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Mini-presentation on turnover

Benjamin Camus, INSEE, France
(benjamin.camus@insee.fr)

1) Definition of service being collected

The activity of “business and management consultancy” corresponds to class 7474 of ISIC version 3.1. This class constitutes a unique category of activity, identical in both the European classification system (74.74 in NACE 1.1) and in the French system (74.1G in NAF – French activity nomenclature).

The scope of what is included in consultancy services may vary. At least two main types of activity are found: management consultancy and public relations consultancy. Professionals define management consultancy as being “a range of external consulting activities aimed at improving the organisation, management and development of businesses and organisations - in other words, everything that contributes to change” (from the “Guide to consultancy companies”). Public relations aim to improve the image or perception of a business, a group or a person; it is clearly differentiated from services linked to implementation such as advertising.

Generally speaking, it is a **well-defined service**, apart from certain recent cases where there has been some convergence between management and IT consultancies. Any organisational or strategic business change goes hand-in-hand with changes in the IT system. On the one hand, consultancy companies have developed IT consultancy services such as Accenture and on the other hand, IT service providers have developed their own IT management consultancy services such as IBM. In this way, larger operators sometimes find it difficult to dissociate management consultancy from IT consultancy, which belongs to another class - 72.10 in NACE or 7210 in ISIC. This convergence between consultancy and new technologies appears to have bottomed out to the point where clients prefer to distinguish management consultancy provided by consultants from IT consultancy provided by IT specialists, these two services having different pricing structures [1].

2) Unit of measure to be collected

Services are invoiced in euros, which therefore represent the unit of measurement. As is the case for the majority of service activities, production volume is calculated by deflation using an adjusted price index.

3) Market conditions and constraints

In France, “**Business and management consultancy**” is a **dynamic, rapidly expanding branch of activity**: it saw the greatest volume growth of all market services activities in 2005: +5.9% - with a slight fall in prices of -0.3%; activity took off again in 2004 with +5.3% volume growth after a net decline in 2003 of -1.9% in volume. This fall in activity came at the tail end of a boom period linked to three issues – the year 2000, the Euro and, above all, the reduction of the working week to 35 hours. This had led businesses to bring in consultancies to manage the required changes. In the mid term, this area is experiencing rapid growth, as are other professional services such as accountancy and legal work.

The “Business and management consultancy” sector in France - i.e. the group of businesses whose main activity is business and management consultancy – covers 42,000 businesses employing 113,000 people in total. This comprises 80,000 salaried and 33,000 non-salaried workers in full time equivalent terms and generates a turnover of around 13 billion euros. These guideline figures are taken from the 2003 structural survey based on a survey of businesses (with sampling for the units with less than 30 salaried employees). When comprehensive tax records with a larger number of small businesses are taken into account, the level of sales rises to around 17 billion euros.

This sector includes many small units: 58% of businesses have no salaried employees; on average, 2.7 people work in each business; 60% of people are employed within the 41,200 businesses that have less than 10 salaried employees; the four biggest players in the sector generate 13% of total turnover, indicating a low level of concentration. It includes a few large multinational entities such as McKinsey, Bearing Point, BCG etc., as well as many businesses working on a national or even a local scale. Some high turnover units also operate in very particular markets.

Statisticians try as far as possible to observe external services in a competitive market. Currently in France, this class of activity includes businesses of different types. These may be companies operating in a competitive market, as well as “**captive units**” which only provide management assistance to one group or brand network. This situation accounts for more than 10% of businesses and 19% of turnover in the sector. These latter businesses have been excluded from the collection of price data, since the pricing observed may be transfer pricing rather than market pricing - see “Guide for Developing Prices Indices for Services” OECD-Eurostat 2005, section 4.14, or “The French SPPI on Business and Management Consultancy”, Benoît Buisson VG, 2005.

Access to the profession is not regulated by any legislation; there is only a kind of self-regulation through associations with optional membership. The most important is the **professional association** “Syntec Conseil en management” - “Syntec Management Consulting”, which unites around 60 practices and acts as the sector’s representative body. There is also the association “Syntec Relation publiques” “Syntec Public Relations” for public relations companies. These associations are themselves part of a larger organisation, the Syntec federation, encompassing the professional associations representing engineering, IT services, market research, public relations and recruitment. These Syntec associations are important in implementing and validating price indices. Regular meetings with these associations has made it possible to determine the importance of companies serving a single client (captive units) and to evaluate the relevance of classification systems for data collection, as well as price changes.

4) Standard classification structure and product detail/levels

The French product classification system is identical to the European classification system known as CPA, which itself is strictly aligned to the UN’s international classification known as CPC. This is summarised in the following table:

ISIC NAC		CPC 1.1 CPA 2002		
3.1 E 1.1				
<u>7414</u>	74.14 Business and management consultancy activities	<u>82191</u>	74.11.17	Other legal advisory and information services (arbitration and conciliation services)
		<u>83111</u>	74.14.11	General management consulting services
		<u>83112</u>	74.14.12	Financial management consulting services (except corporate tax)
		<u>83113</u>	74.14.14	Human resources management consulting services
		<u>83114</u>	74.14.13	Marketing management consulting services
		<u>83115</u>	74.14.15	Production management consulting services
		<u>83119</u>	74.14.17	Other management consulting services
		<u>83121</u>	74.14.16	Public relations services
-	-	<u>83129</u>	74.14.17	Other management consulting services
		<u>83190</u>	74.14.21	Project management services other than for construction
			74.14.22	Other management-related services n.e.c.
	74.15	-	74.15.10	Management holdings services

A commentary on the divergence between the European and international classification systems can be found in the mini-presentation on price indices.

