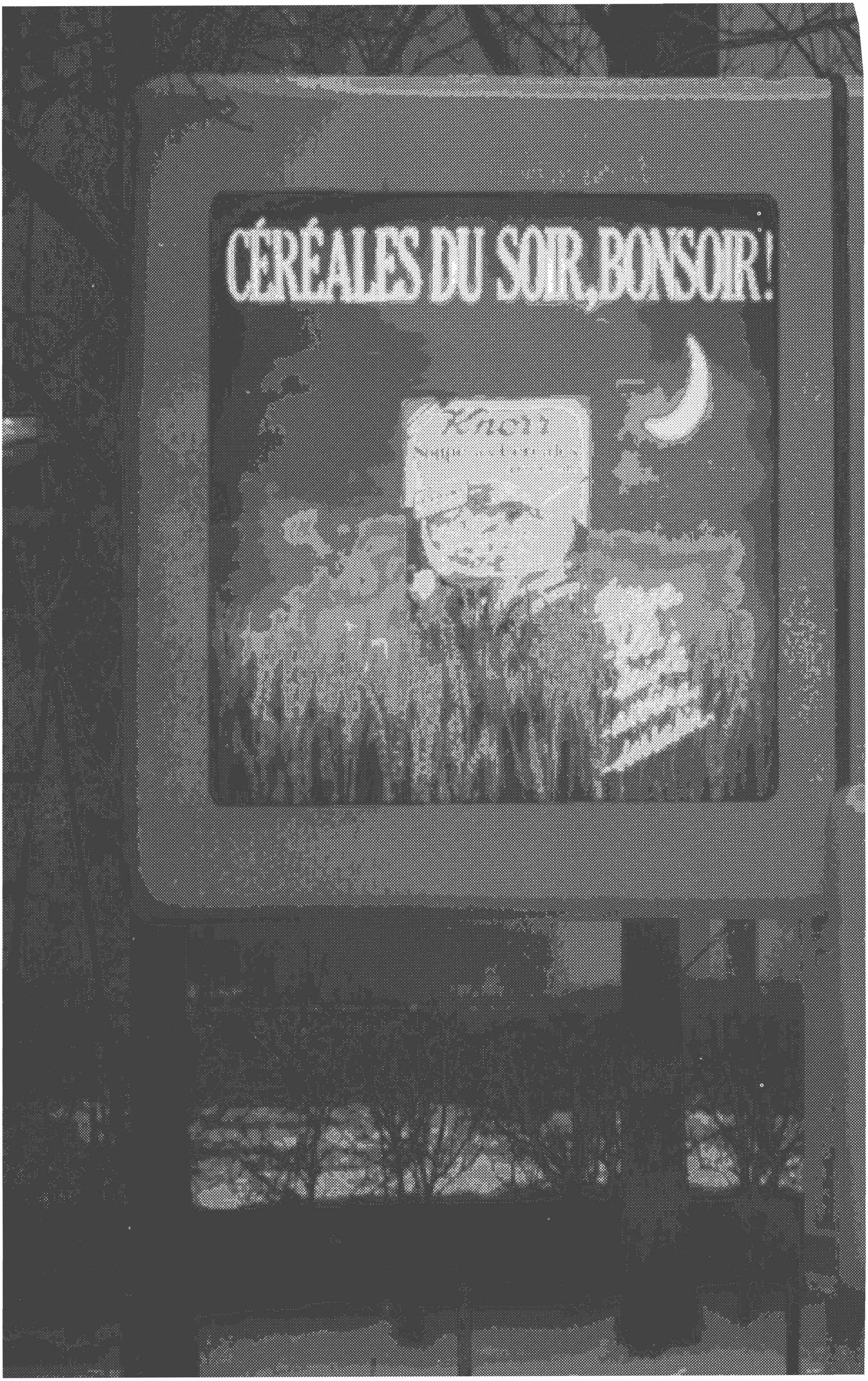
Business services



Business services

Business services or producer services cover all intermediary services supplied by specialised firms to other enterprises in order to increase their efficiency, productivity and competitiveness.

They can be grouped according to the function they perform:

- management and administration (management consultancy, legal, accounting, etc..);
- production (engineering, leasing, repair and maintenance, packaging, quality control etc..);
- research;
- personnel (vocational training, recruitment, temporary labour etc..);
- information and communication (data banks, software services, technical computer services, advanced telecommunications services etc..);
- marketing (advertising, sales promotion, market research, etc.).

Current situation

It is estimated that the business services sector today accounts for about 6% of the European Community's GNP and represents about 14% of the value added in all market sectors. It is also estimated that this sector has an overall turnover of 251 billion ECU and employs 5.5 million people which represents 5% of the total EC employment.

It is considered the fastest growing sector of the European Economy with an annual growth rate of 14.5%, a figure well above the 11.6% annual growth recorded by the commercial services sector.

"Operational services", which includes temporary work services, cleaning and security services, is the most important subsector of business services in terms of employment (40% of total employment). Its workforce mainly includes semi-skilled workers. A more detailed picture of the statistical data available for a number of business services, concerning employment, turnover and growth rates, is given in table 1.

Externalisation of business services

Technological developments, competitive pressures and the increasing sophistication of the way many companies operate, are the main reasons for the expanding demand of business services.

The use of business services is increasingly becoming a necessity for industry and the other service sectors.

This trend is inherent in the restructuring efforts of companies who try to survive within a highly competitive environment.

For economic efficiency reasons, firms often opt to purchase the services they need rather than perform them in-house.

This has positive implications for the quality, the innovative nature and the prices of business services.

The growing tendency to "externalise" services reflects the increasing importance of pre and post production processes such as research and development,

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Table 1
Business services
Sectoral data, 1988

Sector	Employment	Turnover (billion ECU)	Growth rate (¹)	Growth rate (²)
Management consultancy	50 000	3.6		15%
Legal services	675 000	15.0		
Accountancy	265 000			
Public relations	2 300	0.3		++
Language services	200 000	8.0		++
Inspection etc.	221 700	11.0		
Industrial engineering	240 000	23.0	-	-
Engineering Consultancy	350 000	21.0		7%
Software	287 000	22.7	36%	19%
On-line database	50 000	2.4		20%
Courier	8 100	0.6		25%
Contract R&D	20 000	0.9		+
Vocational training	1 150 000	50.0		++
Temporary staff	856 000	12.5	22%	15%
Advertising	36 700	4.7	10%	
Market research	23 200	1.7	12%	10%
Sales promotion		31.0	17%	++
Direct marketing (¹)	27 000		11%	++
Trade fairs and shows	60 000	12.0		++
Cleaning	689 000	12.0		+
Security	290 000	3.3	8%	

(¹) Average annual growth rate in turnover the last 3 years
(²) Average annual growth rate in turnover forecast for the next 3 years
Source: Professional Associations, Sectoral Studies

strategic evaluation, marketing and human resources. Moreover, this externalisation goes hand in hand with a sophistication of the skills of business services suppliers.

The advantages of external services include:

- lower overheads;
- smaller workforce;
- increased flexibility;
- better quality of the outside service;
- transfer of know-how and technology.

A picture of the degree of externalisation of the EC business services is given in table 2.

Structure of the sector

The structure of business services is fragmented at the lower end of the scale, with a large number of SMEs and consolidated at the top with a limited number of firms, mainly multinationals.

Until recently, the degree of concentration of the European business services was limited. However, in anticipation of the 1992 integration, the number of mergers and acquisitions aimed at improving competitiveness has grown considerably.

Small local or national firms are linking up with other EC parties, in order to increase their pan-EC presence.

This tendency is expected to continue with accelerated rates under the impetus of deregulation, and the emergence of a dynamic information sector.

Business services ranked second in merger and acquisition operations during the 1980s (after banking) with a total of 3000 deals and were the most attractive overseas acquisitions for US buyers.

By the first quarter of 1990, business and professional services had become the most active area of industry by a number of deals and was the 9th most important sector in terms of dollar volume.

Trade in business services

Business services play and important role in the interpenetration of the world's regional economies and their development. The opening up of this sector at world level is inseparable from the development of industrial structures.

Like many other services, business services are becoming more international under the impetus of deregulation, the emergence of a global information economy and the internationalisation of the markets.

The subsectors which constitute business services, are very heterogeneous in terms of structure and activities.

This explains, to a great extent, the lack of comprehensive and up-to-date statistical indicators at EC level.

The internationalisation process for services differs substantially from that of goods. Services' suppliers need to be in the same geographic location as consumers and therefore, the ability to establish a presence in foreign markets and to set up partnership networks is decisive.

Although the absolute trade figures are not very significant, the sector claims a growing share of the Community's external trade, and shows a positive balance.

International trade accounts for a small share of total activity and concerns only 5-10% of the business services market.

However, trade figures only reflect partially the internationalisation process as they do not take joint ventures and other forms of commercial cooperation into account.

However, from table 3 it is clear that:

- the relative share of business services in international trade in services is growing over time;
- as opposed to goods, business services are traded to a larger extent with third countries rather than within the EC. Intra-EC trade can therefore be expected to grow considerably in the future;
- the EC shows a positive trade balance, a factor which suggests that it is internationally competitive in this field. However, imports are rising faster than exports.

Outlook

Impact of the Internal Market There is still very little integration amongst business service markets in the EC, even though the EC Treaty guarantees the freedom to provide services.

The White Paper measures will facilitate integration through provisions for the opening up of the regulated sector and for the introduction of the mutual recognition principle.

The internal market will influence the business service sector in two ways:

- by opening up access to regulated sectors (financial services, transport, telecommunications..), through a variety of sectoral measures, such as abolition of quotas in transport, competition rules and liberalisation of advanced telecommunication services, recognition of diplomas etc;
- by facilitating the development of networks for the production and sale of services through horizontal measures concerning company law, business cooperation, capital movements, compatibility of information and telecommunication systems.

Despite these measures, obstacles remain which stem mainly from discrepancies in national legislations.

Certain topics such as consumer protection and labour legislation are not covered by the White Paper and it is up to the individual Member States to remove these obstacles.

The European Federations, operating in business services have identified and classified the barriers and obstacles in the following categories:

- access to an occupation or an activity;
- market access and operational matters;
- taxation;
- social legislation;
- public sector competition;
- access to public procurement.

All the above are limitations to the integration of national business services within a single market and can create distortions in competition.

The Internal Market is expected to benefit business services on an international level

Table 2
Degree of externalisation of business services in the Community, 1988

	Origin of the service (%)		
	Solely external	Solely internal	Ext. and int. combined
Sector	%	%	%
Engineering and related	56	14	30
Management consultancy	35	37	28
Advertising	49	24	27
Public relations	11	59	30
Computing services	22	26	55
R&D	12	58	30
Legal services	41	21	38
Operational services	58	22	20
Country			
BR Deutschland	32	47	21
France	56	30	14
Italia	47	33	18
Nederland	39	18	43
United Kingdom	34	23	43
SIZE (employment)			
0 - 50	37	44	19
51 - 500	56	22	22
501 - 1 000	38	29	33
1 001 - 5 000	39	35	26
5 000 +	37	33	30

Source: Study by Peat Marwick McLintock,"The Cost of Non-Europe for Business Services", Commission of the European Communities, 1988.

Table 3
Business services in Commmunity trade

	Million ECU		% of total services	
	1979	1986	1979	1986
EXTRA EC 12				
Exports	6 039	11 134	7.8%	8.4%
Imports	3 372	8 368	7.4%	9.0%
INTRA EC 12				
Exports	2 716	6 378	5.5%	7.1%

(NB: The amounts are the sums of the items "Advertising", "Communication" and "other business services" in the "Other Services" category).
Source: Eurostat

as, on the one hand, it will create conditions for an increased demand and, on the other hand, it will improve supply through more competition.

In the short term, business services, especially those connected with the information and communication technologies, are expected to grow fast.

Overall growth is invariably dependent on EC industrial growth, the national and international deregulation process and the availability of qualified personnel.

The flexible organisation of a labour force is also a decisive growth factor as business services depend on flexible working hours, a part-time and freelance workforce.

Finally, the creation of an appropriate infrastructure such as telecommunications networks, business parks, vocational training centres and transport systems will also affect the sector's development.

The creation of the European Single Market offers considerable opportunities to the business service sector, as many companies, in their efforts to restructure and rationalise their efforts, will look for external specialised business services.

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Real-estate

The real-estate service sector encompasses a wide range of activities, which meet a vital need on the part of every section of the population (individuals and firms alike), whether it be a question of purchasing a dwelling, renting office space or managing a building. The sector employs over 120 000 people within the EC. The regulations governing the profession in EC countries are variable. Taxes on property transfers and VAT rates on construction also vary.
Following a period of increases in the price of immovable property and transactions in almost every EC country, different patterns are now beginning to emerge from one country to the next. In France prices appear to have stabilised, in the United Kingdom they have dropped while in Germany, Spain and Portugal they have risen.

Definition of the sector

NACE 833 includes companies and individuals involved in real-estate services for their own account, as well as those who finance and construct buildings for the purpose of selling them. NACE 834, on the other hand, only includes companies and individuals who work for third parties and who do not directly conclude agreements of sale.

Description of the activities of real-estate professionals

The role of real-estate professionals is largely similar throughout the Member States; the way in which the profession is practised, however, varies according to the specific legislative environment of each individual country. Generally speaking, the real-estate process comprises a set of functions (sectors of activity) which can be broken down as follows:

- consultancy, the feasibility studies for a particular project;
- expertise, the assessment of the various factors liable to affect the value of a particular project or property;
- financing;
- development-construction, the realisation of the project;
- transactions, the transfer of the property to the user or purchaser;
- property management, ensuring that the property is used to optimum effect.

Very often one person will perform several of these functions; such is the case, for example, of surveyors in the United Kingdom, who combine a number of spe-

Table 1
Real-estate sector ([1])
Main indicators

		Number of enterprises	Turnover (excl.VAT) Mio. ECU	Gross value added at market prices (excl.VAT) Mio. ECU	Number of persons employed
Belgique/België ([2])	1987	10 853	975.7		([3]) 12 269
Danmark ([4])	1986	2 801	251.3	125.2	
BR Deutschland	1986	26 215	11 601.3		([5]) 128 400
Hellas	1978	([6]) 4 304			1 904
España	1986	([7]) 7 626			23 329
France	1988	32 755	14 856.8	5 665.0	125 529
Ireland ([8])	1986				2 545
Italia	1981	22 782			45 899
Luxembourg	1987	257	106.3		([9]) 414
United Kingdom	1988				([10]) 256 100

([1]) Dealers in real estate and house and estate agents
([2]) Dealers in real estate 1985
([3]) Number of wage and salary earners. For dealers in real estate 1986
([4]) Only house and estate agents
([5]) Only dealers in real estate
([6]) For house and estate agents number of local units
([7]) Number of local units
([8]) Only dealers in real estate
([9]) 1985
([10]) Number of wage and salary earners
Source: Eurostat

cialities, whereas in Spain and France professionals tend to specialise in one particular area. In a number of countries, some of these functions are not performed by real-estate professionals; property management, for example, is practised by lawyers in Greece and by bailiffs or by the association of landlords in Portugal.

Current situation

The real-estate sector is closely bound up with overall economic growth and other sectors such as banking and finance and the construction sector. The development of the property market is determined by private demand and is therefore highly susceptible to economic fluctuations, particularly variations in interest rates and legislative decisions regarding taxation. Sociological and demographic factors also have an impact on the market: the mobility of the population, the ageing of the population, the size of households, the number of owners, etc.

Trends in the property market Following sharp rises on certain markets particularly in cities (Paris and London), France, the United Kingdom and Italy have experienced a decline since mid-1990. This downturn is clearly noticeable in the United Kingdom and particularly in Greater London where increases in the cost of credit on personal property and the introduction of a new system for calculating land tax have taken their toll.

The downturn is more marked in the residential sector than the office sector. In some markets such as Spain and Portugal, prices are still rising. In West Germany, too, prices are rising due to the influx of East Germans.

Major geographical differences still persist. For example, in 1989 the square meter price of office space was 97 ECU in Athens compared to 340 ECU in London for an average site.

Property transactions on behalf of investors from non-EC countries, particularly Scandinavia, are continuing. Certain local investments are becoming more marked, e.g. English investments in Normandy and Brittany (France), on the second home market (4 000 sales in 1987, 20 to 25 000 in 1990).

Japanese property development companies are continuing to penetrate the real-estate business sector in the major capitals of the EC.

United Kingdom In recent years a slowdown in activity has been experienced, characterised by a number of dramatic bankruptcies involving developers and construction firms. The construction market is expected to decline by 3.5%. The crisis does not extend to all markets, however, nor, to all regions. Two markets are in a genuine recession: housing and private commercial construction (partly due to high interest rates); private industrial construction, renovation and maintenance, on the other hand, remain buoyant. At a regional level, Greater London and the surrounding South-East seem to have borne the brunt of the crisis.

West Germany In West Germany the property market is fairly active due to the shortage of residential properties, partly due to the influx of East Germans and reinforced by sustained economic activity. The percentage of transactions carried out by real-estate professionals, i.e. approximately 50% remains stable.

The unification of Germany should help to strengthen the growth of this sector.

Structure of the profession

Within the EC, the real-estate profession as a whole represents a total of approximately 120 000 people who are authorised to practise, and 100 000 if one only counts the heads of real-estate agencies. Most of the agencies operating in the profit-making real-estate sector are small and the majority of their clients are local. By contrast, the real-estate business sector, which tends to be concentrated in large business districts, leisure real-estate as well as new types of housing (for elderly people, etc) are dealt with by specialised agencies which now operate on an increasingly international scale. Most of the large international real-estate offices are British.

There is a strong tendency towards concentration in this sector. The 1980s favoured the development of large companies which depend directly on banks, investors, service companies or civil engineering and building firms, multidisciplinary activities (purchasing, financing, technical aspects, marketing, but also engineering, building management, property management, supervision, security, fluid management) and the diversification of products (residential, commercial, leisure, the hotel trade, business district,). In general, within the EC, developers have been slow to adapt to the new Europe; only the largest firms have begun to forge international alliances and invested in foreign capitals. These alliances range from straightforward joint development projects to setting up consortiums of investors.

Changes in the profession The use of computers has led to a boom in new professional techniques which facilitate contact with clients while at the same time improving the quality of the services supplied. Although they have not yet been widely adopted in Europe, "multiple listing services" offer real-estate professionals a new means of professional cooperation and sales promotion. The system is mainly used in the United States and Canada. Based on a computer network, it enables real-estate agents to pool any properties which they have been asked to sell or rent and then split their fees with the counterpart who carried out the transaction. This new type of real-estate marketing is gradually becoming a standard feature in Europe. One example is Holland, where real-estate professionals (NVMs) are already 100% computerised. State-of-the-art data processing and telecommunications offer the necessary technological basis for setting up such networks and it seems likely that the latter will soon be developed at EC level.

Over the past five years or so, developers have responded to economic, technological and social changes by adopting a more professional approach and refining their earlier studies. The profession has matured and now places increasing emphasis on studies, consultancy and marketing. Greater emphasis is also placed on property management. As prices have risen, property tax and the need to make optimum use of properties have become key factors for companies.

