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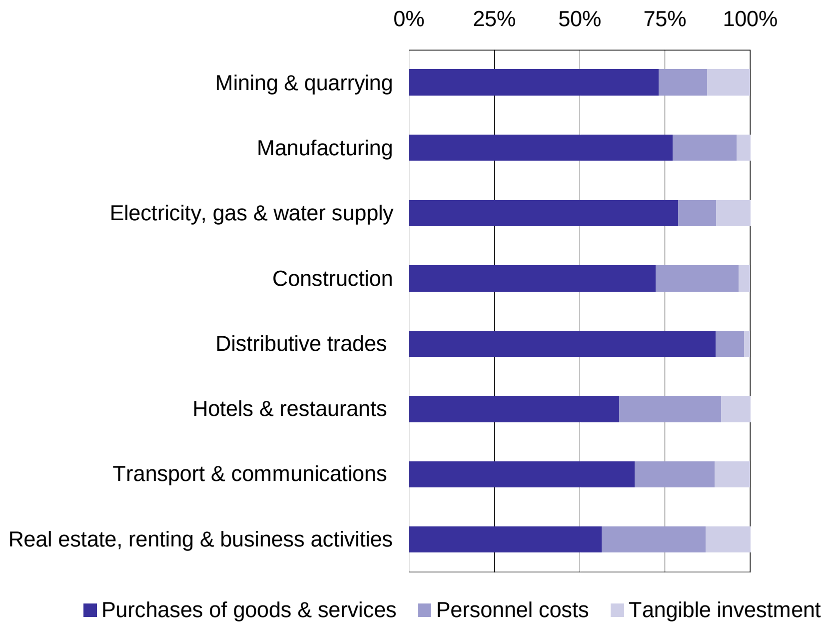
The demand for services: external but local provision

The service sector (as defined by NACE Sections G to P) of the EU-25 economy accounted for EUR 6 905 billion of value added in 2005, according to national accounts. The share of these services in EU-25 GDP rose between 1995 and 2005 from 60.5 % to 63.8 %. In contrast, the EU's industrial sector has been characterised by outsourcing and subcontracting, as well as the globalisation of production. Since services are an important and growing area of the EU economy, they have in recent years attracted increasing political and economic interest, as a current and future motor for growth.

One reason why the services sector has grown in importance is due to the outsourcing phenomenon that has seen the demand for services increase as many enterprises use service providers either for non-core activities (such as transport or marketing services), or for part of their core activities to increase flexibility (for example, through the use of labour recruitment services). Other reasons include technological developments - particularly in relation to information and communication technologies (ICT), which may allow services to be delivered over considerable distances (for example, Internet sales or call centres).

The Commission's proposal for a Services Directive seeks to achieve a genuine internal market in services through the removal of legal and administrative barriers that have prevented enterprises from one Member State providing similar services in another Member State. The proposed directive aims to make it easier for businesses to provide and use cross-border services within the EU, increasing cross-border competition.

Figure 1: relative importance of operating expenditure and gross investment in tangible goods, EU, 2003 (%) (1)



(1) Averages based on available country data. Source: Eurostat, SBS

The increased use of external service providers also has a direct impact on internal cost structures, as purchases of services will account for a larger proportion of operating expenditure. Total purchases of goods and services accounted for more than 75 % of operating expenditure in the non-financial business economy (NACE Sections C to I and K) of each Member State in 2003. Figure 1 shows cost structures faced by EU enterprises, detailing the relative importance of operating expenditure and investment in tangible goods. With the exception of distributive trades, service activities tended to report a lower proportion of expenditure on purchases of goods and services, but a higher proportion on personnel costs.

Demand for services: main indicators

The remainder of this publication presents the main results of a development project on the demand for services with information on service providers, types of service purchased, the location of the main service provider, barriers to purchasing services, the level of expectations for future purchases, as well as information on service related investments in intangibles (such as tradable rights, ICT, R&D, marketing and sales). The aim of the project was to collect information on the functioning of the internal market for services, allowing a more profound understanding of the true extent of the use of services in the economy.

