SPPI for IT Industries
in France

Denis Gac
22nd Voorburg Group Meeting in Seoul
September 10-14 2007
Topics

- Output definition
- Classification
- National accounts concepts
- Pricing methods
- Quality assessment
output definition

- Computer programming
- Consultancy
- And related activities
output definition

➢ A wide subject
➢ Heterogenous
➢ High level activities
➢ Customised services
➢ But « related activities » not all in 62code
<table>
<thead>
<tr>
<th>62.0</th>
<th>Computer programming, consultancy and related services</th>
</tr>
</thead>
<tbody>
<tr>
<td>62.01</td>
<td>Computer programming services</td>
</tr>
<tr>
<td>62.01.1</td>
<td>IT design and development services</td>
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<td>62.01.11</td>
<td>IT design and development services for applications</td>
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<td>62.01.12</td>
<td>IT design and development services for networks and systems</td>
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<tr>
<td>62.01.2</td>
<td>Software originals</td>
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<td>62.01.21</td>
<td>Computer games software originals</td>
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<td>62.01.29</td>
<td>Other software originals</td>
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<td>62.02</td>
<td>Computer consultancy services</td>
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<td>62.02.1</td>
<td>Hardware consultancy services</td>
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<td>62.02.10</td>
<td>Hardware consultancy services</td>
</tr>
<tr>
<td>62.02.2</td>
<td>Systems and software consultancy services</td>
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<td>62.02.20</td>
<td>Systems and software consultancy services</td>
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<tr>
<td>62.02.3</td>
<td>IT technical support services</td>
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<td>IT technical support services</td>
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<td>Computer facilities management services</td>
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<tr>
<td>62.03.1</td>
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<td>62.03.11</td>
<td>Network management services</td>
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<td>62.03.12</td>
<td>Computer systems management services</td>
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<td>62.09</td>
<td>Other information technology and computer services</td>
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<td>Installation services of computers and peripheral equipment</td>
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<td>62.09.10</td>
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<td>Other information technology and computer services n.e.c.</td>
</tr>
<tr>
<td>62.09.20</td>
<td>Other information technology and computer services n.e.c.</td>
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</table>
classification

- From ISIC rev3 to ISIC rev4
- From NACE rev1 to NACE rev2
- From NAF rev1 to NAF rev2
- and idem for products
- The process is not yet completed
- The definitions are not yet fixed
classification

- « 62 Nace rev2 » is more concentrated than « 72 nace rev1 »
- The main modifications:
  - Software edition in « 58 »
  - Pc repair in « 95 »
  - Data processing in « 63 »
  - A special class for « facilities management »
## Classification

<table>
<thead>
<tr>
<th>NACE rev1.1</th>
<th>sub indices</th>
<th>indices</th>
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<tbody>
<tr>
<td>72.1</td>
<td>hardware consultancy</td>
<td>A</td>
</tr>
<tr>
<td>72.2</td>
<td>ingénierie, intégration</td>
<td></td>
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<tr>
<td></td>
<td>technical assistance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>games</td>
<td></td>
</tr>
<tr>
<td></td>
<td>software publishing</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>(licences)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>software publishing</td>
<td></td>
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<td></td>
<td>(support)</td>
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</tr>
<tr>
<td></td>
<td>TMA</td>
<td></td>
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<td>72.3</td>
<td>outsourcing</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>backup</td>
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<td></td>
<td>data processing</td>
<td>D</td>
</tr>
<tr>
<td>72.4</td>
<td>database activities</td>
<td>E</td>
</tr>
<tr>
<td></td>
<td>web portals</td>
<td></td>
</tr>
<tr>
<td>72.5</td>
<td>maintenance and repair of</td>
<td>F</td>
</tr>
<tr>
<td></td>
<td>hardware</td>
<td></td>
</tr>
</tbody>
</table>

Difficulties to match indices and the classification, but agreement with the professionnel association.
classification: published indices in NACE rev1:

- A consultancy, system integration, engineering
- B software publishing
- C facilities management
- D data processing
- E database activities
- F maintenance and repair

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classification

Main difficulties:

- defining the line between computer consultancy and software development? The companies have difficulties too.
  - Who is the project manager?
- What is the right definition for « facilities management »? « outsourcing »?
classification

IT activities French Production Price Indices

- A consultancy and system integration
- D data processing, data entry
- E database activities
- F maintenance/repair
- B software publishing
- C facilities management
- IT
- SYNTEC cost index

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Classification: what changes?

- Probably:
- Software publishing: « support and maintenance » detached from licences
- TMA (maintenance of applications done by a third party) separated from « facilities management »
Classification: what remains?

(always a distinction between programming and consultancy) (distinction not made by professionnals.)
Classification : and the professionnals?

- Software publishing: 21%
- Consultancy: 6%
- Facilities management: 31%
- Engineering: 42%
Classification: and the professionnels?