Regulations governing the profession

Regulations governing the real-estate professions within the twelve Member States are variable and professionals are subject to widely differing conditions. With few exceptions, existing legislation is confined to the activities of real-estate agents. In some countries, the regulations are checked through specific laws which define the conditions of entry to and the exercise of the profession. These conditions tend to be fairly stringent however; Denmark, Spain, France and Italy are all cases in point. Elsewhere, real-estate professionals tend to be subject to common law regulations in civil, commercial or fiscal matters.

Codes of professional conduct

Usually it is the professional organisations who dictate codes of professional conduct and ensure that they are obeyed by their members, particularly when the profession is governed by few or no legal regulations.

Table 2
Proportion of transactions made with the assistance of real-estate agents

	1987	1988
Belgique/België	60	60
Danmark	15	70
BR Deutschland	60	60
Hellas	N/A	25
España	20	20
France	40	50
Ireland	80	80
Italia	30	35
Luxembourg	90	90
Nederland	65	70
Portugal	20	20
United Kingdom	90	90

Source: FIABCI

Such is the case in West Germany, Belgium, Luxembourg, the Netherlands and the United Kingdom (where professional organisations carry a great deal of weight). Most of the associations have arbitration and disciplinary committees which sanction anyone who does not adhere to these rules. There are no codes of professional conduct in Denmark, Greece and Portugal.

Conditions of entry to the profession

PROFESSIONAL PERMIT All the Member States except for Belgium and Portugal have introduced a professional permit or licence to practise, either in the form of a law or via the professional organisations. The criteria governing the granting of this permit differ noticeably.

PROFESSIONAL TRAINING As a general rule, Member States do not play a direct role in professional training for the real-estate industry; in almost every case, the task of training is left to the professional associations. Almost all the professional bodies organise continuous training courses. Denmark, Spain, France and Italy are the only countries where the law requires people to pass a professional aptitude test in order to enter the profession; such tests sanction professional experience or a relevant degree. In Germany,

Table 3
Real-estate
The components of the acquisition price, 1988

	Home ownership transfer duties (% of sale)	VAT rate on construction (%)	Real-estate agents fees for the sale of residential property (% of the sales price)	Interest rate on mortgage loans (1st quarter) 1988	1989
Belgique/België	12.5	17.0	3.0 — 5.0	8.3	8.8
Danmark	N/A	22.0	2.0 — 5.0	11.9	10.4
BR Deutschland	2.0	14.0	5.0 — 6.0	7.4	7.7
Hellas	13.0	(4) —	4.0	17.5	21.0
España	6.0	6.0	3.0 — 5.0	14.5	14.6
France	18.2	18.6	5.0 — 7.0	10.4	10.2
Ireland	(1) 2.0	23.0	(5) 2.0 — 3.0	9.3	8.3
Italia	8.0	18.0	1.0 — 3.0	15.0	14.5
Luxembourg	(2) 6.0	N/A	3.0	7.0	6.8
Nederland	6.0	19.0	(6) 1.5 — 2.0	7.0	7.6
Portugal	10.0	N/A	3.0 — 5.0	18.0	(7) 18.5
United Kingdom	(3) 1.0	15.0	1.5 — 2.5	10.3	13.5

(1) 6% above UKL 50 000.
(2) 9% in the town of Luxembourg.
(3) Exoneration below UKL 30 000.
(4) Adoption of VAT in progress.
(5) + VAT of 25%.
(6) + VAT of 20%.
(7) Housing Savings Plan; the rate of interest on loan without maximum limit was 22%.
Source: FIABCI; European Community Mortgage Federation, Hypostat '88.

the Netherlands and the United Kingdom, it is the professional organisations which impose a mandatory admission test; in addition, they organise continuous training courses. In Belgium and Portugal, no particular level of education is required in order to practise.

FINANCIAL GUARANTEE France and Ireland require professionals to be covered by a financial guarantee for paid deposit left by customers. In the United Kingdom, the Netherlands and Spain a similar system operates via the professional organisations while in Italy the guarantee takes the form of a security.

CIVIL LIABILITY INSURANCE In France real-estate professionals are legally obliged to take out professional civil liability insurance. In West Germany, Belgium, Ireland, the Netherlands and the United Kingdom, it is imposed by the professional organisations. In Luxembourg, the Property Owners Association recommends its members to take out voluntary insurance.

Remuneration for services Professional fees are subject to government regulations in Spain (Escala de Arancel), Ireland and Luxembourg (ministerial decree of 5 January 1972). Elsewhere, they are not regulated.

- In Germany, fees vary considerably according to the different Länder;
- In France, professionals have been free to set their own individual fees since 1st January 1987;
- In the Netherlands, only professionals authorised to use the title "makelaar" are subject to a fee rating system, via their association;
- In Great Britain, sales and rental fees have to be agreed upon with each individual client and are not subject to any set rates.

Property purchase

Real-estate taxation When property is transferred, the State collects certain taxes; these taxes vary greatly depending on the country concerned. Some States have relatively high taxes on property transfers, such as France, Belgium, Greece and Portugal. The general trend, however, seems to be towards a reduction in these taxes, following the example set by West Germany and the United Kingdom.

Fees In addition to taxes, the purchaser also has to pay fees for the services supplied by the real-estate professional. These fees can vary according to the type of services supplied; some fees may include expertise costs, although this is not always the case. Similarly, advertising expenses are sometimes borne by the agent, who then passes them on in his fees. In most European countries, fees vary according to the purchase price.

Interest rates for mortgages With the free movement of capital making it possible for any EC national to borrow in whichever country he chooses, it is in the interest of potential purchasers to compare the various rates offered by EC financial institutions regarding mortgage loans.

Objective: harmonisation of regulations

Faced with the vast assortment of EC regulations, many real-estate professionals would like to see conditions of entry to the profession harmonised. Some professional organisations have appointed working groups to draw up a draft Directive for submission to the Commission of the European Communities. Since national regulations vary in terms of their severity from one EC state to the another, the following general distinctions can be made:

- countries which impose stringent regulations and which do not want to see any relaxation of these rules; such countries support the idea of a specific Directive at an EC level;
- countries where the regulations are more

lax, or left up to the relevant associations, and which are keen to avoid overly strict rules; such countries consider that the Directive concerning mutual recognition of diplomas is sufficient.

The impact of "1992"

The creation of a Single European market in 1993 will undoubtedly result in an increase in the number of real-estate purchases in the other Member States, whether for personal use or investment purposes. The remaining obstacles to the free movement of capital were lifted on 1st July 1990, except in the case of Ireland, Spain, Greece and Portugal who are covered by a derogation until 31 December 1992. From now on, five countries (Germany, United Kingdom and the three Benelux countries) will no longer have exchange controls. The effects of 1992 on the real-estate profession, however, are already being felt. Due to the free movement of capital, the industry, which is still nationally or even locally based, is becoming more internationalised. Already we are seeing new agreements between EC firms, keen to set up joint ventures in preparation for the Single Market. Foreign investment has been made easier and certain regions of the EC are already enjoying the benefits: leisure real-estate in Spain, office real-estate in Brussels and Lisbon, etc.

The harmonisation of interest rates in the twelve Member States should also positively affect the industry, due to the harmonisation of the cost of credit for consumers.

Most EC countries do not impose any restrictions on the purchase of real-estate by foreigners. In Denmark, France, Italy and Spain however, permission has to be obtained from the public authorities. In Denmark, moreover, foreigners are not entitled to buy vacation homes, although this regulation will soon be abolished since it contravenes EC regulations. In Greece, foreigners cannot buy immovable property in border regions.

In other respects, the free movement and free establishment of persons is forcing professionals, via their representative organisations, to rely on the regulations governing the profession in the various countries. At present, these regulations differ widely from one Member State to another and in some cases harmonisation is called for. The European Community has ruled out any plans to impose the EC-wide regulation of real-estate activities.

The Directive on the mutual recognition of university diplomas, adopted by the Council of Ministers of the EC on 21 December 1988, is currently the only EC regulation to which real-estate professionals can refer. By calling upon Member States to formulate a system of degree equivalences, this Directive will facilitate professionals to operate in other Member States by granting them access to regulated professions. Real-estate professionals will undoubtedly be affected as in most countries the profession is subject to certain conditions relating to aptitude, linked to diplomas or a certain level of professional training.

Real-estate professionals are merging and forming Community-wide associations. Faced with the lack of EC regulations, some are worried about the wide disparities in the regulations of the twelve Member States, which they see as a potential threat to free competition. National associations are therefore seeking to cooperate with their counterparts in order to lay the foundations for a self-regulated profession. Real-estate offices are also beginning to merge, particularly in the business real-estate sector; cooperation between major firms from various Member States is becoming increasingly common.

By contrast, the residential sector appears relatively unaffected by the impending Single Market of 1992, owing to the fact that most of the transactions are of a local nature. One fairly recent event, however, has been the emergence of networks of franchise agencies, throughout the EC,

Table 4
Real-estate
The property market in European cities, 1989-1990
Residential property market (average sales prices/m2)

	New apartments		Old apartments		Urban Houses (¹) (1000 ECU)
ECU	1989	1990	1989	1990	
Brussels	1 191	1 676	692	1 063	189 - 448
Copenhagen	N/A	N/A	N/A	N/A	N/A
Munich	1 989	N/A	1 261	N/A	N/A
Hamburg	1 158	1 470	966	1 069	121 - 267
Athens	N/A	1 221	N/A	819	37 - 89
Madrid	1 725	2 708	1 487	1 849	270 - 851
Paris	4 635	8 393	3 971	6 039	...
Nice	2 752	2 898	1 661	1 811	N/A
Dublin	N/A	1 622	N/A	1 579	65 - 157
Milan	3 324	5 255	2 689	3 719	293 - 976
Luxembourg	2 613	2 677	1 498	1 732	N/A
Amsterdam	1 185	N/A	1 014	N/A	N/A
Lisbon	N/A	1 624	N/A	1 144	44 - 166
London	3 622	N/A	3 333	N/A	112 - 320

(¹) Range of price for a 4-5 rooms house
Source: FIABCI

Table 5
Real-estate
Non-residential property market in european towns, 1990
Rental prices per m²

	office property		commercial property (Retail)		industrial property	
	New	Old	City Centre	Other quarters	Downtown	Periphery
Bruxelles	N/A	N/A	N/A	N/A	0	51
Copenhagen	108	86	332	N/A	N/A	N/A
Frankfurt	233	N/A	816	201	N/A	N/A
Hamburg	144	98	757	269	58	42
Karlsruhe	84	76	772	233	36	31
Barcelone	406	174	642	N/A	N/A	N/A
Madrid	445	193	735	193	77	50
Paris	616	310	N/A	N/A	0	56
Athens	171	97	208	134	53	48
Dublin	172	117	704	N/A	70	50
Milan	369	195	679	679	114	81
Rome	261	N/A	602	602	N/A	N/A
Turin	136	N/A	242	242	72	52
Luxembourg	590	236	472	331	0	63
Lisbonne	253	158	N/A	N/A	N/A	N/A
Edinburgh	339	197	1 424	997	128	114
London	837	340	3 223	1 923	125	117

Source: FIABCI

which suggests that the sector may well become more internationalised in the future. The leisure real-estate sector is fast expanding and if the forecasts are accurate, will continue to do so in the years ahead. Professionals from the industry are optimistic about the growth of real-estate activities and the future health of the market, yet they remain apprehensive about the conditions under which they will be called upon to practise their profession in the future.

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Revised by: Sema Group Management Consultants

Legal services

This sector comprises a variety of services with differing statutes in the EC Member States. In 1990 the number of professionals in these countries was more than 340 000. These professionals employed more than 400 000 persons. The best estimation available for their total turnover in the EC is over 20 billion ECU, with considerable national variations in the average income per lawyer. It is expected that the demand for legal services will increase during the years to come, especially services to the business world, because of the increased economic activity in view of the completion of the internal market. The years 1989 and 1990 have already seen the creation of numerous international cooperations of law firms as well as the establishment of international branch offices in various EC Member States as well as in the United States. This trend is still continuing.

Description of the sector

NACE 835 covers all legal services. It includes lawyers, legal counsels, professionals specialised in business matters, public notaries, and other independent legal experts such as patent agents and others. Also to be classified in this group are bailiffs.

The term "lawyer" means, except where otherwise specified, any person permitted to exercise the profession under one or other of the various designations listed in Directive 77/249 of 22nd March 1977 on the freedom of lawyers to provide services. The legal profession is organised by law on a national or regional level in each of the Member States. The monopoly to plead in court is not exclusively granted to lawyers in all EC Member States. The right to give legal advice is generally more liberally granted to other professions than the right to plead. Legal advice is also given by the members of other professions such as fiscal advisors, accountants, patent solicitors etc.

Current situation

Major changes have affected the legal scene in the EC since 1988. These changes, which are by no means all regulated by law in all EC Member States include the following topics:

- Internationalisation of practice and multinational partnerships;
- Free right to establish oneself as a lawyer in an other Member State by complying with certain regulations;

- Free advertising within certain - liberally designed - professional limits;
- Publishing special fields of legal practice;
- Incorporation of lawyers' practices;
- Cooperation with other professions and multi-disciplinary practices;
- Contingency fees and their eventual permission;
- Conflicts of interest and code of conduct.

These topics are discussed to a varying extent in all EC Member States. Some of them are very controversial amongst professionals, others are already common practice in some more progressive countries.

In 1988, CCBE adopted a Common Code of Conduct which will be applicable to all transnational activities of lawyers in the EC, and which may be considered a fundamental act for the ever increasing internationalisation of business services.

In almost all EC Member States the bar associations and/or governments are preparing new regulations and new legislation for the profession. Discussions on these projects are not yet completed everywhere but will almost certainly be finished before 1992.

Judicial representation and legal defence In the 12 Member States, lawyers participate in the judicial system as the qualified body to assure the rights of citizens at court..

They deal or may deal with written and oral procedures before all jurisdictions, with the exception of the Highest Court of Appeal in several countries where only a particular group of lawyers has the right to plead. However, their extra-judicial role tends increasingly to require significant part of their time. Many private and business clients look for advice from their lawyer in order to avoid a lawsuit or other legal action before the courts of justice.

When an individual either does not wish to be or cannot be present in person before a court, he or she must be legally represented. In Belgium, Denmark, Greece, Italy and the United Kingdom this representation is undertaken by lawyers. In the other Member States, other persons also carry on this task, notably: the "avoués à la Cour d'Appel" in France; the "solicitadores" in Portugal; the "procuradores" in Spain; fiscal advisers in Germany and the Netherlands; the "Rechtsbeistände" in Germany; "huissiers" and legal advisers before lower courts in the Netherlands; chartered accountants and patent agents before administrative tribunals in Ireland.

Trade-union representatives represent parties before employment tribunals in Belgium, Germany, Spain (in the case of collective disputes), Ireland, Luxembourg, the Netherlands and the United Kingdom. The same is true of public officials before the Council of State, notably in Belgium.

Legal advice Because of its importance for the client, certain countries, in the public interest, reserve the right of giving legal advice to members of the legal profession. This is the case in Denmark, (where only lawyers are allowed to have a legal advice office), Spain (law of 1 July 1985), Greece and Germany.

In Italy, a preliminary draft professional law attributes to lawyers a monopoly of advice, except for those areas covered by public notaries and accountants. The same is true for Luxembourg, where the draft reform of the statute of lawyer provides for this monopoly under certain conditions, without prejudice to the dispositions covering "notaries public" and auditors. Similar protective legislation has been prepared for France, granting a monopoly to lawyers with exceptions for other professions only as far as legal advice is closely related to their specific activities. Certain economic activities require legal and economic advice simultaneously. It is in these legal-economic areas where other occupational groups - of the liberal professions and others - are involved as well.

Structure of the profession

A law office may consist of a single lawyer, a lawyer with associates, or a group of lawyers. By group is meant firms, often called associations, companies, professional firms, partnerships ("Sozietät" in Germany) or, as in France, groups sharing the same building with shared expenses ("société de moyens"). In France, for example, lawyers may establish a holding company which owns buildings, furniture, books and machines used by their group (Article 36, Law of 29 November 1966).

In the Community, there are more than 21 000 groups of lawyers. A breakdown is provided in table 1, according to the information provided by the national delegations of CCBE.

Groups of lawyers may in certain countries like Germany and the Netherlands include persons exercising another profession. These may include accountants, tax advisors, and notaries. Such associations are not allowed in most EC Member States.

A certain number of lawyers practise mainly as associates or employees of other lawyers. For example, this is the case in Belgium (only associates, and no employees in the strict sense, are allowed), for between one third and one half of lawyers; in Denmark, for around 1 000 lawyers; in Greece for around 1 000 lawyers; in the Netherlands, for around 2 200 lawyers of which

Table 1
Legal services
Registered lawyers and structure of practice ([1])

	Total number of registered lawyers	Number of groups of lawyers (firms, group practice, Sozietät etc.)	Average number of professionals per group	Individual practice	Average number of employees per lawyer
Belgique/België	(Notaries) 1 225 (Lawyers) 8 865	approx. 160 groups (grouping 3500 lawyers)	22	5300	1
Danmark	(Lawyers) 3 572	741	2.2	1138	3
BR Deutschland	(1989) 56 638	Over 8000	2.8	approx. 11000	N/A
Hellas	(Lawyers) 19 000	N/A	N/A	19000	N/A
España	(1989) 92 804	([2]) Around 100	N/A	Vast majority	1
France	(Lawyers) 17 000 (Conseil Juridique) 4 900	approx. 1 690 (for both professions)	4	9655	0.9 2.5
Ireland	(Solicitors) 3 300 (Barristers) 730	650 not permitted	3-4	850 730	1 2.1
Italia	(Lawyers) 54 215	N/A	15	Vast majority	N/A
Luxembourg	(Lawyers) 380 (Notaries) 32 (Bailiffs) 19	46	N/A	55	1-2
Nederland	(Lawyers) 6 000	2 000	2	1 000	1-2
Portugal	(Lawyers) 9 100 (Solicitors) 500	(Civil firms) 34	4	8 800	1
United Kingdom	(Solicitors) 59 152 (Barristers) 7 006	7 992 not applicable	6.9	3 906	2.6

([1]) Latest available data
([2]) Group practice limited to a maximum of 20 by law.
Source: Data given by the national CCBE delegations for the years 1988/1990 respectively

1 000 associates and 1 200 trainees; in the United Kingdom, for over 15 000 solicitors.

Strictly speaking there are no lawyers practising as employees in Belgium, France, Italy and Portugal. In the United Kingdom and Ireland, barristers have no associates. On the other hand lawyers may be hired under an employment contract by private companies or public administrations only in certain Member States; specifically, in the United Kingdom and Ireland, (barristers and solicitors), Germany (Syndikusanwälte), Spain, Italy, the Netherlands, Portugal and Greece.

Employment trends

To be a lawyer, it is obligatory to be registered at a bar or law society. Registration may, however, cover very different situations. It may cover a traditional practising lawyer, whether full or part-time, as a lawyer or associate of a lawyer, or in those Member States where it is permitted, as the employee of other lawyers. It may also cover, where permitted, a full or part-time occupation as employee of a public administration or firm (in-house lawyers). Lastly, registration may remain even when practice is limited or non-existent.