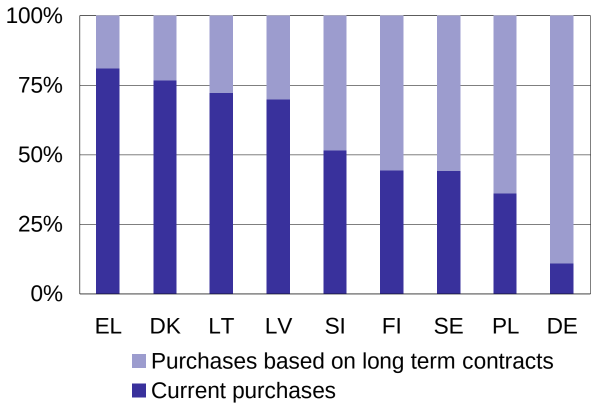
Figure 2: breakdown of the total purchases of services by main service category, 2003 (%) (1)

(1) Simple average based on the nine countries for which data are available; excluding auxiliary and other services.
Source: Eurostat, SBS

As shown in Figure 2, the most common service that was purchased (on the basis of the value of purchases) was transport, logistics and postal services, accounting for 25.3 % of all purchases, while renting and operational leasing, marketing and sales, and ICT also accounted for double-digit shares. A breakdown of the aggregate figures by size of enterprise showed that smaller enterprises with between 50 and 249 employees tended to demand a considerably higher proportion of marketing and sales related services, and proportionally more renting and operational leasing services and financial and insurance services.

One-off purchases accounted for a higher proportion of total purchases of services than purchases based on long-term contracts of over a year or more in Greece, Denmark, Lithuania and Latvia, whereas the opposite was true in Finland, Sweden, Poland and particularly Germany (see Figure 3).

Figure 3: breakdown of the total purchases of services by type of purchase, 2003 (%)



Source: Eurostat, SBS

Larger enterprises with 250 or more employees reported a higher proportion of their demand for services made through purchases based on long-term contracts in each Member State, except Germany. This may be a result of larger enterprises generally having easier access to capital and thus facilitating higher valued purchases, or alternatively may result from centralised purchasing functions that negotiate better terms for lengthier contracts, while purchases made by smaller enterprises are more likely to involve smaller quantities or purchases at less regular intervals.

Table 1: breakdown of the total purchases of services by type of purchase and enterprise size class, 2003 (%)

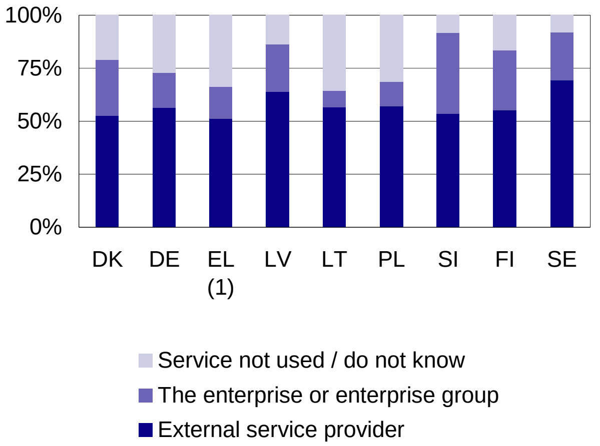
	Enterprise size (number of employees)	Current purchases	Purchases based on long term contracts
DK	50-249	78.1	21.9
	250+	69.0	31.0
DE	50-249	10.8	89.2
	250+	11.8	88.2
EL	50-249	82.3	17.7
	250+	74.7	25.3
LV	50-249	70.3	29.7
	250+	68.1	31.9
LT	50-249	73.4	26.6
	250+	65.0	35.0
PL	50-249	37.0	63.0
	250+	32.7	67.3
SI	50-249	52.8	47.2
	250+	46.6	53.4
FI	50-249	46.5	53.5
	250+	35.1	64.9
SE	50-249	44.5	55.5
	250+	42.4	57.6

Source: Eurostat, SBS

External service providers predominate

While the previous page was based on monetary values the remainder of this publication provides data in relation to the proportion of enterprises within each category/breakdown. The information presented in Figure 4 clearly shows that the majority of respondents said that their main service provider was external, as opposed to internal from within the same enterprise/enterprise group.

