average. Three types of interviews are inquired: Business to consumer, business to business/simple target group such as craftsmen and business to business/sophisticated target group such as physicians.

The topic of written questionnaires is dropped in the inquiry due to less turnover relevance in the German market research sector.

3. Model price

The development of a model for web-based interviews is the most difficult part in the current price observation. Here support of the associations is expected. Via desk research it has already been found an ESOMAR[1] price study which runs continuously and inquires similar questions as the FSO Germany plans to do.

The business register *URS* (Unternehmensregister) provides data about the turnover of a single market research institute. In the questionnaire a question about the annual turnover is posed in order to check and update the data given by the official *URS*. This is necessary for the construction of the weighting pattern – see above.

[1] World-wide association of market research institutes – see www.esomar.com.

IV. Issues in Maintaining Constant Quality

Productivity progress is a factor which influences the service and product quality so that the assumption of stable quality features over time is not realistic. This means that also an index for productivity profit should be calculated and integrated in the price index. However, scientific papers have shown that the measurement of technological/productivity progress is rather difficult. It is not growing proportionally and appears unexpected and erratically over time. The productivity profit in the target groups´ sectors is probably exclusively calculated by a reduction of working time on the same subject.

V. Results and Price Measurement Challenges

V.1. Expected Results

At the moment the project to develop producer price indices for market research services is still in the pilot phase. It started in 2005 and is supposed to be terminated in the beginning of 2006. So the German producer price indices services (in the following SPPI) will be regularly published on a quarterly basis from 2007 on. The project takes place in collaboration with EUROSTAT and is considered as European objective.

V.2. Challenges

Especially the following question has to be answered with the help of experts and the associations:

> The gap between list prices in the area of person day rates and unit prices and the realized transaction price is considered to be answered inaccurately by the market research institutes. One reason is that the market research institute opposes price transparency and the other reason is that the institute is not able to tell more than list prices. Every client and project is individual, and therefore price reductions are not given on an average base but depend on the importance of the client and the project regarding profit and turnover for the institute. The question how to receive accurate information about the degree of realization of list prices has to be answered before the inquiry starts.