There is no or little control from most national bars to whether a lawyer is practising as a lawyer, or in fact has some other profession while still paying his dues and retaining his licence.

The total number of registered lawyers in the EC is around 343 000; the breakdown by Member State is shown in table 1. For the above mentioned reasons this figure is relatively vague as far as the number of young law graduates is increasing everywhere, but the difficulties of establishment as a lawyer in free practice with sufficient earnings have increased likewise.

A certain number of registered lawyers exercise another profession or practise little or no law at all. They are estimated to represent: in Belgium 5% of the total; in the United Kingdom, 10%; in the Netherlands, from 2-5%; in Denmark, around 13%, in Italy, around 28%. A certain number of lawyers are employees of a public administration or firm (in-house lawyers). They are estimated to number in Germany, over 10 000 (no precise statistics exist) and in the United

Kingdom, over 8 000 individuals.

The average number of employees per lawyer, is shown in table 1. It appears that these figures relate more to secretaries and administrative personnel than to legally trained employees. This is the case for the Netherlands and Portugal, but not necessarily for all countries.

In France, the number of employees in lawyers' offices is 15 000 (1986). Employers, whether individual lawyers or groups of lawyers are 8 265 (1986) for lawyers and 3 088 (1986) for conseils juridiques. 80 offices employ more than 10 employees. Personnel has doubled over the last 10 years. The number of persons working in solicitors' offices in England and Wales who have legal training of some kind is estimated at over 35 000.

Combining the figures for the numbers of employees per lawyer with those estimated for the number of lawyers actually practising, total EC employment in lawyers' offices is estimated at around 750 000 (343 000 lawyers and over 400 000 employees).

Gross annual income

Gross annual income per lawyer is defined as total receipts from clients as fees and charges before VAT, minus those sums destined to third parties (adversaries, "huissiers", experts, etc.) or received from third parties for a client. Expenses for clerical assistance and all other costs vary from country to country, but tend to be between 30-50% of turnover.

Average gross annual income per lawyer is estimated to be:

- In Belgium (trainees included), between 30 200 ECU and 34 850 ECU. For a lawyer under 30 years of age, between 20 900 ECU and 27 900 ECU. For a lawyer between 30 and 60 years of age, between 46 500 ECU and 55 750 ECU;
- In Denmark turnover per professional in 1988 was 171 000 ECU which includes the fee-income from assistants working under the professional;
- In Germany the average turnover in 1986 was 95 000 ECU per lawyer (including notaries);
- In France the average turnover per lawyer was 59 000 ECU in 1986 (Study for Commissariat Général du Plan 1988 by J.C. Coulon);
- In Italy, around 33 000 ECU;
- In the Netherlands the average per professional in 1990 is around 118 000 ECU and 77 000 ECU for Associates and Stagiaries;
- In the United Kingdom the turnover per partner was 155 000 ECU in 1987/89 which included the fee income of employed solicitors. Per solicitor in practice including the employed solicitors it was 103 000 ECU. This is an average, because turnover in London is twice the turnover in the North of England (Annual Statistical Report of the Law Society 1989).

No information was available from other EC Member States. The figures for the total national income of legal services for the above mentioned countries may be combined with information on individual turnover as known. For those countries where figures were not available it is calculated on the basis of population and national income. In doing so we arrive at well over 20 billion ECU per year for all EC Member States in the years 1985-1988, since it was not possible to obtain figures from all countries for the same year. It includes notaries in Germany and France, because a good part of their work is included in the solicitors work in the United Kingdom whose turnover would otherwise seem too high.

Competition within the legal professions and trans-border activities

Competition within the legal professions must be seen under two headings:

- Competition amongst lawyers and other professions or institutions within a Member State in the same special field of law;
- Competition from trans-border activities of law firms advising international clients at their head quarters or setting up branches in other Member States. A less direct form of competition comes from their close co-operation or joint activity with single national law firms by such international law firms.

Competition amongst lawyers and other professions The competition of lawyers with other professions or institutions is shown on table 3 taking the example of four countries (Belgium, France, Germany, Netherlands) with different historic developments in their legal system.

These data should be regarded with a certain caution. They are only estimates, they concern only four EC Member States, they are not "counter-checked" by the professional bodies of the other occupational groups involved. The strong position of the "Conseil Juridique" in France in almost all business related law sectors is of particular interest and has no parallel in other countries, at least not on the same scale.

Some of these professions, such as "conseil juridique" (in France), "Rechtsbeistände" (in Germany), public notary and "huissier", are exclusively legal in nature. Others have a wider scope. Patent agents and advisers, tax experts, accountants and surveyors for example, are all business oriented.

Some legal services usually provided by lawyers are occasionally provided by others as a secondary activity. Banks, savings banks and estate agents draft non-registered legal acts, notably in Belgium, Denmark, Ireland, Luxembourg, the Netherlands and the United Kingdom also provide legal advice.

The increasing activity of banks in giving legal advice results from the staffing of their respective departments with experienced in-house lawyers. This is a relatively recent development and part of so-called "consulting banking" which is a new strategic approach of large banks throughout Europe. Banks have always been involved in "Mergers & Acquisitions" but they have now extended their services to cover legal advice as well. The combination of closely related services applies to the legal advice given by accountants and tax advisers.

The competition within the legal profession comes from different sources. In several Member States the growth of new practices from newcomers outstrips the growth of the market. Another focus for competition is advertising, which is partially permitted and partially a subject of continuing controversy, and national bars and governments are currently engaged in discussions over its introduction. There will be differing limits to the extent and permissible contents of advertising, but in the long term it is most likely to be permitted in all EC Member States.

Trans-border activities There have always been small numbers of foreign lawyers in the main business centres of Europe.

The regulations applicable to these foreign lawyers differ from country to country as do their number. Trans-border activities have increased considerably since 1988. The mutual recognition of legal diplomas in the EC, the right to establish a legal practice everywhere (respecting national regulations), and the preparation for the single market have all contributed to this development. Paris, Brussels, Milan, London and Frankfurt are major centres for such specialists. Some of the regulations are still valid but will soon give way to the rules governing the single market for goods and services and the right of freely choosing a place of establishment in the EC. In conformity with EC regulations some EC Member States have already made provisions for foreign lawyers practising in their country. All others are in the course of preparing such a legal framework. The basis is the mutual recognition of legal diplomas within the EC Member States (Directive of December 21, 1988). In many EC Member States foreign lawyers could give legal advice on the law of their country of origin for some time. Now they may pass additional national qualifying exams after recognition of their original native diploma and are then admitted to the bar, and may become full members of the respective national bar association.

The mergers of London solicitors in recent years have created very large and powerful firms which are now creating a Europe-wide network of branches and cooperations.

The larger legal firms in Continental Europe are also on their way to establishing themselves in the European business centres. The limitation in size (for example in Spain with a maximum of 20 lawyers per firm) or the rule of confinement to one office in one town (valid in Germany until 1989) have left continental law firms relatively very small in comparison with American or British firms. Such smaller firms lack the necessary financial means to establish international branches, and rely more on cooperations than on their own establishments.

Table 2
Legal services
Total gross income

(Million ECU)

Belgique/België	280
Danmark	300-350
BR Deutschland (¹)	4 289
Hellas	70
France (²)	4 278
Nederland	540
United Kingdom (³)	4 283

(¹) 1984 Lawyers and Notaries
(²) 1986 Lawyers, Conseil Juridique and Notaries
(³) Solicitors only in 1987/1988
Source: CCBE

The new situation in Germany since the judgement of the Constitutional Court of 14 July 1987 has given rise to the merger of local law firms ("Sozietäten") in major towns to more sizeable translocal units, some of them comprising more than 80 professionals in three to four urban business centres.

All these developments have been very rapid, and advice on any national law in the EC Member States may now readily be obtained in most European business centres. It must, however, be noted that the smaller EC Member States lag somewhat behind the development in the large centres.

The largest Continental European cooperation so far in form of an EEIG (European Economic Interest Group) has been formed in spring 1990. Altogether it combines more than 500 lawyers and 1000 total staff. The central office is in Brussels and will be staffed jointly. Other law firms from various EC Member States are planning similar groups along these lines.

The activity of some lawyers is mainly directed towards other countries or Community law. Their number can only be estimated: around 100 in Belgium; around 20 in Denmark; around 50 in Spain; between 500 and 1000 in France; around 200 in the Netherlands. In Greece, there are "very few",

Table 3

Competition relations and market share in business related legal services in 4 EC Member States

(%)	Countries	Lawyers	Notaries	Legal advisers	Accountants auditors	Tax accountants Tax advisers	Patent lawyers	Trade-Unions/ Employers	Others (Banks, Real-estate)
Company Law Including Mergers & Acquisitions	Belgique/België	25	35	30	5	-	-	-	5
	Danmark	60	10	-	20	-	-	-	10
	France	30	10	40	20	-	-	-	-
	Nederland	40	30	10	20	-	-	-	-
General Commercial Law	Belgique/België	45	-	45	-	-	-	5	5
	Danmark	80	-	-	10	-	-	10	-
	France	80	-	20	-	-	-	-	-
	Nederland	40	20	10	30	-	-	-	-
Fiscal Law	Belgique/België	30	-	10	10	40	-	-	10
	Danmark	15	-	-	25	60	-	-	-
	France	20	10	50	20	-	-	-	-
	Nederland	10	-	-	30	60	-	-	-
Social Security Law	Belgique/België	40	-	10	-	-	-	50	-
	Danmark	60	-	-	-	-	-	40	-
	France	70	-	30	-	-	-	-	-
	Nederland	75	-	-	-	-	-	-	(Legal Clinics) 25
Employment Law	Belgique/België	40	-	20	-	-	-	40	-
	Danmark	50	-	-	-	-	-	50	-
	France	70	-	30	-	-	-	-	-
	Nederland	75	-	5	-	-	-	20	-
Environmental Law	Belgique/België	75	-	20	-	-	-	5	-
	Danmark	95	-	-	-	-	-	5	-
	France	80	-	20	-	-	-	-	-
	Nederland	60	-	10	20	-	-	-	10
Competition Law	Belgique/België	50	-	40	-	-	-	10	-
	Danmark	100	-	-	-	-	-	-	-
	France	80	-	20	-	-	-	-	-
	Nederland	70	-	10	10	-	-	-	10
Patent - Trade Mark Law	Belgique/België	50	-	50	-	-	-	-	-
	Danmark	-	-	-	-	-	100	-	-
	France	50	-	50	-	-	-	-	-
	Nederland	30	-	-	10	-	60	-	-
Public Administration Law	Belgique/België	60	-	40	-	-	-	-	-
	Danmark	80	-	10	-	-	-	10	-
	France	90	-	10	-	-	-	-	-
	Nederland	60	-	10	-	-	-	-	30
Property and Real-estate	Belgique/België	40	40	-	-	-	-	20	-
	Danmark	10	70	-	-	-	-	-	20
	France	20	70	10	-	-	-	-	-
	Nederland	30	50	10	-	-	-	-	10
Sea and Transport Law	Belgique/België	50	-	50	-	-	-	-	-
	Danmark	80	-	-	-	-	-	10	10
	France	70	-	30	-	-	-	-	-
	Nederland	70	-	20	-	-	-	-	10

Source: Estimates of the national CCBE delegations. The figures from the four countries show quite different situations as far as competition and market shares are concerned. The situation is mainly marked by historic developments in the professions and differing degrees of monopolistic protection and professional competence in the four Member States.

in Germany, the United Kingdom and Italy they are mainly found in the "large offices", in Portugal there are "certain lawyers" and at least half of the total number of lawyers in Luxembourg.

The number of times that lawyers from each Member State have pleaded before the European Court of Justice between 1970 and 15 July 1988 is shown in table 4.

The regulations concerning lawyers from third countries, in particular from the USA, differ from country to country. For their capacity to give legal advice there are almost no barriers in actual practice.

American law firms have been in Europe in an advisory capacity to American companies for a long time. They were and still are concentrated in Paris (since the late 19th century). One of the reasons is the liberal practice in France since 1971 which gave these american lawyers the right to register as "Conseil Juridique" with subsequent possibilities to plead and act in most business related affairs.

The impact of the single market in 1993 and future developments in the legal services

The achievement of the internal market and its accompanying legislation are expected to have a major impact on the legal services.

In all major European business centres there will be law firms (whether branches, or cooperations, or multi-national partnerships) which will offer legal advice in the law of all of the major EC Member States.

Certain forms of advertising geared to the professional image and the permission to publish information on special fields of interest and know-how will allow for the legal services and their clients to find an easier way of access to each other.

The profession will - at least in the main business centres - develop a much more international outlook.

If we look at the recent developments actually already achieved or under preparation in the different EC Member States, the process of liberalisation started by the European Commission's Directive of March 27, 1977, and the Directive of December 21, 1988 concerning the recognition of diplomas has very rapidly produced the intended results.

International developments have led the national bars and governments to reflect on the protection of the user of legal services. This has been done in Denmark, France, Italy, the Netherlands, Luxembourg and the United Kingdom. The acceptance of a Code of Conduct by all CCBE delegations for all transborder activities is also a result of this.

It is evident that the supervision of multinational law firms on matters of independence and conflicts of interest is much more difficult if the creation of supranational supervising bureaucracies is to be avoided.

The internationally oriented business client demands multinational and increasingly multidisciplinary advice in legal, economic and fiscal affairs.

This has led to multi-disciplinary practices in Germany, the Netherlands and a few establishments in Italy, and a new bill in the United Kingdom will allow them there too.

Such multi-disciplinary services may comprise - depending on the regulations in the particular countries - lawyers, certified public accountants, notaries, patent lawyers, fiscal advisers, management consultants, etc.

Such multi-disciplinary services may be very beneficial and efficient for certain clients.

On the other hand they require a strict respect for the Code of Conduct of each profession involved to avoid any conflict of interest which may arise when member firms are involved with different clients in different countries amongst the EC Member States and overseas. Impartiality, independence and confidentiality are a prerequisite for international multi-disciplinary legal-economic services to the business world.

Table 4
Number of representations before the European Court of Justice between 1970 and 15/07/1988

Belgique/België	747
Danmark	49
BR Deutschland	875
Hellas	41
España	6
France	353
Ireland	81
Italia	338
Luxembourg	247
Nederland	251
Portugal	1
United Kingdom	318
EC 12	3 307

Source: CCBE

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Description of the Sector

General characteristics The work of a notary is divided into a number of tasks:

- he handles the drafting of legal instruments and contracts in authentic form; transfer of rights in rem and formal declarations, wills and anti-nuptial settlements, mortgage deeds and Articles of Association of a company and alterations to a company's Articles of Association. Unlike notaries in Italy, Luxembourg, Greece, Spain, Germany and Belgium, who have a monopoly over company instruments, notaries in France do not have any mandate in this regard.
- in some countries, the notary is a legal advisor. In the Netherlands, legal advice has developed so much that it accounts for the majority of the turnover in some notarial offices;
- in places where there are specific legislative provisions for leases of more than nine years, the notary certifies this fact. This is chiefly the case in Belgium, Luxembourg and Greece.

The Latin notary is a legal professional, both liberal and magistrate, that is to say "a professional and public legal official". He is appointed by the State to offer impartial advice to parties, to reconcile them and to draw up their agreements under his responsibility. He intervenes in order to authenticate various legal documents. The State confers upon him prerogatives of public power so that he may fulfil this role. This system is found in written (codified and statute) law countries, with the exception of Portugal and Denmark where the notary is a State civil servant. In Germany, the structure of the notarial profession has regional variations: depending on the "Länder", the professional working as a notary can be either "a simple notary" (Nur-Notar) or a notary-solicitor/advocate (Anwaltsnotar), or a notary-civil servant (Richternotar). In Anglo-Saxon countries, the notary system has never become firmly established. Common law ensures that bearing witness is and remains judged far more highly than written documents. In addition, there is a predominantly "liberal" notion of the profession of lawyer. The bulk of legal work is therefore handled by solicitors, who are non-specific legal experts with the job of offering counsel in all areas, of drawing up all manner of contracts and of legally representing clients. The services of a "notary" are not therefore often required for domestic legal needs; so much so that the tasks which are the exclusive reserve of a notary in England are more limited than is the case for his continental or Latin-American counterpart. Nevertheless, they do have the particularity of being the principal authenticators of documents being sent abroad.

The notary is also an unpaid collector of taxes for the State, courtesy of the revenue stamps on the documents which

Table 1
Number of notaries, 1988

	Number of notaries in each state	Number of inhabitants per notary
Belgique/België	1 260	7 843
Danmark	82	6 256
BR Deutschland	(¹) 9 509	6 459
Hellas	2 465	4 050
España	(¹) 2 093	18 631
France	(¹) 7 442	7 524
Italia	5 184	11 082
Luxembourg	35	10 714
Nederland	(¹) 745	19 800
Portugal	(¹) 387	26 580
United Kingdom	1 000	57 000
EC 11	30 202	

(¹) Figure obtained from the national associations.
Sources: Eurostat, CACE

he engrosses, the registration duties which he collects, and the recovery of direct or indirect tax and social security arrears when transactions are carried out through his offices. The notary's intervention gives exceptional authority to the document which he counsels, draws up and seals, after ensuring that the contracting parties agree on the provisions it contains. The deed drawn up under his seal will have evidentary value and even enforceable value, in the way a court judgement does. Essentially, his intervention provides a three-fold guarantee:

– Contractual equity

The notary draws up a legally binding agreement between contracting parties with separate interests. The deed drawn up under his control will be in accordance with the rule of law and public policy which the notary must always have a perfect understanding of, in order to apply it accurately. This special responsibility, and the concern to ensure contractual equity, allowing balanced legal agreements, have led legislatures in written (codified and statute) law countries to restrict powers to authenticate documents to the notary.

– Legal certainty

For transfers of property, mortgage loans, company instruments and those which are binding upon patrimonial life, such as antinuptial settlements, the notary's obligatory intervention is intended to give the parties reliability and legal certainty.

– Impartial counsel

The notary is the public authority's delegated arbitrator, and the privileged and active witness to the agreements which he brings to the legal process. In fulfilling his task, he must maintain strict neutrality and give his advice without distinction to all parties. With the exception of Portugal, the notary carries out his role of public legal official in written (codified and statute) law countries within an independent liberal profession. This, together with his competence, is the best guarantee of quality and impartiality in the service which he must provide to his clientele.

National characteristics In addition to the tasks found in almost all EC countries, in some Member States the notary is given specific jobs to perform:

- in Belgium, the notary acts as an officer of the court, chiefly on distraints, bankruptcies, court partitions of real estate, expert appraisal, etc. He plays an active role in land purchase negotiations;
- one of the activities which distinguishes the French notary is that he intervenes in estate and management negotiation;
- a specific activity for notaries in Greece is their frequent intervention in the sale of cars;
- The Italian notary performs a fairly characteristic function in exchange market transactions, where he acts as an officer of the court during protests.

Employment

The post of notary is found in all the Member States of the European Community. In nine of them, however, it is performed by a separate notary profession, whilst in Denmark the post is conferred upon judges, and on solicitors in the United Kingdom and Ireland, with the exception of the City of London, which recognizes a separate notary body. Lastly, only Portugal and the Federal State of Baden-Württemberg in Germany have conferred the notarial function upon civil servants.