Figure 4: breakdown of demand for services by main service provider, 2003 (% of total respondents)



(1) Greece, excluding the categories 'within the same group' and 'the service is not used' for IT services, legal services and architectural, engineering and related technical consultancy, where data are confidential.
Source: Eurostat, SBS

A closer analysis of the results by NACE activity suggests that manufacturing industries tend to favour external service providers more than other areas of the economy, especially within Denmark, Germany, Finland and Sweden. Besides favouring external service providers, enterprises in the manufacturing sector may also rely on external solutions for (part of) their own production, for example relying on subcontractors to pre-assemble, or enterprise groups may off-shore labour intensive production to focus on high-value production. As such, the phenomenon alluded to here is only part of the wider trend for outsourcing and globalisation. The trend observed in Denmark, Germany, Finland and Sweden may in part explain why there has been a structural shift in the EU-15's business economy away from manufacturing activities towards the services sector, as the propensity to demand services from external service providers would appear to be higher in the manufacturing sector.

While external service providers also predominate for enterprises within the construction and services sectors, in these activities enterprises had a somewhat higher proportion of their demand for services accounted for by enterprises within the same enterprise group. More details are presented in Table 2.

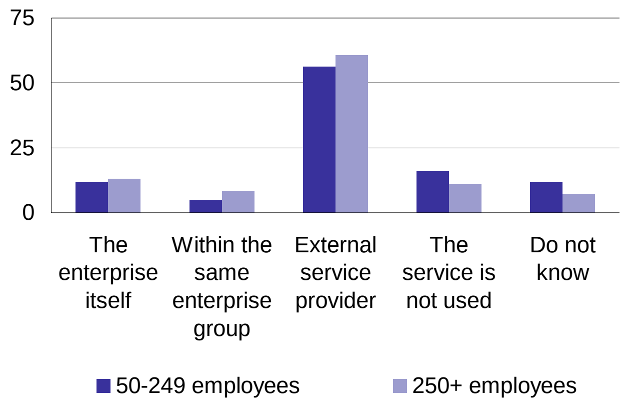
Table 2: breakdown of demand for services by main service provider, 2003 (% of total respondents) (1)

	Enterprise or enterprise group	External service provider	Service not used / do not know
Business economy	17.2	57.1	25.7
Manufacturing	16.8	60.5	22.7
Construction	14.6	54.5	30.9
Services	18.0	54.2	27.7
High-tech manuf.	17.0	61.9	21.1
High-tech services	19.0	56.0	25.0
Low-tech manuf.	16.4	58.0	25.6
Medium-high-tech manuf.	16.9	63.0	20.1
Medium-low-tech manuf.	15.2	62.6	22.3

(1) The first four rows of the table are a simple average based on the eight countries for which data are available (Greece, not available); the remaining activities are based on simple averages for seven countries (Denmark and Greece, not available).
Source: Eurostat, SBS

By size class the results showed that both small and large enterprises favoured external service providers. Note the results presented are influenced by the relatively high proportion of don't knows within the answers provided (in particular for smaller enterprises with 50-249 employees). One may expect that smaller enterprises do not have the capability to carry out a number of services internally.

Figure 5: breakdown of main service provider by size class, 2003 (% of total respondents) (1)



(1) Simple average based on the nine countries for which data are available; Greece, excluding the categories 'within the same group' and 'the service is not used' for IT services, legal services and architectural, engineering and related technical consultancy, where data are confidential.
Source: Eurostat, SBS

Main external service providers are usually from the same region

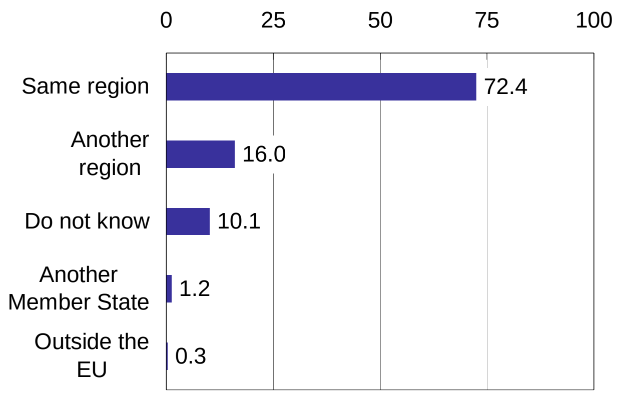
Trade has traditionally been centred upon goods, while recent years have been marked by an expansion in the trading of services. This has been partly driven by trade agreements (such as GATS), while European policy makers have endeavoured to create an internal market for services (such as the liberalisation of markets for finance or telecoms). Technology allows some services to be provided over considerable distance, while for others there may be barriers that restrict supply (see page 6 for more details).

