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Mini-presentation for SPPI on:

**NACE 74.1 Specialized Design Activities
in Sweden**

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1. Definition of the survey being priced

In the Statistical Classification of Economic Activities in the European Community (NACE Rev. 2) Group 74.1, Specialized design activities is only comprised of Class 74.10.

The Classification of Products by Activity (CPA 2008) however, is more detailed, with four different 6-digit subcategories.

Price indices for 74.1 are under development in Sweden during 2013 and 2014. The results presented in this paper have come from meetings with trade associations and enterprises. A pilot survey for two quarters has been conducted. More information will probably become available over time when this industry will be included with the rest of the SPPI's and regular price collection will begin.

2. Unit of measure to be priced

Generally enterprises within this industry conducts project based assignments. A fixed price per completed project is usually used. The price is based on the estimated number of hours worked and a fixed hourly charge out rate. Within product design, licenses are also used to a certain extent. Projects are often customer unique and vary in size, i.e. the time spent on the project, but the actual work process is largely the same.

The hourly rates used, vary between different projects depending on the design area (industrial design, packaging design, etc.), designers' experience and the geographical area in which the design firm operates.

Generally, hourly rates are higher in the graphic design business and lower in industrial design. Instead there could be negotiations on a royalty on net sales. This is common in areas such as furniture design. This should be seen as a kind of license, and although it affects the price of the design service, it is not taken into account in the SPPI for Specialized design activities.

3. Market conditions and constraints

There are not many large enterprises in this industry. A little more than 50% of the enterprises have less than 10 employees, and their share of the total turnover is also above 50%. In fact, most of them are sole proprietors with no employees at all. This was also confirmed when speaking with representatives for the trade association within 74.1. The number of enterprises, in combination with a wide variety of services performed, requires a larger sample of enterprises than usual in our SPPI.

The larger enterprises are usually design agencies working closely together with the manufacturing industry. In some cases they are also doing the manufacturing themselves, often as subcontractors for other manufacturing enterprises.

4. Standard classification structure and product details

On the Class level Specialized design activities in NACE Rev. 2 conforms to ISIC Rev. 4.

The Swedish version of NACE Rev. 2, called SNI 2007 (Standard för svensk näringsgrensindelning 2007) has three 5-digit subclasses within 74.10.

Table 1: Industrial classification of Specialized design activities

NACE Division	NACE Group	NACE Class	SNI 2007	Name	ISIC Rev. 4
74	74.1	74.10	74.101	Industrial and fashion design	7410
		74.10	74.102	Graphic design	7410
		74.10	74.103	Activities of interior decorators	7410

5. Evaluation of standard vs. definition and market conditions

What a lot of enterprises classified within Specialized design activities have in common is that they are producing a wide range of services, not just designing. Some enterprises are both designing and producing goods, especially the larger enterprises working with industrial design. Some of the activities they perform are related to both the manufacturing industry as well as NACE 71.1, Architectural and engineering activities and related technical consultancy.

As for graphic design it is common that the enterprises also print what they have designed. It could e.g. be business cards or brochures. The activity of printing belongs to the manufacturing industry, more particularly to NACE 18.1, Printing and service activities related to printing. Another issue is where such enterprises should be classified. If they are producing services belonging to different industries according to the classification, but just charging for the combined service, should they belong to one or more industries?

Other services commonly produced by enterprises classified within Specialized design activities include photographic activities, advertising services and computer services.

6. National accounts concepts and measurement issues related to GDP

Since National Accounts is the main user of SPPI's, the demand for producer price indices within NACE 74 initially came from them. The development work started in the autumn of 2013. A pilot survey, with price collection, was started during 2014. The plan is to include the index in the overall SPPI as of 2015. For this reason, National Accounts will not be able to use the SPPI for some years to come. Instead they are using labour cost index for NACE 74 as a whole.

7. Pricing methods and criteria for choosing various pricing methods

The development of an SPPI for NACE 74.10 is part of a bigger project funded partly by Eurostat Grants that is conducted in 2013 and 2014 at Statistics Sweden. Prices have been collected for two quarters in a pilot survey. Enterprises mainly conduct projects, where the total price is based on the estimated number of hours worked and the hourly rate. After meeting with companies and trade associations the most suitable pricing method was considered to be hourly charge out rates. Although not ideal, this reflects a large part of what is the dominant factor for the price of a project.

In the case of graphic design it is common that the enterprise is also printing what they have designed. Therefore the preferred pricing method is price per copy in such cases.

Taken into consideration the relatively few price observations gathered in the pilot study, the most homogenous part of the industry seems to be interior decoration. Although sales are almost always project based any mix with other industries is not common.

Besides interior decoration, specialized design activities are using a lot of computer technology. Continuous development in software used by enterprises can affect both the quality of the service for the customer as well as the amount of time spent for producing a specific service or project. The drawback with hourly charge out rates as pricing method is that these things are not taken into account in the price index.

8. Evaluation of comparability of price indexes with turnover/output data

Data from the Structural Business Survey was used as sample frame for this industry during the project. Usually the Business Register is used as sample frame for SPPI's in Sweden, but in this case the SBS data seemed to have better quality. Therefore turnover data is aligned with the price data.

As soon as price indices will be available they will be used as deflators in ISP (Index of Services Production) as well as in National Accounts.

9. Summary

A Service producer price index for 74.1 is under development in Sweden in 2013 and 2014, as a part of a larger project concerning both NACE 74 and 82 on a whole. Therefore no price indices have been produced for this industry. Although, a pilot survey with prices for two quarters have been conducted. The most valuable information gathered from meetings with enterprises and trade associations are mainly three things; the large number of small enterprises in the industry, the wide variety of services they produce, and that the

performed services are usually project based, and uniquely tailored for the customer. Because of this, the most suitable pricing method was considered to be hourly charge out rates. Although this pricing method is not the most ideal in a methodological aspect it is considered to be the most feasible and reliable pricing method for this industry.