With the exception of Portugal, notaries are legally represented in national and regional associations in every EC country.

Training Training for a notary is as demanding as that for a solicitor/advocate. Thereafter, in most written (codified and statute) law countries, special exams, and often post-graduate competitions at the highest legal level, are held to ensure that candidates for the notary profession have a sufficient level of knowledge before taking up a post. With the exception of Spain and Greece, access to the profession requires post-graduate probationary training (articles). In Portugal, the period of articles varies between four and eight months, depending on the nature of the location where this is performed. This knowledge is constantly updated through the permanent personal efforts of the notary and within the structures set up by the profession.

Access to the profession The admission restrictions to the notary profession in most EC countries have the result of confining the notary's working area to a clearly determined geographical area, often with a residential obligation. Therefore, the notary, who cannot lend his support to his minister, may find himself performing his public service in the most deprived and remote regions.

Generally, the compulsory retirement age for notaries is around 70.

Structure of the notary's office In addition to working with members of other professions (solicitors, accountants, secretaries), the notary is often surrounded by trainees (article clerks). Generally, they are paid according to the level of advancement of their professional examinations.

Association with other professionals is allowed in most Member States, except in Belgium and Luxembourg, although the trend is moving clearly in the former direction.

Notary pay Most services are subject to a compulsory legal fee. This rule is in force in all the Member States, except in the United Kingdom, where payments are recommended but not set. Often, the scale of charges is expressed by a rate relating to the value mentioned in the deed. Portugal is the exception, insofar as the notary's intervention is not paid for out of fees by the client, but by a salary augmented by income interest from the office's fees collected on behalf of the Ministry of Justice.

Work

Areas of work In all the countries of the European Community, the notary's volume of work has grown rapidly since the post-war period. The boom in notary work is the result of a combination of several causes:

- the growth in national economies has been reflected in stronger and increasingly complex demand for documents in most Member States;
- the capital involved in these documents has become greater;
- with tangible fixed property assets having risen considerably, the work of the profession has followed this upward trend.

Table 2
Number of notary acts, 1988

	Number of acts per country	Number of acts per 1000 inhabitants	Number of acts by notary
Belgique/België	657 204	70	522
BR Deutschland (1)	9 000 000	140	946
Hellas	1 246 383	130	506
España	5 102 659	140	2 438
France	(4) 4 578 400	80	618
Italia	(2) 14 996 981	270	2 893
Italia	(3) 14 849 904	260	2 865
Luxembourg	35 822	100	1 023
Nederland	(1) 850 000	60	1 140
EC 8	51 317 353		

(1) Estimates
(2) Documents
(3) Conventions
(4) Figure obtained from the national associations.
Sources: CACE, Eurostat

Professional practice In most Member States, notaries work as "individuals". With the exception of Belgium, Luxembourg and Greece, notaries also have the freedom to work "as a company". The legal mechanisms which allow association to differ from one Member State to the next. Thus, in Greece and Spain alone, "medium-sized companies" are permitted. They enable notaries to combine their working instruments, or even some services (computing, accountancy, personnel, etc...).

In other Member States, notaries may work "as a company". Such companies are legal entities. This is the case in France and the Netherlands, where notaries may join together in a "Civil Law Partnership" in order to run a practice. In the United Kingdom, the notary has the possibility of working with one or several other notaries from the same town. In Germany, there is a distinction between "Nur-Notare", who may only associate with a single colleague, and "Anwaltsnotare", who is free to work with however many people they choose, not only with notaries, but also with solicitors/advocates and legal advisors.

In general, associating with other legal professionals is still a rare occurrence. However, it does exist in Italy and Greece (notaries-solicitors), while the current trend is towards a growing expansion of interprofessional companies. Many projects are being studied at present or are even entering positive law in some Member States (chiefly in France and United Kingdom). A better legal service would thus be provided to legal consumers who would find assorted professionals from different fields under the same roof (law, tax, accountancy).

Impact of 1992

The full opening of borders in 1992 will bring new judicial needs. The free movement of people, services, capital and goods, as contained in the Treaty of Rome and Single European Act, will necessarily engender a speedier exchange of deeds, documents, papers and contracts. The logical result of this movement will be changes in the notary profession and will above all necessitate the protection of legal consumer interests. This is why reforms are being envisaged in several countries (France, United Kingdom, Luxembourg), to provide a better service and better protection of legal consumers. Similarly, the completion of a true "Common Market" implies free movement of legal documents, namely their recognition and fulfilment in all countries within the Community. The Brussels Convention of 1968, whose aim it was to make it easier to complete authentic documents outside their country of origin, already exists to encourage this free movement.

Table 3
State of the notarial profession 1988

	Number of notary offices	(¹) Total number of employees	(²) Turnover per practice
Belgique/België	1 260	(¹) 4 000	N/A
BR Deutschland	(¹) 6 000	(¹) 11 000	(²) 5.52
Hellas	2 465	(¹) 3 150	N/A
España	(¹) 1 550	7 762	N/A
France	4 984	39 400	(²) 2.15
Italia	(¹) 4 500	(¹) 28 000	(²) 0.25
Luxembourg	35	(¹) 150	(²) 0.13
Nederland	(¹) 750	(¹) 8 000	(²) 0.34
Portugal	325	(²) 1 941	N/A
EC 9	15 869	103 403	

(¹) Estimates
(²) Figures obtained from the national associations.
Source: CACE

However, this convention still has only "limited" application, since it excludes some important areas of interest to the work of notaries. Extending the scope of this convention would, therefore, be desirable in order to enhance the building of a judicial Europe (chiefly, position and responsibility of persons, succession).

UNILC: International Union of the Latin Notary Profession Main office: Buenos Aires, Callao 1542, Argentina
Revised by: Ms. Clarisse Martin.

Accountancy services

In the EC, about 270 000 persons are registered as members of a professional accountancy organisation. They offer a wide range of services, from accounting to tax advice and insolvency services. In such a situation, the distinction between accountants on the one hand, and legal and management advisers on the other hand, is difficult to make. In the Member States, regulations exist to control statutory audit requirements both in public and private-sector institutions. In addition, there are licensing requirements for the providers of these services.

Description of the sector

According to the official definition, NACE category 836 includes units exclusively engaged in bookkeeping, accounting and auditing and in furnishing advice on economic, financial and tax matters. The services in question are essentially those made available to other enterprises. Where units provide such services for the account of their own enterprise, they are considered as administrative units and classified under the same heading as the enterprise for which they work. Not included, however, are market research offices and management consultants.

Accountants have evolved from acting as mere statutory auditors and accountants, to serving as financial advisers, to becoming advisers in many other areas of government and business services. In the latter capacity, the profession touches in particular upon management consultancy. This extension into other areas has considerably increased overall turnover for the profession.

Accountants engage in a wide range of activities in public practice, industry, commerce and government services. Due to differences between countries in the way in which accountancy and accountants are regulated and organised, it is difficult to define a common scope. For instance, of those professional bodies which are members of the "Fédération des Experts Comptables Européens" (FEE), the umbrella body for the accountancy profession in Europe, some confine their membership to accountants in public practice while other organisations do not require their members to work or have worked in public practice. However, for the purposes of this description, the sector is defined as consisting of those firms and individuals in practice as public accountants, providing accountancy services (in the widest sense - see below) to clients, both individual and corporate, in the public and private sectors. This excludes non-professional staff and non-accountant professionals working in public accounting firms. A distinction is therefore

Table 1
Accountancy services
Employment, 1989

	Members professional association	Accountants in the liberal profession	% of total membership
Belgique/België(¹)	7 879	3 879	49
Danmark	2 400	1 980	83
BR Deutschland(¹)	5 205	5 205	100
Hellas(¹)	700	640	91
España	5 200	1 900	37
France	14 461	14 461	100
Ireland(²)	6 425	3 142	49
Italia(¹)	46 000	28 000	61
Luxembourg	325	325	100
Nederland(¹)	6 000	2 500	42
Portugal(¹)	460	377	82
United Kingdom(³)	173 174	44 391	26
EC 12	268 229	106 800	40

(¹) 1988 Data
(²) Including Northern Ireland
(³) Excluding Northern Ireland
Source: FEE

drawn between the accountancy profession and the accountancy-services sector.

Employment

In the Community, a total of about 270 000 persons are members of a professional accountancy body. In some Members States, membership of a professional body is confined to those individuals actually working in public practice. This explains why the number of accountants per 1000 inhabitants varies so widely between individual Member States. The United Kingdom and Ireland have traditionally had a large number of accountants, many of whom move into other activities or work outside their home country. In Italy, which also has a proportionately high number of accountants, the profession is involved in a wide range of activities, one of which is legal advice. In the Federal Republic of Germany, a separate body of tax advisers exists which has approximately 40 000 Members.

Accountancy services

As explained further on, in certain Member States, regulatory constraints may impose limitations on the provision of accountancy services - either in general or to certain categories of clients. However, it is possible to identify several broad categories of services across the entire range of services supplied in the Community. These are as follows:

- accounting;
- auditing;
- tax advice;
- management consultancy;
- insolvency;
- trustee and administration work;
- other services.

Accounting Assistance and advice are made available to clients regarding the organisation and design of accounting systems, the keeping of accounting records and the preparation of financial statements, whether required by law or for other reasons. The nature of the services can vary from basic bookkeeping for small or unsophisticated clients to detailed advice on the application of accounting principles and standards for sophisticated clients.

Auditing Under Community law, many companies are required to have their annual financial statements audited, whereby a properly approved auditor or firm of auditors is required to express an opinion as to whether the financial statements give a true and fair view of the results of the company's activities and of its financial position, and whether they comply with the relevant legal provisions. The purpose of the independent, external audit is to lend credibility to financial information and thereby to enhance the effectiveness of economic decisions made on the basis of it. In addition, many companies and other entities not subject to the statutory audit requirement voluntarily request contractual audits, in view of the benefits that accrue from this service. Finally, there is a growing demand for audit-related services, which involve the issuance of special-purpose reports and opinions or the application of certain defined procedures.

Tax advice In this area, services can be broadly categorised as relating to tax planning or tax compliance, the former consisting of advice on the application of taxation law and the latter relating to the preparation and presentation of the various returns and declarations required by law, and assistance to clients in their dealings with the relevant authorities.

Management consultancy Given the broad comprehensive nature of their education, training and experience, accountants can contribute a considerable body of information and guidance to clients in a wide range of areas. These may include general financial and business advice, the management of financial systems, internal controls, information technology, strategic planning, mergers and acquisitions, marketing, production, personnel, executive search, and personal financing planning. There is a very clear trend towards expanding the range of services provided. In many countries, the management consultancy units of accountancy firms are the largest consultancy organisations. This state of affairs leads to difficulties in drawing a clear dividing line between accountancy services and management consultancy sectors. More information on the latter sector is provided in the chapter on "Management consultancy".

Insolvency Accountants are either the leading, or significant, providers of insolvency services in those countries where they are permitted by law to act in this capacity. Their role may thus be that of liquidator, receiver, administrator or a similar role for companies or individuals in financial difficulties or of adviser to other professionals acting in these capacities. Clients may also turn to accountants for advice before financial difficulties reach a critical stage. In many cases, therefore, this area of practice is known as "insolvency and corporate recovery".

Trusteeship and administrative duties In certain countries, accountants frequently act in a fiduciary capacity for clients, handling investments and similar financial arrangements.

Other Legislation in many Member States authorises certain accountants to perform statutory defined duties such as representing clients before certain administrative and other tribunals and/or issuing certain declarations and reports.

Regulatory environment

In general, governments exercise influence on the accountancy services sector via the regulatory framework. Two kinds of regulation can be distinguished.

The first relates to the services provided by the sector. All Member States have a substatutory audit requirement, and many also require the involvement of suitably qualified accountants in the expression of opinions or the issuing of reports in other circumstances. Furthermore, many accountancy services relate to the provision of advice and assistance with regard to laws and regulations on taxation, insolvency, company law, etc. Certain countries impose limitations on the range or combination of services which can be provided to particular clients.

The second category of regulations directly affects the providers of accountancy services by establishing requirements for the education, training, qualification and professional conduct of accountants and accountancy firms. In many cases, there are also further licensing requirements for specialised areas of practice.

Frequently, governments delegate many of their powers of regulation to self-regulating professional bodies which are responsible for enforcing the rules applicable to their members. The extent of this delegation and self-regulation varies from country to country, reflecting differences in tradition and legal background.

Government regulations can also have an influence on the organisation and structure of accountancy firms, and can limit the forms of legal entities which can be used by accounting firms.

It should be noted that Community legislation, particularly in the area of company law, is achieving a greater degree of harmonisation of laws and regulations having an impact on the accountancy-services sector.

Structure of the sector

Given the wide range of activities encompassed by the accounting services sector, and the number and variety of its clients, there is considerable variation in the scale and organisation of accounting services providers.

National requirements, both governmental and self-regulatory, influence whether providers may be natural persons (individuals and partnerships) or legal persons (e.g. limited liability companies). They also affect the ownership and control of firms in the sector, and can prohibit or permit the involvement of members of other professions in such firms. The size of services providers also varies considerably, responding to different client needs. Small firms, or even individual accountants, can achieve success by identifying appropriate market niches, in terms of either location or services provided. At the other end of the scale are major firms, employing several thousand staff members, with international networks (either regional or world-wide). The links between practices in different countries can vary from common partnerships across borders to loose affiliations that do not involve profits-sharing arrangements. Such large firms seek to provide a full range of accountancy services to a wide spectrum of clients, including large transnational corporations with operations on an international scale.

Within the sector, there is a growth trend of firms through mergers; this partly reflects a desire to provide more comprehensive service to clients, in terms of both geographical coverage and the nature of services provided. It is also a means of ensuring that adequate funds are available to support the continually increasing investment required for training and personnel development, introducing advanced information technology, and remaining innovative in the development of new services. This, in turn is a reflection of growing competition between providers within the sector seeking both to increase the cost-effectiveness and efficiency with which traditional services are provided and to diversify into more rapidly expanding areas of practice.

Outlook

As mentioned above, the regulatory regimes governing the sector in the various Member States are converging, in part because of Community harmonisation initiatives. In particular, the accounting-related company law Directives have led to an increase in demand for accountancy services in many Member States, and have also improved the comparability of financial information published by enterprises in different Member States. In January 1990, the Commission announced the creation of an Accounting Advisory Forum to consider how additional progress can be made in this field. Chaired by the Commission, the Forum will be made up of national accounting standard setters and pan-European organisations representing preparers, users and auditors of financial statements.

The free movement of accountancy professionals throughout the European Community will be facilitated by the Directive on the mutual recognition of professional qualifications, which enters into force in January 1991. Migrant professionals will still be subject to an aptitude test on local law and tax, so as to provide adequate protection to the public. The Directive, however, applies to establishment-based activities, so does not cover the cross-border provision of services. Furthermore, because its application is confined to natural persons, it does not deal with accountancy firms, which are the major practice units in many Member States. The process of liberalisation within the European Community may be complemented at a worldwide level as a result of talks to liberalise international trade in services, including accountancy services, currently taking place under the Uruguay Round negotiations. If successful, this would give European accountants and firms improved access to markets elsewhere in the world. Developments in Central and Eastern Europe have also given rise to an increase in demand for accountancy services. Accounting and the accountancy profession are essential elements of the infrastructure of market economies, so as the countries in Central and Eastern Europe undergo their process of transition, they have need of advice as regards changing their regulatory environment, privatising state-owned enterprises and attracting foreign investments. Accountants and accountancy firms have been in the forefront as regards providing this advice.

FEE: Fédération des Experts Comptables Européen; Address: Rue de la Loi 83, B-1040 Brussels; Tel: 32 (2) 231 0555; Fax: 32 (2) 231 11 12
Revised by: Sema Group Management Consultants

Architects

The strong increase in building on average in the 12 EC Member States in the second half of the 1980s had a noticeably positive effect on the architectural profession.
However, figures for turnover and employment in a number of Member States have still not regained their 1980 levels. The field comprises a large number of duties which require very different qualifications. Architects thus need to know about construction methods, restoration, preservation and conservation areas, to take account of environmental protection interests and above all to design new buildings which are functional, of real quality, aesthetically pleasing and which fit harmoniously into their surroundings.

Description of the sector

Architects are classified under section 837 of NACE. In general, "architects" means those working in structural engineering, i.e. the organisation and construction of buildings or superstructures.
Nevertheless, account should also be taken of other types of architects:

- interior architects;
- landscape architects;
- town planners.

However, since architects specialising in these activities are fewer in number in all countries than those in structural engineering, it is rare for them to be addressed separately.
However, landscape architects especially, as well as town planners, have gained in importance over the past decade, since the profession's forming of structures, green areas and open spaces has increased substantially, as has the renovation of entire urban districts.
"Architects" are frequently identified as working on a self-employed basis.
This is understandable, as there are more architects working independently in most EC countries than as paid employees or officials.
The United Kingdom is the sole exception. There, only about one quarter of all architects work on a freelance basis.
The functions of structural engineering architects encompass:

- control over drafting techniques, which include the drawing up of construction programmes and their conveyance to builders;
- the application of specific knowledge as regards building techniques and physics;
- awareness and utilisation of general as well as project-specific official rules and regulations.

Table 1
Architects
Working status, 1989

	Number of architects	Liberal (%)	Salaried (%)
BR Deutschland	80 000	53	47
France	28 850	73	27
Nederland	5 000	70	30
United Kingdom	31 000	26	74

Source: CLAEU, National Professional Associations

Legal system

The basic role of the architect is similar in all Member States. Governments have traditionally delegated the well-defined duties performed by freelance architects within the "building chain". However, the extent of these responsibilities differs greatly from country to country. Architects in Spain, France and Belgium, for example, enjoy particularly extensive authority, whereas freelance architects in the United Kingdom, Denmark and Luxembourg have relatively fewer powers. Notwithstanding the fact that professional training differs substantially in places, all the Member states protect the use of the title of architect.

Exercise of the profession

In France, clients wishing to build must in principle consult an architect, who supplies the building plans required to obtain the building licence. The only exceptions are smaller building projects. Plans for commercial and industrial buildings and other standard buildings and their many variants, must also be produced by architects before they can come onto the market. Even when the architect does not take charge of on-site supervision during the ensuing construction work, he has to check that the work conforms to the plans.

In contrast, there are no regulations in the United Kingdom stipulating the involvement of an architect in a building project. Planning permission can also be sought by anyone. In practice, architects to a growing extent are now only called in to produce designs, while the execution and monitoring of building work is entrusted to building firms. An unusual feature is found in Spain, where chambers of architects have the most extensive authority of all the 12 Member States: building proposals are presented to the government authorities via a region's appointed chamber of architects. The government has in fact transferred to the chamber of architects the task of scrutinising the technical design of building proposals. After further examination, administrative authorities then grant the building licence. The involvement of an architect is, moreover, required in all building processes. The only exceptions are industrial plants and construction relating to infrastructure. Planning of these is the exclusive responsibility of engineers.