5) Evaluation of standard vs. definition and market conditions

The standard classification system – CPA - is used as a reference when collecting price and turnover data. This classification system (subject to the grouping together of certain activities) is judged by businesses to be relevant and easily understood, subject to the grouping together of certain activities.

6) National accounts concepts and measurement issues for the area related to GDP measurement

A **supply and use equation** is drawn up each year for all activity covered by NACE category 74.74.

For the **definitive version of the accounts** - available for year N at the beginning of year N+3, this equation is primarily based on the results of the structural survey, the annual survey of service businesses - EAES – *Enquête annuelle d'entreprises dans les services*. These results are supplemented by tax data; this enables sales and , therefore, production in value terms, to be estimated for this branch of activity at 17

billion euros in 2003. Import and export data are taken from balance of payments data - for 2003, around 3.5 billion euros in imports and 3.9 billion euros in exports. Uses are mainly intermediate consumptions; it is estimated that this intermediate consumption includes around 0.5 billion euros' worth of services rendered to colleagues, i.e. there is marginal sub-contracting of capacity. The equation is set out in value terms, before proceeding to calculate volumes for each item by deflation using price indices; the main price index used is the one based on prices observed since the second quarter of 2003. Up until the 2003 accounts, the index used was provided by the professional association Syntec and was an index of salary costs which aimed to index contracts; from the 2004 accounts onwards, the index calculated by INSEE, judged to be of higher quality, has been applied; over the course of 2005, the Syntec index increased by + 1.1%, compared with - 0.3% for the directly observed price index, so the old index would have led to a reduction in volume growth.

For the **forecast versions of the accounts**, known as the semi-definitive and provisional versions (available for year N in years N+2 and N+1 respectively), a change index derived from turnover figures given in monthly tax declarations - i.e. based on administrative data - is applied to the previous equation.

Production and price measures pose no conceptual problems in preparing national accounts. The only real recurring difficulty for this activity is that of verifying the classification of businesses by principal activity to determine the correct level of sales. The dynamic nature of the sector and its close relationship with neighbouring activities such as IT consultancy and support activity within a group etc. mean that it is important to carefully check the list of entities operating in this area each year.

7) Turnover/output data method(s) and criteria for choosing various output methods.

Activity is observed at a low level of detail through the **annual survey of service businesses - EAES - Enquête annuelle d'entreprises dans les services**, a sampling survey. In 2003, 3,000 companies were questioned, with sampling fractions varying from 50 for businesses with no salaried employees to 1 for the single stratum covering businesses with more than 30 employees. One of the fundamental parts of the questionnaire covered the measurement of production based on a breakdown of annual turnover as recorded in accounts. For the 2005/6 survey, the questionnaire relating to "business and management consultancy" asks for turnover to be broken down into the following eight categories. The figures shown in brackets are 2003 sales observed for the sector in billions of euros.

- . Outsourced management and consulting services, operational assistance (0.4)
- . Organisation, planning and general administration consulting services (3.8)
- . Financial management consulting services: engineering, planning etc. (1.5)
- . Sales management consulting services (1)
- . Human resources management consulting services, not including recruitment (1.4)
- . Production management consulting services (0.7)
- . Public relations and communications consulting services (1.4)
- . Other business and management consultancy activities (1.2)

The first entry aims to identify purely outsourced services, including those within a group of companies, corresponding to the previously highlighted case of sole client companies not really operating in the competitive market. The following seven entries precisely correspond to categories found in CPC and the final entry unites “other” categories 74.14.17 and 74.14.22, and aggregates them with category 74.14.21. In practice, few businesses provided responses for this last entry. Other sections include questions about related secondary activities to help ensure separate identification of sales related solely to business and management consultancy activities. Of the sector’s total turnover of 13 billion euros, 11.4 billion genuinely relate to business and management consultancy activities, with the rest corresponding to activities related to IT, training or intra-group services.

The EAES questionnaire also includes a framework for client base analysis, asking for a breakdown of turnover by customer type - businesses from the same group of companies, other businesses, public services, private individuals. This is particularly helpful in identifying businesses who serve only one client.

For short-term changes, turnover figures from tax declarations are used, providing a monthly view of changes across the whole sector, i.e. for all businesses whose main activity comes under code 74.74. It should be noted that there is a highly structured relationship between the sector and the area of activity: 95% of sales in the area of activity arise from the sector, and 85% of sector sales correspond to this activity. This justifies the use of specific data by sector to estimate changes in the area of activity.

8) Evaluation of comparability of turnover/output data

For national figures, all that is required to draw up the supply and use equation is an evaluation of production and a price index for the whole of the activity covered by class 74.74.

In fact, data is collected in greater detail: there are eight entries for production and two for the price index. These last two items should lead to comparable measures, since the data for each are gathered with reference to the same product classification systems. The two items used for the price index anticipate changes in the classification of activities, since the future European and French classification systems - NACE revision 2 and NAF revision 2, differentiate class 70.21, "Public relations and communications consultancy", from class 70.22, "Business and management consultancy" – these two categories being grouped together in ISIC version 4.

9) Bibliography

[1] « Le conseil en France : état des lieux » (« Consultancy in France: a current state assessment ») – XERFI study, 2005