The data in this section refer to the location of the *main* external service provider. As such, Figure 6 does not reflect the extent to which services may be 'imported' or 'exported', rather it confirms that the *main* external service provider was rarely located in another country; as only 1.2 % of all enterprises cited another EU Member State as the origin of their *main* external service provider, and 0.3 % cited a country outside of the EU. This pattern of local provision was repeated across the Member States (see Figure 7).

Note that the figures do not reflect the ownership of service providers, and hence multi-national enterprises which are established locally can be included alongside one man businesses. Indeed, other studies in this area (see 'Provision and export of computer services in Europe; Eurostat; SiF 15/2006), suggest that exports of services as a proportion of turnover rose to as high as 33 % for market research and public opinion polling, while the corresponding share for computer services was 28 %.

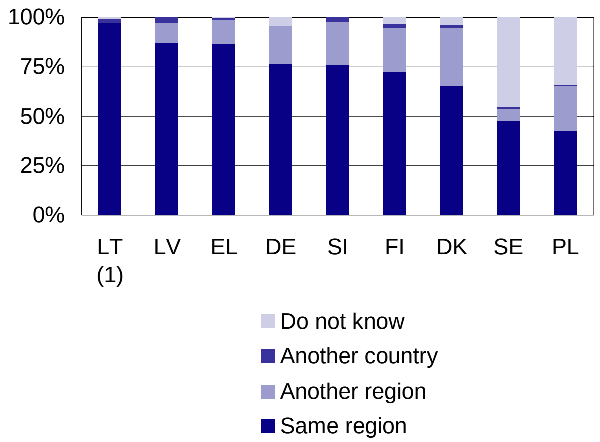
The largest proportion of enterprises citing another Member State as the origin of their *main* external service provider was recorded in Latvia (2.2 %), followed by Lithuania, Slovenia and Finland (all 1.6 %); while the proportion of enterprises citing a country outside the EU as the origin of their *main* external service provider never rose above 1 %. Smaller enterprises tended to report a higher proportion of *main* external service providers originating from their local region.

Figure 6: main external service provider broken down by location, 2003 (% of total respondents) (1)



(1) Simple average based on the nine countries for which data are available; Greece, excluding the categories 'in another non EU-15 Member State and do not know for IT services, where data are confidential; Lithuania, no data available for the category 'another region'. Source: Eurostat, SBS

Figure 7: main external service provider broken down by location, 2003 (% of total respondents)



(1) Lithuania, no data available for the category 'another region'. Source: Eurostat, SBS

Table 3: main external service provider broken down by location and service activity, 2003 (% of total respondents) (1)

	Same region	Another region	Another country	Do not know
Transport, logistics and postal services	72.4	17.9	1.7	7.9
IT services	67.5	24.9	1.3	6.2
Market research	38.9	33.3	2.1	25.7
Advertising	63.7	22.1	0.9	13.3
Legal services	77.1	13.7	0.3	8.9
Accounting and book-keeping	71.7	20.1	0.1	8.1
Business management and consultancy	52.3	27.2	1.7	18.7
Personnel related services	71.0	12.4	0.5	16.2
Financial services	71.7	13.5	0.6	14.2
Insurance services	58.5	31.2	0.8	9.5
Renting and operational leasing	64.6	24.0	0.4	11.0
Architectural, engineering and related technical consultancy	65.9	13.5	0.5	20.1
Industrial cleaning services	82.9	4.4	0.0	12.7
Investigation and security services	78.4	6.2	0.1	15.3

(1) Simple average based on the eight countries for which data are available (Greece, not available); Denmark, not available for investigation and security services; Lithuania, no data available for the category 'another region'. Source: Eurostat, SBS

Despite efforts to enlarge the scope of the Single Market to include services there remain areas where country specific laws and professional practices require specialist knowledge regarding the country concerned – this is likely to result in a higher proportion of local service providers.

For some other services (for example, industrial cleaning) it is unlikely that an enterprise will search outside of their local area to find a provider, unless they are a large enterprise or enterprise group with a centralised purchasing function - once again this phenomenon is likely to favour local service suppliers.