Guarantee and professional liability

Legal provision on questions of guarantee also differs. In very rough terms guarantee rules for clients ordering building work are particularly favourable in countries where the law places strict rules on architects, i.e. only they can conduct the planning and supervision of building work. Thus, in Spain, a ten-year period of liability is applied to contractors for any damages arising from defects in construction. A fifteen-year guarantee period even exists for damage resulting from breach of contract. In countries where the legal system is founded essentially on the "Napoleonic Code" (France, Belgium, Italy, Luxembourg), clients are entitled to a ten-year liability period covering building work.

In contrast, German building law only recognizes a five-year guarantee period, which can even be reduced to two years in some contracts. In the United Kingdom a guarantee period of three or six years was introduced recently, whereby the three-year period is used for single contracts and the six-year period used for certified contracts. In all Member States, the guarantee period begins usually with the commencement of building work. Strict insurance obligations exist to cover the professional liability period, particularly in countries with very rigid guarantee requirements. However, insurance is usually also taken out on a voluntary basis in other countries.

Professional fees and advertising

Only a very small number of countries have a legally-based system covering fees. However, in ten out of twelve Member States (Belgium, Denmark, Federal Republic of Germany, Greece, Spain, France, Ireland, Luxembourg, Netherlands and Portugal), legal or professional rules governing fees are used, and are accepted by a substantial number of employers or are used as guiding principles.

In the United Kingdom lists of fees have been fully dispensed with, the principle being that current price competition is the maximum by which contracts are awarded.

In all the Member States, architects are only allowed to advertise to a very limited extent. Even in the United Kingdom where advertising is not prohibited in principle, only discreet advertising is found. In the other countries, the criteria are far tougher. In the main, advertising can only be used in a restricted format and can moreover refer only to the projects themselves which have been carried out or planned. Under no circumstances may comments be made which imply that the person or firm advertising is "better" or "better value" than a colleague or competitor.

Other legal regulations

In all the Member States, account must be taken of the peculiarities laid down by various laws and regulations, for example with regard to earthquakes in Greece. However, guidelines which are relatively specific in places can also be found governing historically important sites.

The various restrictions and specifications concerning the chosen building methods and materials should also be mentioned. Whilst few restrictions are to found in some countries and regions, very tough regulations exist in others. Moreover, these prescribe the full range of specifications of building projects with regard to the form and selection of materials, contents and external aspects. In most EC Member States, however, there are only "recommendations" concerning the usage and/or selection of materials.

This is understandable, since the availability of materials is a regional problem, it only being possible to supply certain materials at a high cost if they have to be shipped over particularly long distances.

Training and exercise of the profession

With regard to its technical foundations, professional training differs considerably from one Member State to the next. Educational systems vary a great deal, showing a more technical orientation in the Federal of Germany, Spain and Greece, a more artistic leaning in France and Italy, a cultural-historic foundation in the island states of the EC and more practical orientation in Belgium, Denmark and the Netherlands. It is no wonder, therefore, that negotiations dragged on for 18 years, before it finally became possible in 1985 for a Directive to be adopted on architects. In accordance with this, college diplomas from each Member State are recognized on a reciprocal basis. The EC Directive on architects of 10 June 1985 has produced the basic preconditions for all architects to set up business in the country of their choice and exercise their profession. At present, the Directive is being transposed into national law in the newest EC Member States through the modification of their national laws on architects - something which should already have happened by the end of 1988. In practice, however, negotiations are taking place in all the Member States as if this directive had already become national law throughout the EC.

As a minimal requirement for the mutual recognition of diplomas, the architects Directive stipulates at least four years study at university or a three-year technical course incorporating two semesters spent on work experience. In addition, within the framework of the Erasmus programme, fundamental stipulations are already being laid down - to be reinforced in the future -for plans which go beyond European frontiers. The aim of this programme is the exchange of students and teachers from educational establishments for architects within Europe.

Current situation

In the second half of the 1980s, building activity grew appreciably on average in the 12 EC Member States. Although slight symptoms of slow down can already be observed in most countries, this rapid growth phase has certainly had a positive effect on the architect sector. For most architects, the situation regarding orders has improved appreciably or has at least stabilised. In virtually all the Member States, this employment situation would be even more favourable, were it not for the fact that so many young architects had set up offices in the course of the last few years. This can be traced almost exclusively to demographic developments which have resulted in the overwhelming number of Member States showing a strong upward trend in further education graduate numbers for some years. The total number of architects in the 12 EC Member States has thus reached 250,000. In Italy, moreover, the architect/population ratio is particularly high, although account should be taken here of the fact that numerous duties are taken on by architects in Italy which are unconnected with actual training. There are above average numbers of architects in Denmark, the Federal Republic of Germany and Greece, while architect numbers are particularly low in Spain, Ireland and the Netherlands. The figures here for the Federal Republic of Germany refer to the situation in the sector prior to re-unification on 3 October 1990.

Table 2
Number of architects and students

		Number of architects	Number of students	Architects per million inhabitants
Belgique/België (1)	1989	6 500	(2) 3 400	657
Danmark	1983	4 900	2 270	961
BR Deutschland (1)	1989	80 000	(2) 48 000	984
Hellas	1983	9 500	(3) 1 000	969
España (1)	1989	11 000	(2) 14 000	282
France (1)	1989	28 850	(2) 13 000	516
Ireland	1983	1 200	475	343
Italia	1983	65 000	66 000	1 144
Luxembourg (1)	1989	200	(2) 75	533
Nederland (1)	1989	5 000	(4)2 500	338
United Kingdom (1)	1989	31 000	(4) 7 200	543

(1) Self-employed and employed architects organised in the national professional association.
(2) 1988/89.
(3) 1981, another 6 000 are studying abroad.
(4) 1987/88
Source: CLAEU, National Professional Associations.

Outlook

The prospects for architects over the next few years are not wholly without problems. In addition, despite high building demand and therefore also a high volume of orders for architects' plans, they will increasingly be facing more competition from other suppliers, while there are only inadequate safeguards as regards their fees. For most architects, therefore, private employers will take on more and more importance.

Furthermore, it will become more difficult by the year to remain competitive with building companies, and with the architects working in the planning offices of building firms.

In future, therefore, attracting sufficient business and earning enough in fees will be dependent on a high degree of commitment, being highly qualified and the constant updating of knowledge.

To an ever more marked extent, the work of architects will be affected by the building products Directive ("Directive concerning the approximation of the legal and administrative provisions of the Member States as regards building products"). The building products Directive includes harmonisation of the entire technical body of rules in the building and construction industry. Accordingly, there is a guarantee of free trade and unrestricted use of building products within the European Single Market. Establishing and certifying a product's conformity with harmonised specifications will result in products being awarded the EC symbol.

Architects in each Member State will therefore be faced in future with a large number of "new" products and materials, since all producers should be aiming to obtain the EC symbol. On this score, products will undergo extensive modification and will be offered in a maximum number of EC countries. For architects, the result will be a considerable amount of work. In accordance with the building co-ordination Directive ("Directive on the co-ordination of procedures for the putting out to tender of public works contracts"), public orders from a threshold value of over 5 million ECU must be put out to tender throughout the EC. The particular consequence for freelance architects is that it will be possible to award both planning and building work to a single contractor. In principle, this will favour non-specialist firms and may ultimately lead to architects' services being tendered for. The EC Directives concern only larger public works contracts, or a relatively small part of all planning volume. Nevertheless, this development of more intensive "product orientation" in construction planning, could have a signal effect and may soon be extended to other areas.

Written by: Ifo: Institut für Wirtschaftsforschung
IBased on the Panorama '90 report by DRI and statements from the Federal Chamber of Architects (Federal Republic of Germany)

Engineering consultants

Engineering encompasses activities relating to the design, study and supervision of construction projects, infrastructures and industrial complexes. The turnover for professional engineering, practised by firms or individuals as their main business, is estimated at 23.5 billion ECU while the number of people employed is put at around 400 000 people. Slightly less than 4% of the turnover comes from exports to EC Member States and 30% comes from extra-EC exports.

Description of the sector

Engineering is classed in NACE 837 which covers all the various activities relating to architecture and engineering as well as the associated activities involving technical advice. In this particular analysis, we will concentrate on "engineering" activities, architecture being dealt with under a separate section.

- Engineering can be defined as "all services mainly intellectual, aimed at optimising the investment, irrespective of its nature, in terms of its chosen solutions, technical processes, relating to design or construction, and its implementation and management".

The main types of projects and sectors concerned are as follows:

- the construction of all types of buildings either wholly or in respect of the main functions (foundations, shell, electricity, air conditioning, etc.);
- public transport infrastructures (airports, ports, railways, roads, tunnels, car parks, urban road networks, etc.);
- investments related to public utilities (water, gas, energy, communications);
- industrial complexes;
- environmental protection (waste treatment, pollution control);
- development connected with agriculture (irrigation, soil protection, re-allocation of land), the exploitation of mining and natural resources.

The design and implementation of these projects calls for a wide range of scientific and technological disciplines (civil engineering, structural engineering, mechanical engineering, hydraulic engineering, electrical engineering, etc...).

Engineering is sometimes defined as "the science concerned with putting scientific and technological knowledge to use".

When engineering is performed as the core activity, it is referred to as professional engineering. When it is practised on a secondary basis, as part of a wider activity, it is known as integrated engineering.

Among the main forms of integrated engineering one finds:

- the technical engineering departments of central, regional or even municipal authorities particularly in the field of infrastruc-

Table 1
Engineering consultants
Main indicators, 1990

	Number of firms	Turnover (million ECU)	Employees	Exports (mio. ECU)
Belgique/België	103	323	5 150	73
Danmark	301	551	9 060	66
BR Deutschland	2 869	1 586	33 330	565
Hellas	140	75	3 200	7
España	119	826	14 820	95
France	864	1 853	21 780	348
Ireland	86	21	630	N/A
Italia	159	2 497	21 500	1 199
Luxembourg	20	17	330	0.8
Nederland	180	649	8 750	195
Portugal (1)	38	60	2 500	15
United Kingdom	779	2 453	43 200	736
EC	5 636	10 648	164 250	3 299

(1) 1988
Source: CEBI/CEDIC

tures;

- public utilities: electricity, water, railways, urban transport and state-owned firms some of which have decentralised their technical or engineering departments in order to export their knowledge abroad;
- industrial firms and suppliers of equipment, either for their own engineering requirements or by incorporating engineering services into their commercial transactions, particularly in the case of turnkey operations,
- construction and public works firms, also in the case of turnkey operations.

Although it is very difficult to estimate the added value of engineering as a whole, professional engineering is generally thought to account for 45% of engineering activities, while integrated engineering accounts for 55%, 20% of which falls within the public integrated sector and 35% - the private integrated sector (industries and civil engineering and building activities).

Professional engineering comes under the umbrella of two major EC associations: the CEBI, which is mainly composed of large, integrated firms and CEDIC, which is made up of consulting engineers with the status of "liberal profession" or who practise within the framework of small or medium-sized independent companies. The distinction between these two major associations has become increasingly blurred over the past few years, ever since some of the largest EC consulting engineer firms joined CEDIC. It is estimated that the two associations combined account for 40% of the professional engineering sector.

Output and employment

Table 1 gives the main statistics relating to the activities of the member companies of the CEBI and CEDIC. Their turnover is up by 5% to 10% compared with 1988. Bearing in mind the fact that these firms have an estimated market share of 40%, the total turnover for the professional engineering sector is somewhere in the region of 23.5 billion ECU, with approximately 400 000 jobs.

Table 2 provides a rough estimate of the various client sectors of professional engineering. Major differences can be observed from one country to another, mainly due to the varying degree of competition presented by integrated engineering (very stiff competition in the case of infrastructures and construction in France, and in the industrial sector in the Federal Republic of Germany).

Statistical data should always be treated with caution, as it is very difficult to ascertain what share of a firm's turnover comes from intellectual services, i.e. engineering proper, and what proportion comes from the sale of equipment which is sometimes included (30% of the total turnover for professional engineering in France in 1987 according to SESSI - Ministry of Industry).

External trade

With 3.6 billion ECU, exports account for 33% of the turnover of CEBI/CEDIC members.

This figure has declined steadily since the crisis in the period 1981 - 1985, when, depending on the country, exports accounted for between 40% and 60% of turnover, and often more than 80% in the case of large firms. The recent fall-off reflects the

Table 2
Engineering consultants
Main sectors of activity
(as a %)

Sectors	EC total	D	F	UK
Industry	31	27	50	14
Infrastructure	24	20	18	18
Construction	14	6	11	40
Energy	13	15	10	6
Environment	8	14	3	4
Others	10	18	8	18
Total	100	100	100	100

Source: Sema Group - Consultronique

gradual recentring of professional engineering around the domestic market, along with a decline in major export contracts. The downturn in exports can be attributed to two main reasons:

- the reduction in the resources of oil-producing countries following the drop in oil prices and a certain degree of saturation in terms of facilities in some areas (petrochemicals, energy, infrastucture);
- the economic and financial crisis in numerous developing countries coupled with the reluctance of backers, bankers and States to become more deeply involved in the financing of investments which have resulted in financial disasters for a number of firms and high costs for public finances.

The result is a shift in large scale contracts towards more solvent countries, particularly Asia and the OECD countries which currently account for 60% of the market for major export contracts.

Intra-EC trade remains weak: somewhere in the order of 250 million ECU. Imports from third countries (United States, Canada) are more substantial: around 600 million ECU.

Structure of the sector

With around 10 000 firms, the sector remains relatively dispersed. The ten largest EC firms account for roughly 11% of the total market and the 60 largest, only 33%. In most countries, the ten largest companies account for less than 5% of the market, except in the United Kingdom where they represent 20%.

The reason lies in the diverse nature of the sector, made up of numerous small firms which still operate along the lines of liberal professions. This is especially true of the construction sector or industrial surveyors where the majority of firms have between 10 and 20 employees.

The 1981 - 1985 crisis also forced large firms to shed jobs and now that the industry has begun to recover, there is still a certain amount of caution when hiring, coupled with an emphasis on economies of scale. As a whole, firms in the engineering sector have tended to remain "national", even if some shareholders come from other EC countries. Few firms have ventured beyond their national borders (John Brocon acquired holdings in Sofresid and there have also been a number of alliances).

On the more general subject of corporate strategy, firms are beginning to broaden their range of services (move towards a multi-disciplined approach) while at the same time preserving a high degree of sectoral specialisation (construction, infrastructure, energy, environment, certain industrial sectors).

All this goes hand in hand with the desire for higher added value, mainly by incorporating new disciplines and adopting a more systematic approach (architecture and energy saving, intelligent buildings, monitoring systems and optimisation of water, energy and transport networks, automation of factories and logistics, etc...).

Impact of 1992

Cross-border EC trade, particularly in the case of public works contracts, is still very limited (less than 4% of turnover), largely on account of the various regulations and standards specific to each country.

The free flow of public works contracts (estimated at around 50% to 60% of total turnover, i.e. approximately 12 to 14 billion ECU) is further hampered by the high proportion of engineering activities incorporated in public authorities and certain EC utilities. Integrated engineering is thought to account for 70% - 80% of public contracts. The privatisation or decentralisation of these services, the abolition of monopolies and the imposition of competition rules by the Common Market should gradually serve to open up these markets. At the same time, professional associations are helping to bring European firms together in order to forge closer links, alliances and encourage the setting up of local offices (while retaining specialist teams at head office), in an effort to overcome cultural and regulatory obstacles. The development of joint systems in areas such as quality assurance, qualifications and company registration, norms and standards should lend added impetus to the process of EC integration in the medium term (5 to 10 years).

Market trends

Engineering is closely linked to the level of public and private investment. Ever since the end of the second oil crisis and the upturn in investment in 1984 - 1985, engineering has made a marked recovery. This trend continued throughout 1989 and 1990. Table 3 shows the main trends in a number of countries.

The Gulf crisis in the second half of 1990 together with the slowdown in economic growth, may well have medium-term repercussions on engineering (relatively long expenditure plans, normally two years, help to write off costs). Looking ahead, we can expect to see a slowdown in the process and conversion industry (continuing high demand for automation and concentration of production units within the framework of the single market, in the energy sector with a slowdown in demand according to economic cycles (except for the renovation of certain power stations) and in buildings for the tertiary sector (signs of saturation in a number of capitals).

By contrast, consumer growth means continuing high demand in the following areas:

- interurban transport infrastructures linked to greater mobility for people and goods (consequence of the single market, road traffic will double in the space of 5 to 10 years);
- planning and urban transport (urban reconcentration, problem of saturation in cities, rehabilitation of suburbs, of public utilities, water, transport, telecommunications, education), reinforced by the desire for a better quality of life and the privatisation of certain public utilities in a number of countries;
- the environment and reduction in pollution levels (heavy pressure from ecologists);
- leisure (theme parks, second homes boosted by a more mobile European population).

Table 3
Engineering Consultants
Changes in demand

Sectors	D	F	UK
Construction	+ New housing	+ Tertiary Second homes Public buildings Large-scale projects	+ Tertiary
Infrastructure	+ High-speed railways	+ TGV-RER Motorways	++ Water Roads Eurotunnel
Industry	+ Slowdown in renovation	+ Renovation Automation	= Slowdown in growth
Energy	- Shutdown of nuclear power industry Overcapacity	- Shutdown of nuclear power industry Renovation of conventional power stations	-
Environment	++	++ Reduction in annoyance and pollution levels Treatment and recycling of waste	++

The + and - signs indicate trends within the sector
The entries are given by way of an example
Source: Sema Group Management ConsultantsS

Outlook

The propects for the EC engineering market in 1991 range from average to good. In the industrial sector, the competitive environment and the need for firms to increase productivity and become more competitive, the concentration of production units, recognition of the role and contribution made by professional engineering will help to offset the negative effects of the economic slowdown. Demand for public infrastructures, on the other hand, will remain very high, providing national authorities can come up with the necessary financial resources. The Community's involvement in EC infrastructure programmes (high-speed train links) will further contribute to this trend.

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Construction economists

The construction economist - known as the quantity surveyor in many countries - is a professionally qualified expert whose role is to safeguard the financial interests of the client so that overall value is achieved over the anticipated life of a construction project.

The task of a construction economist is essentially the costing and valuation of construction projects in both the public and private sectors. In recent years, the responsibilities of the construction economist have broadened, partly due to the increased complexity of large-scale projects. Demand for services of construction economists is closely connected to the general level of building activity within the economy.

Sector definition and description of activities

NACE category 837 group includes units engaged exclusively or primarily in engineering, consulting engineering, surveying and architects' offices, self-employed engineers, consulting engineers, architects and surveyors, construction-site supervision offices, technical test centres and laboratories.

This category numbers a wide variety of professions related to the construction sector. This monograph deals with construction economists only. Other monographs in this chapter discuss the architects and engineering professions.

The construction economist or quantity surveyor may function in a variety of different fields, including building construction, civil and structural engineering, mechanical building and engineering services, petrochemicals, cost and production engineering, planning and urban development, landscaping and interior design. His work includes the costing and valuation of projects, and involves working closely with the architect, engineer, town planner, or interior designer.