- Consultancy often means «management consultancy »
- Facilities management includes ‘BPO’ (business process outsourcing) which is always excluded from our indices
- Engineering includes development, system integration, technical assistance, so, very close to our own definition
Classification: and the professionnals?

National accounts

- 72.1Z consultancy 30%
- 72.2 softwares 33%
- 72.3C data processing 20%
- 72.4Z database activities 2%
- 72.5Z maintenance and repair 15%
- facilities management 31%
- consultancy 6%
- software publishing 21%
- engineering 42%
### Classification: next indices?

<table>
<thead>
<tr>
<th>NACE rev1.1</th>
<th>sub indices</th>
<th>indices</th>
<th>62.01</th>
<th>62.02</th>
<th>62.03</th>
<th>62.09</th>
<th>others</th>
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<tbody>
<tr>
<td>72.1</td>
<td>hardware consultancy, engineering, integration</td>
<td>A</td>
<td>consultancy, engineering and development</td>
<td><strong>technical assistance</strong></td>
<td><strong>games</strong></td>
<td><strong>software publishing (licences)</strong></td>
<td><strong>software publishing (support)</strong></td>
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<td></td>
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<td><strong>software publishing (support)</strong></td>
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<td><strong>TMA</strong></td>
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<td>C</td>
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<td></td>
</tr>
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<td>72.5</td>
<td>maintenance and repair of hardware</td>
<td>F</td>
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National accounts

SPPIs are now used by NA, instead of the ‘Syntec cost index’ previously used, with a huge impact on the measure of IT-GDP
National accounts

Issues:

What about turnover of subsidiary companies which work only for the units of the company? And which prices?

What about software originals: which prices?

What about companies with headquarters in a foreign company (Microsoft in Dublin)
Pricing Methodology

➤ Either obligation of result
   - most of time

➤ Either obligation of means
   - then easier to manage
Pricing Methodology

Pricing mechanisms:

- In case of **obligation of result**: (most of time)
- Price is an estimation of
  - Size of staff to be employed
  - Skills of staff to be employed
  - Wages of staff to be employed
  - Length of job
  - Extra charges (logistics, softwares, hardware...)
  - Expected mark up rate
  - Risk coefficient

- And price is discussed with the customer
- This is the usual way of any project-mode
Pricing Methodology

Pricing mechanisms:

- In case of obligation of result: (most of time)
- Nevertheless, at the end of the project, it must work..., and if it doesn’t, there may be re-negotiations (or not, and then, the company looses money)

- Solutions: smaller staff, lower skills...
Pricing Methodology

- Pricing mechanisms:
  - In case of **obligation of means**:
  - Price is the price for each mean unit contractually fixed
    - e.g. a working day for particular kinds of skills
    - So, low risk factor for the company
Pricing Methodology

Possible pricing methods in IT:
- No homogeneity, even in the same company
- No global rule

- Main different businesses
  - 1 consultancy, engineering
  - 2 technical assistance
  - 3 software support and maintenance
  - 4 application maintenance by third party
  - 5 facilities management

- So different pricing methodologies
- And different pricing methods
Pricing Methodology

Possible pricing methods:
- Based on working time: charge out rates
- Model pricing
- Contract pricing
- Direct use of prices of repeated services
## Pricing Methodology

<table>
<thead>
<tr>
<th>consultancy engineering</th>
<th>technical assistance</th>
<th>software support and maintenance</th>
<th>third applicative maintenance</th>
<th>facilities management</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>index A1</strong></td>
<td><strong>index A2</strong></td>
<td><strong>index B2</strong></td>
<td><strong>index C1</strong></td>
<td><strong>index C2</strong></td>
<td>&quot;62&quot;</td>
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<tr>
<td>contract pricing</td>
<td>0%</td>
<td>0%</td>
<td>73%</td>
<td>3%</td>
<td>13%</td>
</tr>
<tr>
<td>direct use of prices of repeated services</td>
<td>19%</td>
<td>5%</td>
<td>27%</td>
<td>0%</td>
<td>30%</td>
</tr>
<tr>
<td>model pricing</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
<td>20%</td>
</tr>
<tr>
<td>pricing based on working time</td>
<td>81%</td>
<td>95%</td>
<td>0%</td>
<td>95%</td>
<td>37%</td>
</tr>
<tr>
<td>all</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Weights of price quotations for the different sub-indices
Pricing Methodology

- Charge out rates :
- Ok when obligation of means

- But, in projects, prices depend less and less on local charge-out-rates
- Many customers insist on having contracts including some offshore production (lower price)
Pricing Methodology

➢ Charge out rates :

➢ Prices depend also on:
  – % of offshore production (5%, 10%, 25%…)
  – Wages in offshore country
  – Profit margin on offshore production

➢ Offshore issue ↔ subcontracting issue
## Quality Assessment

- Consultancy... 81.25
- Technical assistance 93.75
- Software maintenance 93.75
- 3rd applicative maintenance 81.25
- Facilities management 68.75
Thank you