In other cases, there may not be enough local demand to warrant enterprises setting-up in a particular location for specialist service activities, for example, research and development, or advertising services. Indeed, these types of activities are often found in clusters around large cities with universities, or cities that specialise in media activities.

Many of the EU regions with the highest proportions of their respective workforces working in high-technology activities are reported in capitals or regions with large universities: Île de France, Stockholm in Sweden and Berkshire, Buckinghamshire and Oxfordshire in the United Kingdom; while the region with the highest share of its employment in high-technology activities was Köln in Germany (35%), most of which were working in post and telecommunications.

Enterprises that wish to contract a service provider for these types of services may need to look further afield for a supplier. Note however, that these specialist services are generally used on an irregular basis, and they are therefore unlikely to constitute the *main* external service provider (as detailed in this section). For more information on regional breakdowns see Eurostat's 'Regions - Statistical yearbook 2006'.

A broad analysis by economic activity shows that manufacturing enterprises tended to rely more on local providers for transport services (maybe due to the bulk of their final products); although for most other services manufacturing enterprises were more inclined than their counterparts within services to have their *main* external service providers from outside their own region. This was especially the case for market research or business management and consultancy services (perhaps reflecting the global nature of manufacturing operations, or simply the larger average size of manufacturing enterprises).

Table 4 confirms that in high-technology activities, manufacturing enterprises tended to be more likely to report that their *main* external service provider was from another country than their counterparts from high-technology services, although this was not the case for IT services, accounting and book-keeping, or financial services (where high-technology service enterprises may seek information and expertise from abroad when no local knowledge is available).

Table 4: main external service provider broken down by location and economic activity, 2003 (% of total respondents) (1)

	Low-technology manufacturing			High-technology manufacturing			High-technology services		
	Same region	Another region	Another country	Same region	Another region	Another country	Same region	Another region	Another country
Transport, logistics and postal services	77.9	17.8	4.3	84.5	10.7	4.8	86.7	10.7	2.6
IT services	75.4	23.1	1.5	80.6	15.6	3.8	72.8	17.3	9.9
Market research	50.5	37.9	11.7	51.5	15.2	33.3	77.2	17.8	5.0
Advertising	67.9	29.9	2.3	70.4	13.6	16.0	81.7	15.8	2.6
Legal services	79.5	19.4	1.0	82.4	16.0	1.6	88.3	10.5	1.2
Accounting and book-keeping	84.5	15.2	0.3	94.2	5.8	0.0	79.9	8.7	11.4
Business management and consultancy	60.5	34.2	5.4	62.7	27.8	9.5	70.1	22.2	7.7
Personnel related services	82.1	17.3	0.6	84.7	12.8	2.5	89.4	9.9	0.7
Financial services	79.3	19.3	1.3	85.3	13.8	0.9	87.0	11.8	1.2
Insurance services	74.8	24.8	0.4	77.4	17.6	5.0	82.7	16.3	0.9
Renting and operational leasing	68.3	30.9	0.9	86.2	11.9	1.9	84.3	14.9	0.8
Architect., engineer. & related technical consultancy	79.9	17.4	2.7	82.8	11.0	6.3	83.8	15.0	1.2
Industrial cleaning services	92.8	7.2	0.0	93.0	4.4	2.7	94.7	5.2	0.1
Investigation and security services	91.4	8.5	0.1	98.2	1.8	0.0	93.5	6.5	0.0

(1) Simple average based on the seven countries for which data are available (Denmark and Greece, not available); Lithuania, no data available for the category 'another region'; data shown exclude the category do not know.
Source: Eurostat, SBS

Location is the main barrier to the demand for services

Table 5: barriers to the demand for services outside the country broken down by service, 2003 (% of total respondents) (1)