Table 1
Number of construction economists, 1989 (¹)

Danmark	50
España	15 000
France	6 100
Ireland	810
Nederland	5 400
Portugal	2 000
United Kingdom	19 000
EC 7	48 360

(¹) Estimates
Source: CEEC

The client may be an individual, an organisation or a public body. The work extends from giving advice on the economic and financial implications of the initial functional concept of a construction programme, to the commissioning of the completed project, financial settlement, subsequent property portfolio management and life-cycle cost management. Construction economists have a major role to play in the preparation of contract documentation and will advise on the use of appropriate contract conditions; they also prepare and issue tender documents and evaluate the tenders received.

Other services provided by construction economists include: giving expert evidence in arbitrations and disputes, preparing statements of expenditure for tax and accounting purposes and assessing the replacement value of construction projects for insurance purposes.

In those countries where the profession has no separate identity, the activities of cost-control and value-management have been carried out by architects, engineers or contractors, but as the complexity and cost of modern construction projects increase, so does the demand for the expertise of the construction economist.

The profession is also developing its range of services beyond building economics and cost control towards the complete management and coordination of projects. The use of computers has freed the construction economist to develop his management skills and, for example, to act as a management consultant to major client organisations offering high-level strategic advice on the use of property or construction investment.

Employment and structure of the industry

The total number of construction economists within the European Community is around 48 000. Most independent firms are small (less than 10 employees) but there are a few very large firms (more than 100 employees) most of which are multidisciplinary providing a fairly complete range of technical and economic services. Table 1 shows the distribution of the profession amongst those Member States for which data are available.

In most Member States, the majority of construction economists are found in private-practice firms. However, in some countries, notably the Netherlands and Spain, a substantial majority are employed by contracting organisations.

The total number of independent private practice firms within the EC Member States vary from 23 in Denmark to 3 000 in Spain. The average number of qualified staff within such firms is less than 10 except in the United Kingdom, where the average is 20. However, there are a number of firms in the United Kingdom with a total worldwide staff in excess of 100, and in some instances in excess of 500, given the increasing number of mergers and acquisitions.

Table 3
Independent private practices of construction economists, 1989 (¹)

	Total number of firms	Average size
Danmark	23	5.0
España	3 000	5.0
France	1 500	3.5
Ireland	110	8.0
Nederland	60	2.5
United Kingdom	1 600	20.0
EC 6	6 293	N/A

(¹) Estimates
Source: CEEC

The fee income of the profession is, in many instances, a percentage of the total cost of the construction project. The professional bodies publish fee scales but they are generally used only as a basis for negotiation. Some work is charged on a time basis. The percentage for construction economists varies between 1.5% in Portugal and 2.5% in Ireland covering typical standard services. Competition on professional fees for the construction economist is free in all Member States ex-

Table 2
Construction economists
Breakdown of the profession by employment, 1989 (¹)

	Private sector		Public sector
(%)	Private practice	Contractor organisations	
Danmark	92	2	6
España	37	41	22
France	87	8	5
Ireland	73	15	12
Nederland	27	70	3
United Kingdom	59	19	22

(¹) Estimates
Source: CEEC

Table 4
Examples of fees for construction services as a % of total of contract sums with contractors

	United Kingdom	Ireland
Architects	5.00	6.00
Construction economists	1.70	2.50
Structural engineers	1.50	1.00
Service engineers	1.00	1.25
Total cost (million £)	3	1

Source: CEEC

cept Spain, where published fee scales are mandatory.

Market and market trends

The construction economist works in both public and private sectors. Major public clients are of three kinds: Central Government Departments, Local Authorities and nationalised industries. Private developers and owners commission private housing estates, commercial offices, shops and industrial estates.

Most large public and private clients with continuous building programmes employ architects and construction economists as members of their staff. The main outlet for services lies in the national construction markets, although there are some foreign projects. Table 5 shows the distribution of the workload of the construction economist in private practice.

In most EC Member States, the construction economist is appointed by and responsible to the building owner or his employer. However, in France, it is more usual for the construction economist to be appointed by the architect or engineer to the project, and in Portugal the choice is made by the contractor.

The basis of construction economics is hard data, but global cycle costs depend increasingly on soft data. Hard data of construction includes specification of design, construction products, bills of quantity, etc. Soft data is the quality of management, the impact of governmental regulations, environmental considerations.

Construction economics has become the revolving point of the construction industry, as a result of the increasing trend of consumers buying or leasing construction buildings.

Harmonisation and improvements

Computer applications The CEEC Computer Application Commission has carried out a survey of EDP-systems in use within construction economics in the member countries. The European Commission is analysing the impact of CAD-systems, the use of expert EDP-systems, and the technical possibilities of creating a European Construction Cost Data Base with on-line access.

The British quantity surveyors already have such a data base (BCIS), mainly containing cost information about construction in the United Kingdom, but also cost information derived all over the world.

Cost information The Cost Information Commission has developed a programme for the exchange of cost data. The unit rates are updated by members once a year. The results of this work are published in the first edition of SPON's International Works Handbook.

Apart from unit rates, the Cost Information Commission deals with material prices, labour rates, cost of rehabilitation, functional unit costing, early cost advice, and the

Table 5
Construction economists - Qualification requirements in EC countries

Country	Qualifications
Belgique/België	Predominantly Architects
Danmark	Consultant Architects
BR Deutschland	Architects or Engineers
España	Technical Architects
France	Quantity Surveyors
Ireland	Quantity Surveyors
Italia	Architects or Engineers
Nederland	Association with Project Management Consultants - specific education and training system
United Kingdom	Quantity Surveyors

Source: Sema Group Management Consultants

Table 6
Construction economists - Breakdown of the services provided, 1988 (')

	Danmark	España	France	Ireland	Nederland	United Kingdom
Public sector	33	70	45	60	30	40
Private sector	67	30	55	40	70	60
Total	100	100	100	100	100	100
Building	80	80	98	95	70	75
Civil engineering	20	20	2	5	30	25
Total	100	100	100	100	100	100
National	80-90	90	92	95	92	80-90
International	10-20	10	8	5	8	10-20
Total	100	100	100	100	100	100

(') estimates
Source : CEEC

use of expert EDP-systems for procurement, feasibility studies, and financial budgets.

One of the great difficulties in Pan-European cooperation is that the various labels cover different contents, procedures, and traditions from country to country.

The impact of the Single Market

The 1992 Single Market will entail a growing demand for constructing, buying, or leasing building facilities across the EC. In cross-border operations, clients will want assistance from their local construction economist, who in turn will have to cooperate with construction economists, architects and contractors from other EC countries.

Traditionally, construction economists have exported their skills outside Europe - primarily to the USA, the Middle East and the Far East. However, the publicity surrounding 1992 has focused attention on the opportunities in Europe, and a number of working relationships both formal and informal, have been set up between construction economists practising in different EC Member States. The period 1988-89 has also seen the opening up, particularly by the large UK firms, of offices in other Member States.

To cope with this development, the CEEC intends to create a professional network within the EC and EFTA and later on in Eastern Europe, to support efficient cooperation among construction economists in different countries.

For such a network to operate effectively in terms of quality, consumer protection, and earning capacity, the participants need to harmonise terminology, procedures, and working methods.

The preparations have begun: the CEEC has sponsored the production of a report on education and training of construction economists funded under the ERASMUS Programme.

The second phase is a post-graduate training programme funded under the COMETT Programme. This programme focuses on skills such as setting strategic costs and time projections, feasibility analysis, value engineering, life cycle cost analysis, and the use of information technology.

This post-graduate training programme will improve the skills of the construction economists dealing with these services today, in order to meet the demands of the clients and the challenges generated by the Single Market.

Outlook

The sector's performance is inevitably dictated by overall activity in the construction industry within the Member States. In recent years, the industry has been particularly active, creating a correspondingly high demand for the services of construction economists.

The profession continues to expand its activities beyond the traditional building industry into civil engineering and heavy engineering. Within the building industry, the profession is involved in those areas that will assume increasing importance, such as rehabilitation and inner city regeneration. Substantial research has recently been conducted into information technology including the study of the relevance of Computer Aided Design technology to the profession and the development of an expert system for construction economists.

The next generation of CAD technology will profoundly influence the design and construction processes and present further opportunities to the construction economist in such areas as cost modelling, cost planning appraisal and global costings.

There is also growing awareness of the importance of the costs of buildings in use, and the construction economist has developed financial techniques to ascertain the total cost of the building asset over its operating life - a service increasingly sought by clients. The profession is keen to see the establishment of a European building cost data bank as part of the development of the Community information service market. Work on this data bank is taking place in the light of the work being undertaken in the EC on electronic data interchange for the construction industry.

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Geodetic surveyors

Geodetic surveyors prepare and handle measurement data and structure land and property information systems. They work for public bodies as well as for private organisations within the mining, industrial and construction sectors.

Recent technological changes have reinforced the sector's importance and rendered its intervention essential in areas such as local and global environment management, industrial measurement and marine exploration.

Demand for geodetic surveying is highly dependent on the performance of the construction industry, which accounts for most of the demand.

The advent of the European Single Market is expected to do away with a number of barriers to trade still existing in the sector.

Sector definition and description of activities

Geodetic surveyors use electronic data collected through aerial photography and computer technology to measure the size, position, shape and contours of the earth and its underground as well as the submarine features. Much of their work is done in computerised format and fed directly into the project database.

Principal areas of expertise:

- geodetic and land surveying services;
- international and national surveys, large and small scale mapping, building plans;
- hydrographic surveying services;
- ocean bed, environmental, coastal and resource surveys, charts for navigation, development and dredging, positioning of structures and services;
- sub-surface surveying services;
- measurement and location of underground structures and services, tunnelling and mining surveying;
- boundary surveying services;
- land registration and boundary problems, subdivision and land consolidation, cadastral surveying, expert evidence;
- cartographic and spatial information services;
- computerised land and property information, environmental and resource surveys, conventional and digital cartography, geographical information systems;
- industrial and engineering surveying services;
- engineering surveys, setting out, monitoring of structural deformation, large scale metrology.

Table 1
Geodetic surveying
Workload of firms by client type as a percentage, 1990

(%)	Private sector	Public sector
Belgique/België	75	25
Danmark	55	45
France	67	33
Hellas	80	20
Italia	5	95
Luxembourg	40	60
Nederland	15	85
Portugal	7	93
United Kingdom	63	37

Source: Comité de Liaison des Géomètres-Experts Européens

Current situation

The EC geodetic surveying industry is dominated by public sector organisations in some Member States such as Germany, Italy, Luxembourg and the Netherlands and by private sector companies in others such as Belgium, Denmark, Spain, France and United Kingdom. Private sector companies tend to be small (1-5 people).

The profession has developed along different lines in each Member State (turnover, employment, share of the private sector in the total activity, share of export, segmentation of the activities) and the scope of its activities now varies in consequence. Educational patterns also vary, partly because the areas of study differ according to the scope of the profession and partly because in some countries professional qualifications are conferred by the state, while in others this function is entrusted to the profession. When the geodetic surveyor's tasks involve dealing with legal aspects (ie. cadastre), some Member States require the obtention of statutory qualifications.

Technological changes have enhanced the importance of geodetic surveys and enlarged the sector's scope. The traditional cadastral function of geodetic surveyors has been extended to the creation of data management systems for the civil engineering industry. Sophisticated high technology measurement and analysis systems are being developed for a range of uses from automated navigation systems to local and global environment monitoring.

Production and market

There are no comprehensive or accurate records concerning the industry's turnover, although private sector figures available for five Member States give an indication of the industry's importance and of the services provided to the domestic, EC and international markets. For instance, in the United Kingdom, private sector geodetic surveying companies make 60% of their total turnover in the domestic market, 15% in other EC Member States and the remaining 25% in non-EC Member States.

Table 2
Geodetic surveying
Turnover of private sector expressed in national currency, 1990 (millions)

Country (currency)	Within home country	Other EC Member States	Outside EC
Danmark	470		
France	2 700		
Hellas	2 500		50.0
Luxembourg	150		50.0
Nederland	150	10	10.0
United Kingdom	150	37.5	62.5

Source: Comité de Liaison des Géomètres-Experts Européens

Table 3
Geodetic surveying
Numbers of working in private and public sector by percentage, 1990

(%)	Private	Public
Belgique/België	80	20
Danmark	80	20
BR Deutschland	20	80
España	67	33
France	60	40
Hellas	45	55
Italia	14	86
Luxembourg	35	65
Nederland	35	65
Portugal	42	58
United Kingdom	60	40

Source: Comité de Liaison des Géomètres-Experts Européens

Table 3 shows the percentage of employees working within the public and private sectors. There are considerable variations between Member States. Whereas 80% of employees work for the private sector in Belgium, in Germany the corresponding percentage is 20%.

Small companies (1-5 employees) are largely predominant in the private sector: they represent 51% of all private companies in France, 45% in United Kingdom and 39% in Denmark.

Employment

Employment in the geodetic surveying sector is estimated at 58 000, including 24 000 geodetic surveyors and 34 000 technicians and trainees. The majority of the workforce is employed by the public sector (60%) while 40% works for the private sector. Germany employs 29% of all EC geodetic surveyors while Italy and France come in second and third place employing, respectively, 21 and 15%.

Consumption trends

Demand for geodetic surveys comes from: planners, lawyers, developers, builders and contractors, architects, engineers and oil companies.

Education and training A detailed account of educational systems for geodetic surveyors within the EC was published in 1989 by the Comité de Liaison des Geomètres-Experts Européens.

In Germany, Greece, Netherlands and Spain, geodetic survey studies at first degree level are taught in the engineering faculties, with some special subjects being taught in the mathematics faculties. In France and the United Kingdom some courses are taught either in the engineering or in the environmental sciences faculties. In Portugal, degree courses are taught in the mathematics faculties. In Italy, the University of Florence offers a three year, full time diploma course while other universities offer shorter and more specialised courses. Irish courses at first degree level were run for a period and are about to be reintroduced. In Denmark, there is a five year full time course at the University of Aalborg.

Universities in some Member States have created strong links with the professional sector in order to provide joint training programmes.

Technical training is generally provided inhouse and ad hoc.

Table 4
Geodetic surveying
Total numbers of firms in the private sector and breakdown by size, 1990

	1-5	5-10	10-50	50-100	Over 100	Total
Danmark	63	51	45	3	0	162
France	932	741	167	12		1 852
Hellas	1 000	200	30			1 230
Italia	35	30	10			100
Nederland	28	2	16	4	7	57
Portugal	7	2	1			10
United Kingdom	210	144	93	14	9	470

Source: Comité de Liaison des Géomètres-Experts Européens

The impact of 1992

At present, cross-border geodetic surveying varies widely according to EC Member States. The advent of a Single European market is viewed positively for the geodetic surveying activity, although barriers to trade in geodetic surveying remain important within the EC.

They include:

- language difficulties;
- building codes and regulations;
- restrictions on tender launching;
- discrepant labour regulations;
- lack of international recognition of professional titles and degrees.

The Commission's Single Market programme is expected to do away with a number of these barriers, notably those which concern civil engineering and construction, labour regulations, mutual recognition of degrees, fiscal harmonisation and the opening up of public procurement markets.

Outlook

Despite the expansion of its activities beyond the traditional sectors, the performance of the geodetic surveying sector remains highly dependent on the overall level of activity in the EC construction industry.

Since 1988, investment expenditure in the construction, mineral extraction and industrial engineering sectors has witnessed annual increases of 6-10%, a high figure compared to the investment growth recorded in the late 1970s and mid 1980s. The geodetic surveying sector is expected to grow at a 5% annual rate for the 1989-1992 period, notwithstanding the effects of the Gulf crisis.

Moreover, in response to consumer demand, the industry is developing its range of services, improving the skills, and developing the use of new technologies, in particular computerised technologies.

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Table 5
Geodetic surveying
Numbers of individuals working in the profession, 1990
(estimates)

	Geodetic surveyors	Technicians/ Trainees and others	TOTAL Others
Belgique/België	1 044	157	1 201
Danmark	800	1 187	1 987
BR Deutschland	7 000	8 000	15 000
España	1 500	N/A	N/A
France	3 660	15 430	19 090
Hellas	2 800	500	3 300
Italia	5 000	2 000	7 000
Luxembourg	39	206	245
Nederland	1 080	4 920	6 000
Portugal	1 810	198	2 008
United Kingdom	1 250	1 900	3 150
Total	25 983	34 498	58 981

Source : Comité de Liaison des Géomètres-Experts Européens

Advertising

Advertising is one of the growth areas in the Community. In recent years expenditure on advertising has expanded rapidly, in part due to the more strongly competitive environment in EC industry generally.
This trend is likely to be further enhanced by the drive towards the single European market.
The advertising business has been greatly affected by technological developments in telecommunications and the print media. Specialised sectors of the industry such as direct marketing and sales promotion have similarly experienced strong expansion. Because of the many similarities between advertising, direct marketing, sponsorship and sales promotion, most of the large advertising agencies are now getting involved in sales promotion activities.

Description of the sector

Advertising is the process by which purveyors of goods, services or ideas find and persuade customers to buy through communications media. It is a key element of marketing, which is the strategic planning function whereby products are developed, made appealing and available to users, and sold to them at a profit. Advertising, in short, means salesmanship via media. The five main media are print, television, radio, cinema and outdoor.
The three major parties in the advertising business are the media, who attract an audience through their publications and programming; the advertisers, who buy access to these audiences in order to sell their products; and the advertising agencies that link the buyers and sellers of time and space, providing the expertise and creativity that produces persuasive, cost-effective advertising.
Advertising agencies in the EC are normally remunerated by 15% of the value of the media space and time purchased.
Extra fees are usually charged to cover the wide range of services that agencies offer in addition to media advertising, and to compensate for small budgets.

Table 1
Advertising expenditure in Europe
(Current prices, million ECU)

Country	1980	1989
EC 12	15 000	45 394
Belgique/België/Luxembourg	405	936
Danmark	365	840
BR Deutschland	4 386	8 842
Hellas	73	319
España	833	4 961
France	2 273	6 651
Ireland	92	231
Italia	1 036	8 896
Nederland	1 232	2 238
Portugal	38	256
United Kingdom	4 269	11 224
USA	25 494	71 659
Japan	5 529	24 865

Source:
European Advertising Tripartite Statistics Committee

Data coverage

The figures throughout this text refer to traditional media advertising (in newspaper, magazines, television, radio, cinema and outdoor). Sales promotion activities, are discussed in a sub-section. They do, however, include those direct marketing activities that make use of print and television advertising.

Although it is practically impossible to calculate how much over-lap there is between general advertising and direct-response advertising, the bulk of direct marketing is in direct mail, telemarketing and other "database communication", and is not therefore included in the figures for investment in general advertising.

Current situation

In 1989, approximately 45 000 million ECU was spent on display advertising in the traditional media (print, television, radio, cinema and outdoor) in EC countries.

This represented 1.13% of the EC gross domestic product (measured at market prices) in 1989, compared with a US figure of 1.53% (this comparison is made on the basis of the European advertising tripartite definition. In the EC, advertising agencies themselves account for just under 15% of total media expenditure, thus representing about 0.1% of GDP.

Just over 60% of advertising expenditure in 1989 was spent on the press sector. Newspapers took just under 35% and magazines 26%. In contrast the broadcast media took just over 33% (29% going to TV and close to 4% to radio).

The factors that influence the size and the growth of the advertising business are varied, but the principal ones include consumers expenditure, company profit levels, the degree of competition within the economy and the availability of commercial media.

Available data suggests that levels of advertising expenditure differ considerably between countries.

This is partly due to real variations in the factors listed above but also partly due to problems derived from using national data (which differ in method of compilation and definition) to make EC-wide comparisons. There are four main differences in the basis of advertising statistics which must be taken into consideration when comparing advertising expenditure data across EC countries.

First, some countries use volume-based figures which are based on asking media companies and agencies for actual expenditure figures. Secondly, media coverage is not always comprehensive. For example, expenditure on cinema advertising is not available in some countries and the measurement of print media is limited in some countries to major titles only. Thirdly, some countries include the cost of paying commissions to advertising agencies and the cost of producing advertisements in their statistics, whilst others do not.

Fourthly, in some countries classified advertising expenditure is measured.

In others it is not.

Classified advertising consists of small, generally pre-paid advertisements placed directly by individuals and companies in pages devoted to such advertising.

It is generally "classified" under headings such as "houses", "cars" or "jobs", etc.

Such advertising is often quite significant in volume.

Despite the difficulties involved in compiling EC-wide data, major improvements have been made by the trade associations involved (European Association of Advertising Agencies and the European Advertising Tripartite).

The tables show the latest evolution of the EC advertising expenditure estimates.

Perhaps the most significant factor to notice about the advertising industry in the EC has been its rapid growth as a proportion of Gross Domestic Product.

In 1980 the advertising business accounted for only 0.73% of the EC's GDP.

By 1989 this percentage had risen to 1.13%, a rise of some 55% over the de-

Table 2
Advertising expenditure per capita
(Current prices, ECU)

Country	1980	1989
EC 12	47.2	139.3
Belgique/België/Luxembourg	41.1	94.6
Danmark	71.2	163.6
BR Deutschland	71.2	142.6
Hellas	7.5	31.8
España	22.3	126.7
France	42.2	118.4
Ireland	27.0	65.3
Italia	18.4	154.6
Nederland	87.1	150.7
Portugal	3.9	24.8
United Kingdom	75.8	196.2
USA	111.9	288.0
Japan	47.3	202.0

Source:
European Advertising Tripartite Statistics Committee

cade.

This rise almost certainly illustrates, above all other factors, the growth in the competitive nature of EC markets in the 1980s.

Factors influencing the advertising industry

Apart from the economic factors which affect the advertising industry to a considerable extent, changes in government regulations and developments in communications technology also have a strong influence on the business.

Regulations (some legal and some voluntary) differ from country to country, but essentially they deal with limitations on methods of advertising, the amount of media advertising and the promotion of certain products.

The main product categories covered by such regulations are tobacco, alcoholic drinks, medicine and drugs and sanitary products. All the EC countries ban or restrict the advertising of some of these products. In some countries the advertising of all these products is regulated.

Technological change has been affecting all media. In the print medium, newspapers are now able to print simultaneously in several geographical locations via satellite transmissions of pages from a single publishing centre.

Examples of the use of these techniques include the "Financial Times" which prints in London, Frankfurt and New York, the "Guardian" which prints in London, Manchester and Marseilles and the "International Herald Tribune" which prints all around the globe.

The magazine market is also becoming increasingly international, with publications such as The Economist, Stern, Paris Match, Fortune and L'Equipe available widely outside their country of origin.

In addition, several major publishers are now launching local versions of successful magazines, tailored to the readers of each European country. They include Cosmopolitan, Prima, Marie Claire (published in 13 European countries in 1990) and Auto Bild.

In the television medium, the development of satellites that can transmit across national frontiers has influenced government attitudes to the commercialisation of their own channels. Satellite TV transmissions will have an even more profound effect in the 1990s as direct broadcast satellites make their mark. Until recently, low-powered communications satellites broadcast a number of television channels across most of Europe, but these could only be received via very large reception dishes. In practice, this meant that signals had to be picked up by cable companies and relayed direct to subscribers.

Now, medium and high-powered satellites have started to broadcast direct to individual household dishes, measuring between 35 and 85 cm in diameter, depending on the household's geographical location and the power of the satellite.

Up to 30 new television channels could be directly available to many European households in the early 1990s, most of which will be funded by advertising.

The adoption of the EC Directive on Television Without Frontiers on 3 October 1989 sets out a legal framework for the future development of the audio-visual sector. This Directive allows for the free circulation of television broadcasts throughout the Community, thereby opening up new perspectives for broadcasters and programme makers.

Industry structure

There are three principal parties in advertising; advertisers, the media and the advertising agencies.

Advertisers exist in most sectors of the economy, most notably in consumer goods and retailing, though increasingly firms are using advertising in other business sectors. No comprehensive figures exist on how advertising expenditures are split between the major product areas in the EC as a whole, though food and drink, retail and automobile advertising are important in all markets.

Comprehensive data is now available covering the EC countries in relation to the structure of advertising expenditure by medium. Table 4 shows both the broad split of advertising expenditure by medium, together with the movement in the variables over the past decade.

The processes involved in creating and executing an advertisement begin at the planning stage, involving the identification of target consumers through market research. A creative concept is then decided upon and executed via broadcast of printed ad-

Table 3
Advertising as a percentage of GDP (at market prices)

Country	1980	1989
EC 12	0.73	1.13
Belgique/België/Luxembourg	0.48	0.68
Danmark	0.95	1.09
BR Deutschland	0.88	0.96
Hellas	0.30	0.76
España	0.63	1.69
France	0.48	0.78
Ireland	0.78	0.91
Italia	0.37	1.32
Nederland	1.01	1.10
Portugal	0.22	0.67
United Kingdom	1.11	1.50
USA	1.32	1.53
Japan	0.73	0.97

Source:
European Advertising Tripartite Statistics Committee

Table 4
European (EC - 12) advertising expenditure by medium

	(million ECU)		% of total held by each medium	
	1980	1989	1980	1989
Newspapers	6 531	15 699	43.5	34.6
Magazines	4 020	11 860	26.8	26.1
TV	2 662	13 301	17.7	29.3
Radio	690	1841	4.6	4.1
Cinema	153	268	1	0.6
Outdoor/Transport	945	2425	6.3	5.3

Source : European Advertising Tripartite Statistics Committee

vertisements.

Media specialists plan a campaign schedule aimed at reaching the target most cost effectively, purchasing the space and airtime from the media companies.

These processes are most usually all handled within a full-service advertising agency, although they may also be handled by specialists in one or other of the disciplines.

Media buying is the specialist activity most frequently handled by companies other than full service advertising agencies.

The share of media buying done by media specialists varies widely between countries.

In France over 20% of media buying was done via specialists in 1989, whereas in countries such as the United Kingdom and Federal Republic of Germany the percentage was much smaller.

There has been substantial growth in the share of media bought by specialists in recent years in several EC countries. Some commentators believe that this growth is unlikely to be as rapid in years to come because the full service advertising agencies have reacted by setting up specialist media companies of their own or agency buying "clubs" which use the economies of scale available to very large media buyers to compete with the media specialists.

Other suppliers to the industry include companies providing specialist services such as photography, audiovisual and printing services. Many of these industries are very fragmented.

Advertising agencies are effectively divided into two types:

- ❖ large, multinational agencies and agency groups;
- ❖ small to medium-sized agencies mainly operating in domestic markets.

Both groups are represented by the European Association of Advertising Agencies. Their aggregate membership represents around 1 500 agencies, and their combined billings amount to around 80% of all commercial communications in Europe.

There are no significant barriers to entry for starting an advertising agency, although expansion has often been achieved through acquisition rather than internal growth.

Alternative services such as direct marketing and sales promotion, have recently been growing more rapidly than the traditional advertising media.

Larger agencies are increasingly becoming involved in areas such as direct marketing, sales promotion, public relations, design, market research and management consultancy, in addition to media advertising.

Advertisers are often bigger than the advertising agencies, and have a large number of agencies from which to choose.

Measures of advertising "effectiveness" are, however, under-developed and are rarely used as part of the selection process. Often, key individuals in agencies will be a significant factor in a prospective advertiser's decision and there may be other, more subjective elements involved.

Once an agency has been appointed, its relationship with the advertiser may last for many years, though some advertisers switch agencies quite frequently.

Top advertising agencies

Advertising agencies often define their turnover of "billings" in terms of the amount of money they spend with the media on behalf of clients, and of which they receive a proportion in the form of commission or fixed fee. It is not possible to quote true turnover figures (known as gross income in the advertising business) with any degree of accuracy. In their company reports agencies often include figures from activities other than main media advertising, and figures are rarely reported by country.

For these reasons, the following table, (table 5), which shows the EC's top advertising agency networks, is therefore based on agencies' own unaudited claims for gross income.

Although comprehensive figures are not generally available on employment, it is possible to assemble data from tables published each year by the top agencies (see table 6).

These give some data on employment in the major companies, although in a fragmented industry such as advertising there are often a large number of small agencies with only a small number of staff employed in each.

Media trends in Member States

A key issue for the advertising industry is media availability especially in relation to television. Most Member States are currently experiencing an expansion of commercial television.

This expansion is due partly to the deregulation of ground-based national TV networks, partly due to the expansion of cable TV services and partly due to the development of pan-European satellite TV services.

In Belgium, after many years in which the Luxembourg channel, RTL, was the only real commercial outlet for television advertisers, new commercial channels have been licensed by the government, and advertisements are now permitted on the public service channel RTBF and on VTM, a new Flemish language commercial channel.

In Denmark, domestic commercial television began in 1988. Local TV stations are now permitted to sell advertising, in addition to the national channel, TV2, which is partly funded by advertising.

In the Federal Republic of Germany, both the supply and price of commercial television advertising time was, until recently, strictly controlled by the two main public broadcasting organisations, ARD and ZDF. However, the recent growth of satellite television, with far fewer restrictions on advertising than the public service channels, has led to a rapid expansion in the market. The Government funded programme which aims to enable over 80% of households to receive cable television by the mid-1990s is expected to contribute to the further growth of the commercial television advertising market.

In Greece private television channels began transmitting in late 1989, following the Greek government's decision to award local commercial television franchises. Until then, the state broadcasting company, ERT, had enjoyed a monopoly of broadcasting and television advertising expenditure.

French terrestrial television was reorganised and to some extent deregulated in 1986. There are now seven terrestrial companies attracting significant advertising revenues. These include TF1, the previously state-owned channel, the two public stations, Antenne 2 and FR3, which are funded by a mixture of licence fees and advertising and the new commercial channels, Canal Plus, La Cinq and M6.

In Ireland over 50% of households are cabled and therefore have access to satellite TV transmissions. In addition, nearly two-thirds of households can receive BBC programmes, and over a half receive Ulster Television (commercial) transmissions. The two state-owned channels, RTE-TVI and Network 2 offer restricted amounts of commercial airtime. A new national station, TV3 is due for launch in 1991.

In Italy it is estimated that since commercial television was allowed in 1973, around 900 local TV stations have started operations, but the industry is dominated by the state-owned RAI channels and the three Finnivest channels (Canale 5, Italia 1 and Rete 4).

Commercial television in the Netherlands was dominated by the three State-run (NOS) broadcasters until the launch of the satellite channel RTL-IV in 1989.

The fact that the Netherlands is heavily cabled meant that the satellite channel achieved national status very quickly.

Portugal has two state commercial television channels. Two new commercial channels were launched in early 1991.

Spanish television has been deregulated in two stages. The original two state commercial channels were followed by the licensing of nine regional channels.

The second deregulatory stage has just taken place with the launch of three new

Table 5
Europe's top advertising agency networks 1989

Agency	Rank	Thousand ECU claimed billing 1989	Number of Employees 1989
Young & Rubicam	1	2 118 644	2 934
Publicis FCB	2	2 090 677	1 522
Saatchi & Saatchi	3	1 965 664	2 245
EWDB	4	1 608 462	N/A
Ogilvy & Mather	5	1 588 983	4 000
McCann-Erickson	6	1 573 729	3 351
BSB	7	1 516 122	2 149
J. Walter Thompson	8	1 415 254	1 900
Lintas	9	1 313 559	2 358
HDM	10	1 306 780	1 820
Grey	11	1 301 392	2 329
BBDO	12	1 258 525	2 037
DMB&B	13	1 225 768	1 063
DDB	14	1 186 441	N/A
RSCG	15	828 410	900
CDP	16	684 915	850
Lowe	17	666 387	900
Leo Burnett	18	648 012	N/A
BDDP	19	629 808	N/A
Ayer	20	545 678	814

Source: M & M Europe

Table 6
Advertising - Employment in major agencies, 1988

EC 12		36 772
Belgique/België/Luxembourg	Top 26	1 422
Danmark	Top 30	1 061
BR Deutschland	Top 48	6 156
Hellas	Top 22	760
España	(¹) Top 38	2 211
France	(¹) Top 39	7 597
Ireland	Top 12	480
Italia	(¹) Top 35	3 001
Nederland	(¹) Top 35	2 098
Portugal	Top 14	695
United Kingdom	(¹) Top 58	11 291

(¹) Some agencies excluded
Source: EAAA

commercial channels which will eventually become national.

In the United Kingdom television has been deregulated in recent years.

As well as the two national non-commercial BBC channels, there are three terrestrial commercial channels and one satellite station Sky. A further terrestrial commercial station is likely in 1992.

Sales promotion
Description of the sector

In the NACE, sales promotion is not separated from "advertising" and thus falls under category 838.

Whereas media advertising "pulls" the purchaser to the product or brand, sales promotion "pushes" the product to the consumer. As such, sales promotion is concerned with location, timing, physical environment, merchandising, added value, pricing and other circumstances conducive to the sale of a product.

It is not only about direct communication with the consumer, but also communication with the trade and the sales force as the people most directly responsible for creating the right buying context.

Promotions are an important marketing tool for obtaining scarce shelf-space and in-store support from retailers.

A survey by the Institute of Sales Promotion in the United Kingdom found that activities such as trade competitions, consumer coupons, special promotional packs, cash refunds, and gift vouchers are generally thought of as "sales promotion" activities. The survey also found wide (but not general) agreement that activities such as door-to-door distributors, short-term trade discounts, free sampling, special sizes and trading stamps should equally be counted as sales promotion.

But the survey also found considerable disagreement on whether or not activities such as point-of-sale material, sports sponsorship, public relations activity in support of a promotion or catalogues and price lists should be defined as sales promotion. There are therefore problems in defining exactly what the sales promotion business covers. There are also difficulties in measuring expenditure within each category. A survey conducted on behalf of the EC attempted to locate all available data on the subject. Table 1 shows the two most authoritative estimates available. The wide definition in Table 7 includes all general on-going sales related activities. The narrow definition is as defined by the UK Institute of Sales Promotion and includes activities such as special consumer and trade promotions, consumer coupons, special packs, cash refunds and gift vouchers. This definition excludes areas where there is widespread disagreement as to whether a particular activity should be categorised as sales promotion or not. Depending on the definition used, the amount being spent on sales promotion at the moment can be considered to vary between 10 billion ECU and 33 billion ECU. The 10 billion ECU amount derives from the special EC study. The 33 billion ECU figure is derived by grossing up the WPP figures to include all EC countries and estimating growth in 1989 and 1990.

Factors affecting the sales promotion industry

As the retail sector becomes more concentrated (fewer small retailers and more multiple retail groups) sales promotion is gaining importance in EC countries.

With the growth of "own-label" retail brands, the manufacturer must place more emphasis behind his branded products to ensure not only sufficient shelf-space allocation from the retailer, but also point-of-sale purchase decisions from the consumer. Sales promotion legislation differs from country to country in the EC Member States. In some countries such as Luxembourg and West Germany, sales promotion activities are widely restricted; sweepstake/lottery, money-off vouchers, money-off next purchase offers are not allowed for example. In other Member States such as Ireland and the United Kingdom, there is a great deal of freedom. In terms of technology, in-store scanning is highly relevant to the future of the market. It has been estimated that by the end of 1990, half of all grocery purchases in the EC will pass through EPOS (electronic point-of-sale scanners) providing retailers with a great amount of detail on stock and sales levels.

Coupon sales can be instantly monitored, for example, and it is anticipated that the marketing information available via EPOS will concentrate attention on sales promotion activities.

Industry structure

The major participants in the industry, apart from the marketers themselves, are the sales promotion consultancies. The range of services offered by these consultancies varies from the simple supply of sales promotion strategy advice to the provision of a full range of communications, graphic design, new concepts, finished artwork and photography services.

In general, sales promotion consultancies are structured to deal with all aspects of a sales promotion campaign through creative and account management teams who are responsible for planning and implementation, as well as coordination with the client. Specialised services such as print, production, graphics, design and photography are either undertaken "in-house" if the consultancy is large enough or, more commonly, sub-contracted out to other companies.

Consultancies operate on one or other of three payment methods: retainer fees, project or ad hoc fees, and commission on supplying premiums and other services.

Fees are usually paid in two stages, the first for advice on proposed promotional strategies to solve clients' marketing problems, the second for organising and executing these proposals.

The entry of the large advertising agency groups into the sales promotion market has emphasised the dividing line between the large, often multinational consultancies, and the smaller local companies.

Table 7
Expenditure on sales promotion, by country

Country	Wide Definition(1) ($ billion) 1988	Narrow Definition(2) (million ECU) 1990
EC	N/A	10 000
BR Deutschland	9.2	1 500
France	7.3	1 900
Italia	N/A	1 700
United Kingdom	12.3	1 900

Sources: (1) WPP Group
(2) EC Study

The larger consultancies are increasingly linking up with other elements in the marketing mix, such as direct marketing and sponsorship, in order to devise and implement integrated marketing campaigns, often in several countries. The move towards the single European market means such pan-European promotional campaigns will become increasingly common.

Current situation

Most industry observers agree that the sales promotion business has been growing rapidly. Expenditure has been growing at approximately 5-10% per annum (real growth) between 1980 and 1988. There is increasing pressure on companies to achieve short-term results and this has prompted a move into areas such as sales promotion, which offer immediate, measurable returns on money.

The movement of large agency groups such as Young & Rubicam, Saatchi & Saatchi and J. Walter Thompson into sales promotion has given the industry a greater degree of respectability in the marketing community.

Further benefits will come as these groups introduce new clients to sales promotion as a marketing tool. With the largest advertising agency groups now involved in sales promotion, the industry's links with direct marketing, sponsorship and advertising are likely to continue to grow.

Outlook

Sales promotion Sales promotion expenditure is expected to grow at twice the rate of traditional media expenditure between 1990 and 1992.

Cross-marketing activity is increasing and with a growing recognition of sales promotion benefits, more advertisers are expected to use sales promotion to support media advertising.

The industry has attracted new money and clients and with the entry into the industry of multinational communication groups, sales promotion has developed as a discipline.

Advertising Growth in the advertising industry is closely linked to general economic conditions and particularly to trends in consumer spending and company profitability. Over the short to medium term, the industry will benefit from the steady economic growth forecast within the EC, though individual countries could experience a slowdown in growth in 1991.