	Location	Language	Cultural and trust	Economic	Legal and regulatory	Difficult to identify foreign providers	No barriers/ not rel./ don't know
Transport, logistics and postal services	27.9	5.0	4.3	6.9	4.9	3.9	47.1
IT services	24.1	9.7	5.2	6.3	3.6	4.5	46.6
Market research	8.7	5.2	2.8	3.0	1.3	3.5	75.5
Advertising	19.1	9.9	3.3	5.7	1.8	4.2	56.0
Legal services	23.8	9.1	4.8	4.7	13.1	2.6	41.9
Accounting and book-keeping	23.9	7.5	4.4	3.3	15.0	2.4	43.6
Business management and consultancy	15.7	6.2	3.8	3.2	4.8	2.5	63.7
Personnel related services	21.5	8.8	3.8	3.9	5.9	2.3	53.7
Financial services	17.1	4.8	6.3	4.2	6.8	3.2	57.5
Insurance services	17.8	6.1	7.4	4.5	8.7	4.6	50.9
Renting and operational leasing	21.6	3.9	4.0	5.1	5.6	4.1	55.7
Architect., engineer. & related technical consultancy	16.2	4.7	2.9	3.9	4.0	2.2	66.1
Industrial cleaning services	30.8	3.9	3.3	4.5	2.0	2.6	52.9
Investigation and security services	25.1	3.7	4.0	4.5	2.1	2.1	58.5

(1) Simple average based on the eight countries for which data are available (Greece, not available).
Source: Eurostat, SBS

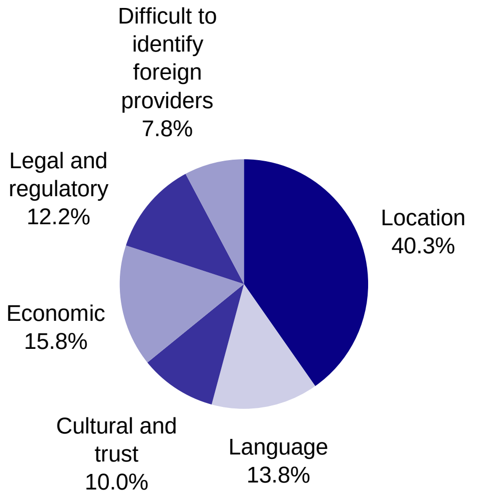
The results presented in this section are based upon a voluntary question directed at all respondents, regardless of whether they used external services from another country, or whether they perceived any substantial barriers. Many enterprises may be deterred from demanding services due to a range of different barriers. For example, an industrial cleaning enterprise or restaurant needs to be based in a particular location and is unlikely to attract customers from another country. Other barriers include language, laws or regulations, or a lack of information on potential markets or suppliers.

Of these, location stands out as the main barrier to enterprises in search of services outside of their country. Location was of particular importance within transport, logistics and postal services, IT services, industrial cleaning services, and investigation and security services. With the exception of IT services, it is relatively easy to understand why enterprises would prefer to consider suppliers of these services from close proximity. For other activities like legal services or accounting and book-keeping, it is likely that enterprises would favour the purchase of such services from local or national professionals who have an in-depth knowledge of national rules and regulations to help them resolve their business questions/problems.

In Figure 8 only positive answers have been retained. This shows that location (40.3 %) was confirmed as the main barrier to purchasing services abroad across Member States. Otherwise, the results tended to show country specific trends, with for example, language being a relatively important barrier in Finland and Sweden, cultural and trust barriers, as well as legal and regulatory barriers, being relatively important in Denmark, and economic barriers in Lithuania.

A lower proportion of large enterprises reported that location was a barrier to their demand for services; except in Finland

Figure 8: barriers to the demand for services outside the country, 2003 (% of total respondents) (1)



(1) Based on respondents who provided a positive response to the question (excluding no barriers perceived, service is not relevant, and do not know); simple average based on the nine countries for which data are available.
Source: Eurostat, SBS

and Sweden (Greece, not available). The same was true for language barriers, as a lower proportion of large enterprises reported this barrier (except in Slovenia and Sweden), and for cultural and trust barriers (except in Denmark, Lithuania and Slovenia). On the other hand, a higher proportion of large enterprises (compared with smaller enterprises) reported that legal and regulatory barriers (except in Sweden), and economic barriers (except in Slovenia, Finland and Sweden) were an obstacle to purchasing services outside of their country.

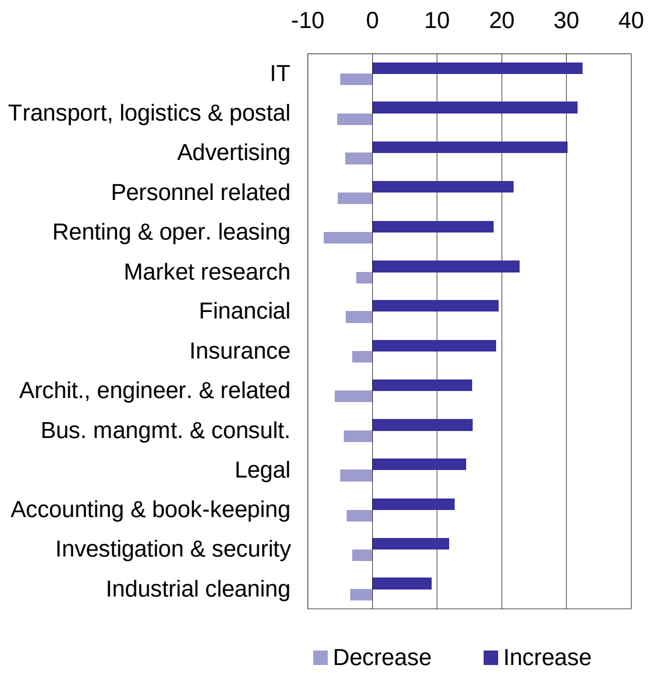
Future demand for services is expected to increase

The changes within the services sector that have resulted from the setting-up of the Internal Market and increasing liberalisation, as well as possible transformations that may result from the draft Services Directive could influence the behaviour of economic actors in the future; these trends may result in a further increase in the demand for services. In each of the Member States for which data are available (Greece, not available), the proportion of respondents that envisaged their demand for services rising outweighed those that thought their level of demand would decrease. The biggest differences were reported in Latvia, Lithuania and Slovenia (where expected increases outweighed decreases by at least 20 percentage points).

An analysis by size class shows that in every one of the Member States for which data are available (except Sweden), a higher proportion of larger enterprises with 250 or more employees thought that their future demand for services would rise (when compared with the corresponding proportions for smaller enterprises).

The services for which the highest proportion of respondents expected demand to rise included IT services, transport, logistics and postal services, advertising, market research and personnel related services (see Figure 9) – most of which are included within the business services sector of the economy, reinforcing the belief that this area will remain one of the key drivers of competitiveness within the EU economy in the coming years.

Figure 9: expected future demand for services, 2003 (% of total respondents) (1)



(1) Simple average based on the eight countries for which data are available (Greece, not available).
Source: Eurostat, SBS

➢ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

The source of all figures presented is Eurostat. The majority of the data presented is taken from a structural business statistics (SBS) development project on the demand for services, the remainder are other structural business statistics (annual enterprise data, business services, or regional data). The development project concerning the demand for services tested the feasibility of collecting information about the purchase of services from 14 pre-defined service sectors. It collected data in relation to purchases of services, the location of main service providers, barriers to international trade in services and future expectations of services' outsourcing. It is hoped that the collection of data may (at least to some degree) be integrated within the annual structural business statistics survey in the coming years. The publication reflects the state of data availability as of June 2006.

Averages: when no country is detailed in the title of a table or figure then the data represent simple averages calculated on the basis of the available data (note these averages are not weighted).

Activity coverage: the following NACE Rev. 1.1 headings describe analytical groupings - high-tech manufacturing: NACE 24.4+30+32+ 33+35.3; high-tech services: NACE 64+72+73; medium-high-tech manufacturing: NACE 24(ex.24.4)+29+31+34+35.2+35.4+35.5; medium-low-tech manufacturing: NACE 23+25+26+27+28+35.1; low-tech manufacturing: NACE 15 to 22+36+37. More details regarding NACE may be found on Eurostat's web-site at: http://ec.europa.eu/comm/eurostat/ramon/.

Size class data: is provided for two different groups, those enterprises with 50-249 employees and those with 250+ employees.

Type of purchase: is provided for current purchases and purchases based on long-term contracts.

Main service provider: is provided for the enterprise itself, within the same group, external, the service is not used. Also information is provided for the location of the main service provider for in the same region, in another region of the same country, in another EU country, and outside the EU.

Barriers perceived: is provided for barriers related to location, language, culture and trust, economic, legal and regulatory, difficulties to identify a suitable foreign service provider, no barriers.

Level of future purchases: information is provided for decrease considerably, decrease somewhat, remain at current level, increase somewhat, increase considerably.

Further information:

Data: Website EUROSTAT/Home page/Industry, trade and services/Data

Industry, trade and services

- Services
  - **Demand for Services**

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