More rapid development is expected in some of the southern European Member States, such as Greece, Spain and Portugal, where the expansion of media advertising in recent years has markedly outpaced growth elsewhere in the Community, due partly to the low base from which growth started and partly to these countries having benefitted from EC membership at a later date than the other EC members.

A major force for growth for all EC member countries has been the moves towards the EC's single internal market. Another has been the increasing availability of television to advertisers. Advertising expenditure in the 12 Member States is forecast to grow by an average of 8% per year between 1989 and 1993, bringing advertising expenditure in the EC to 61 billion ECU in 1993. This growth is estimated to be twice as fast as that likely to occur in the USA and around 20% higher than forecast in Japan.

Despite the healthy expenditure forecasts, competition amongst the advertising agencies will continue to be intense as the struggle for market leadership continues.

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Direct Marketing

Direct marketing, which is often viewed as part of advertising in its broad sense, and therefore included in the NACE 838, is the branch of marketing whereby companies establish a direct relationship with their customers via the media. It includes direct mail, which is part of print direct marketing and virtually the only area of direct marketing for which reliable data are available. Categories of direct marketing include direct mail, mail order catalogues, telemarketing, and interactive television. Direct marketing within the EC represents between 20 and 30% of commercial communication expenditure compared to 35 to 65% in the USA. Direct marketing expenditure is estimated to have shown real growth of around 4% per annum between 1980 and 1989 and is still very fast-growing, although the size and growth of the business has varied widely between countries.

Description of the sector

Direct marketing is the branch of marketing through which companies establish a direct two-way relationship with their customers via the media. It uses one or more advertising media to effect a measurable response and/or transaction at any location. It embraces all communications media that can create an interactive relationship with an individual retailer, business customer or consumer.

Though it can be used in conjunction with advertising, it differs from it by establishing direct relations with named customers at the outset.

Direct marketing is also called "database marketing", since it enables the marketer to maintain a database of every individual inquirer or customer (and their addresses), what communications have been directed towards each of them, and what responses have been received.

The "customer file" may be linked to the accounting and inventory files, and overlaid with or enhanced by external information, such as demographic, socio-economic or psychographic data about individuals or neighbourhoods of business characteristics.

The European Direct Marketing Association divides direct marketing into print direct marketing, "telemarketing" and "new technologies".

Print direct marketing, which is by far the biggest sector, includes direct mail sent

Table 1
Percentage of companies planning to use direct marketing (in %)

Country	Addressed mail	Unaddressed mail	Telephone (Outbound)
Danmark	42	20	22
BR Deutschland	58	32	23
España	50	23	16
Nederland	44	31	18
United Kingdom	23	12	3

Source : NTC

through the post; circulars, leaflets and catalogues delivered by hand to homes and businesses; and direct response advertisements placed in newspapers and magazines. Telemarketing involves the use of the telephone to establish a link with customers. It is often used at an early stage of the direct marketing process to build up customer lists prior to mailings of visits by salesmen, but also in the final stages to follow up requests for more information or to place orders. Surveys have shown that telemarketing has been developing extremely rapidly in recent years.

New technologies include videotex, whereby computer terminals linked by telephone lines can be used as a communications vehicle by marketers, either to consumers or to businesses linked to the system. The main advantage of electronic systems is the ease of ordering goods for the user, but expenditure has remained small in relation to direct mail and telemarketing.

Four sectors are predominant in the use of direct marketing: mail sales, consumer goods, insurance, and financial products. Among them, four segments are growing very fast: food products, durable consumer goods, credit cards and business to business.

Data coverage

There are three main problems involved in measuring and comparing direct marketing expenditures in different countries.

The first is that organisations simply do not exist in every EC country to measure, promote or even define the industry, although post offices in many countries have made estimates for direct mail, and telephone companies can estimate the use of the telephone for marketing.

Secondly, direct response advertising through main media such as television, newspapers and magazines is not usually measured separately from non-direct response advertising, and therefore cannot be separated easily from total advertising expenditure figures for these media.

Thirdly, the companies involved in bringing the marketers and the direct marketing media together operate in different areas and at different levels within the industry.

Current situation

Due to the difficulties listed above, it is difficult to find reliable statistics covering the size, shape and growth of the direct marketing sector as a whole.

However it is fast growing and the companies involved are very profitable.

The best data available comes from the various EC national postal administrations but covers only direct mail expenditure and covers most, but not all, EC countries.

A recent survey by the European trade organisation Services Postaux Européens does give some idea of the relative usage rates of direct mail and telemarketing vis a vis other media, as shown in tables 1 and 2. The tables illustrate the high levels of use made of direct mail compared with telemarketing in both the business and consumer areas. However, these tables do not illustrate the relative expenditure on direct mail and telemarketing.

Nevertheless, the figures do provide an indication that at present expenditure on telemarketing is unlikely to be as large as expenditure on direct mail point in time in the EC.

Direct marketing sectors

Direct mail Statistics on the direct mail sector are not as easy to produce as statistics on other media sectors such as television. Although data on the volume of direct mail can be measured fairly easily through the national postal administrations monitoring systems, the measurement of expenditure is difficult.

In the case of television or newspaper advertising it is normally relatively easy for the media owner to calculate income from advertising. Since this income normally forms a large proportion of the total amount spent by the advertiser, an overall estimate of media advertising expenditure can be made with some precision.

However, in the case of direct mail, there are several complications, chief of which is that expenditure on postage (the media cost element) can be a relatively small proportion of the total cost to the advertiser. More than 50% of the cost of a direct mail advertisement may be accounted for by paper, printing and other costs which are more difficult to estimate than the media cost. The equivalent "production costs" for television and press advertisements typically account for about 12% and 8%

respectively of total expenditure.

Despite these difficulties, estimates are now made regularly covering direct mail expenditure in most EC countries.

Tables 3, 4 and 5 below show the latest estimates made for the EC in volume terms, in expenditure terms and in ECU per capita terms.

Differences in media availability between Member States help explain why the direct mail business is more significant in some countries than in others. It is estimated that approximately 7 000 million ECU was spent on direct mail in the EC in 1989. This represents some 15% of the total spent on advertising expenditure in the "traditional" media (press, TV, cinema, poster, radio) and just under 0.2% of EC Gross Domestic Product.

Telemarketing Telemarketing is often considered the most rapidly growing element within the total direct marketing industry. Telemarketing calls can be outbound, where the seller initiates the call, or inbound, where the consumer initiates the call. Though the telephone may be the sole medium of contact, very often it is used in combination with other direct marketing media (such as print material, personal calls, etc). The calls are generally:

- selling calls designed to result in an actual sale to the person or organisation called, either immediately as a result of the call, or in the near future as a result of additional follow-up activities (e.g. by arranging a visit from the selling organsation);
- database calls, the objective of which is to compile, update of enrich a list of sales prospects. Such a list may then be used exclusively by the organisation making or commissioning the database calls; or it may be made more generally accessible.

In addition, the telephone is also for:

- other forms of customer service and market development calls;
- publicity calls, to publicise an organisation, product or service in order to build up support and customers over time (e.g. a retailing group promoting the idea of shopping at its stores).

There are now more than 1 000 telemarketing service bureaux in Community countries, but only a minority of these are well-established and of any substantial size. The rapid growth of the industry means that there are many new and small companies whose quality and future are uncertain - the requirements for running an efficient and effective telemarketing service bureau are very demanding.

No reliable survey information is available about the present turnover of the telemarketing industry in Europe. Industry estimates suggest that the total telemarketing industry turnover in the EC is in the region of 3 billion ECU a figure which is about 6% of the sum spent on the traditional media sectors and just under 0.1% of EC Gross Domestic Product.

Table 2
Forms of direct marketing

Country	Addressed mail	Unaddressed mail	Telemarketing
Danmark	58	6	33
BR Deutschland	71	12	33
España	48	10	17
Nederland	64	1	15
United Kingdom	28	3	5

Source : NTC

Table 3
Addressed direct mail volume
(Million items)

Country	1983	1989
Belgique/België	409	750
Danmark	140	240
BR Deutschland	3 004	3 704
España	480	650
France	1 603	2 850
Ireland	7	40
Nederland	451	850
Portugal	58	105
United Kingdom	1 084	2 117
Total	7 236	11 306

Source : SPE

Table 4
Direct mail expenditure
(Million ECU, Current prices and exchange rates)

Country	1983	1989
Belgique/België	96.0	150.0
Danmark	266.0	599.0
BR Deutschland	748.0	1 159.0
España	N/A	700.0
France	433.0	840.0
Ireland	2.5	13.0
Nederland	406.0	750.0
Portugal	7.0	12.0
United Kingdom	509.0	1 126.0
Total	2 467.5	5 349.0

Source : SPE

Table 5
Direct mail expenditure
(ECU per capita)

Country	1983	1989
Belgique/België	9.8	15.1
Danmark	52.0	116.7
BR Deutschland	12.2	18.5
España	N/A	17.9
France	7.9	14.9
Ireland	0.7	3.7
Nederland	28.3	50.4
Portugal	0.7	1.2
United Kingdom	9.0	19.7
Total	120.6	258.1

Source : SPE,NTC

Industry structure

The direct marketing industry itself can be segmented into a number of areas:

- mailing houses which provide list-broking services, often helping with addressing, labelling, inserting leaflets into envelopes or brochures, processing orders and redeeming coupons;

- Computer bureaux which are used for such functions as helping to classify and segment lists of general population data into categories. They also often offer typesetting and postcoding as well as printing facilities tailormade to clients' requirements;
- Telemarketing companies, which offer a range of services relating to the use of the telephone as a marketing tool;
- Specialist direct marketing service companies which primarily cover the areas of consultancy, planning and creative work, and use outside mailing houses, computer bureaux and telemarketing companies as and when necessary. Many such companies are linked with or are subsidiaries of advertising agencies, indicating the degree to which advertising and other marketing services are related.

Aside from these functional divisions, the industry can be broken down into three types of companies: business specialists, consumer specialists and non-specialists, who operate either in both areas or in other parts of the industry such as list broking. Direct marketing was traditionally the medium used by mail order companies and business-to-business advertisers, but in recent years the number of advertisers using direct marketing has grown rapidly. Financial service companies, in particular, have increasingly used such services. Table 6 shows estimates of the proportion of users of direct marketing in EC countries compared to traditional media.

Outlook

Over the next few years, the main influences on the direct marketing industry's development will include further changes in technology and in companies' attitudes towards direct marketing as part of their overall marketing mix. Progress in computer technology has enabled customer lists and other information to be stored and classified more easily and efficiently, making direct marketing a more viable proposition for many companies. Attitudes within the EC towards confidentiality and consumer protection will also be important. A critical issue will be the laws and regulations affecting the industry, arising from problems of confidentiality and personal privacy which are seen by many as being threatened by the growing numbers of computerised mailing lists. The pattern of response from the direct marketing industry has generally been to urge self-regulation, permitting the industry itself to set up programmes that will work to the benefit of the consumer. Most of these laws and regulations are in a state of flux, as the industry is in its early stages of development. The way in which these are tackled will be an important influence in the future. The move towards the single European market in 1992 will also be a major force for growth. With the removal of internal barriers to trade within the EC, large numbers of small and medium-sized companies may be expected to take advantage of the direct mail opportunities offered by a market of 320 million consumers. In the continent-wide market of the USA, direct mail in 1988 represented about 20% of total advertising, considerably more than in the major markets of Europe. Its share may grow substantially as the EC market takes on the dimensions of the USA. In the Telemarketing sector changes are also taking place. For example, the use of toll-free call systems is likely to develop very quickly as these become more widely available and effective; outbound calling to comprehensive customer databases is likely to increase further, in response o the growing need for more efficient ways of contacting specialized target groups. Telemarketing has additionally gained through its particular strengths of immediacy and impact; but its main future will continue to be as a marketing tool which is used in combination with other forms of direct marketing or advertising. One significant development for the future is the progress of interactive television. The growth of fibre optic cable networks, of videotex and, consequently, of home shopping and home banking, will be important for the future of the industry. Overall the prospects for the direct marketing sector are for continuing growth of the order seen over the last five years.

Table 6
Direct Marketing
Estimated share of expenditure by type of advertiser in EC countries

(%)	Direct Marketing	Traditional Media
Financial	20	15
Industry/Government	15	5
Media	5	10
Travel/Leisure	10	10
Retail/Mail Order	35	10
Durable/Cars	10	15
Non-Durables/Food	5	35
Total	100	100

Source: NTC

Written by: Directorate General for the Internal Market and Industrial Affairs (DG III)

Reviewed by: Sema Group Management Consultants

Public relations

The public relations services sector has developed rapidly since a growing number of companies view public relations as an effective means of influencing opinion and have included it in their corporate strategy. No reliable figures for the EC market exist. The global turnover (including non-public relations activities of EC companies involved in public relations) reached nearly 400 million ECU in 1988. At the same time, as the market expands, consultancies themselves are improving their expertise and professionalism and anticipate an increase in their market share.

Description of the sector

The public relations sector is covered by NACE category 839.1, which also includes the market research and management consultancy sectors. It is not possible, therefore, to identify the sector separately under NACE statistical data.

The purpose of public relations is to project a favourable impression of a person, product, company or organisation and to win public confidence and approval. As a result, public relations involves communication with a variety of individuals, organisations, and with the general public. It can be carried out by independent individuals, specialised companies or in-house public relations units.

From the point of view of the customer, public relations campaigns can be directed towards 'external' targets (competitors, customers, the government, etc.) or 'internal' targets (personnel, unions, other party members, etc).

More specifically, public relations can be seen as the combination of three distinct but inseparable elements:

- a behavioural ethic: the PR has to abide by a code of conduct in his relations with the target public;
  the study of individual and collective behaviour:
- analyse behaviour, trends, opinions within a group (a company for example), identify its causes, predict its consequences and elaborate a strategy or an adequate action plan;
  analyse the communication channels, the networks of relationships which together constitute the backbone of the group and appreciate the risks and opportunities given the socio-economic environment.
- a strategy as well as action and communication techniques: taking account of the information collected, the PR professional will define a consistent action plan, aimed at giving the target a better knowledge or a better understanding of its activities, of what the company does to meet their expectations, and more generally to create a favourable climate for the company.

Table 1
Public relations
Companies, turnover and employment in public relations agencies, 1988

	Number of companies	Turnover (million ECU)	Employees
Belgique/België	19	23.4	220
BR Deutschland	40	50.0	280
Hellas	6	N/A	N/A
España	25	17.0	185
France	34	110	550
Ireland	5	5.6	65
Italia	42	N/A	N/A
Nederland	9	16.5	130
Portugal	10	3.5	70
United Kingdom	130	130.0	850
EC 10	320	(¹) 356	(¹) 2350

(¹) EC 8
Source: CERP

Current situation

Whether it is measured in terms of media coverage, political action or on the basis of the company's share price, public relations is not a service which can be accurately valued. Measures of the total size of the industry cannot include the substantial amount of public relations activity undertaken in-house. Figures presented here are based solely on fee income earned by public relations consultancy firms.
Furthermore, fee income by independent consultants or small firms, who are not required to publicly disclose their revenues, is not included. Finally, many advertising companies (which have moved into public relations in recent years) do not as a rule identify public relations fee income separately from other income sources in their financial statements.
Table 1 presents an overview of the estimated number of public relations consultancy firms in each EC country (where available), the number of employees and their turnover in 1988. Because of the difficulty in distinguishing between public relations and the other activities of many of these companies, only overall turnover figures could be presented. Turnover for public relations activities is not available for most of the EC countries.
There are two main categories of Public Relations companies. On the one hand large, often multinational, firms employ specialist consultants for varied activities. On the other hand, small sized companies specialise in one area of Public Relations such as entertainment or political campaigns.
The global turnover of public relations companies in the EC was estimated at nearly 400 million ECU in 1988 by CERP and is thought to have increased by approximately 25% in 1989. Around 300 companies are active in the sector. Because of the problem in identifying this sector in the official NACE statistics, there are no official figures on the market size of the EC, the US or Japan.
One agency involved in the sector estimated that the value of the US market represented some 2.4 billion ECU and the Japanese market some 242 million ECU in 1986. These figures should be interpreted as rough indications only.

Employment

The professional background of those employed by public relations organisations has expanded to include professionals such as lawyers and bankers. This has increased the degree of expertise in dealing with the details of certain public relations campaigns although disparities in qualification requirements are very high within the EC. The European Confederation of Public Relations (CERP) is therefore planning to implement until 1993 a programme aimed at the harmonisation of qualification requirements for PRs at the European level.
As with other marketing services, the key resource of the public relations industry is staff. Employees who leave often take clients with them. One response to this by smaller companies is to offer equity or partnership in the company.
Table 2 shows the estimated employment in the public relations sector. CERP estimates that in 1989 the sector employed around 46 500 professionals in Denmark, West Germany, UK, Italy, Spain and the Netherlands. Employment in the sector is highest in the UK (21 000) and lowest in Portugal and Ireland, given the market's limited size in these countries.

Market structure

Entry into local markets is relatively easy, with little need for significant capital investment: people are the key asset. On the other hand, the barriers to building an international network of consultancies are much greater, given the nature of the industry.

Table 2
Number of employees in the public relations sector in 1989

	Total number of professionals
BR Deutschland	10 000
Danmark	2 500
España	1 500
Italia	3 500
Nederland	8 000
United Kingdom	21 000

Source: CERP

'Good' acquisition candidates are difficult to find in such a small, fragmented industry; and key people may be reluctant to work for a large organisation once they have owned and run their own business. In the US, the market leaders in the public relations industry are owned by advertising agencies, which have international networks and regional spread. Outside the US, locally based companies dominate. A key factor in the development of the EC market will therefore be the extent to which large groups continue to expand or develop.

Table 3
Public relations
The 10 biggest public relations agencies in the EC, 1988

	Turnover (million ECU)	Employees	Country
1. Shandwich Group	19.6	417	UK
2. Charles Baker Group	10.7	191	UK
3. Burson Marsteller	10.5	169	UK
4. Valin Pollen International	8.0	167	UK
5. Dezwe Rogerson	7.0	136	UK
6. Hill & Knowlton	6.9	141	UK
7. The Grayling Group	6.2	102	UK
8. Streets Financial Strategy	4.9	65	UK
9. Daniel J. Edelman	4.8	95	UK
10. ABC Presse-Information GmbH	4.1	65	D

Source: CERP

Growth of the sector

The number of public relations companies, as well as their size, has increased rapidly in recent years. Demand has increased mainly in companies employing external public relations consultancy experts (in situations where they would have handled their own public relations before) due to growing complexity of the business. Larger companies tend to operate their own in-house public relations services, whereas middle-sized companies which cannot afford a PR department use outside consultancies.

However, companies are increasingly moving away from in-house operations towards professional consultancies because of the growing interest of large advertising groups in public relations and the inclusion of public relations services as part of a 'package' of marketing services for their customers.

Apart from these 'internal' or supply-side factors, four 'external' or demand-related factors can be identified which have fuelled the growth of public relations companies:

❖ Cost-effectiveness

The cost of public relations 'mistakes' or inefficiency has escalated. When an aircraft crashes or a ship sinks, critical media coverage can cause a heavy loss of business, but can be countered through effective public relations activities. Many politicians have gained or lost elections due to good or bad public relations campaigns.

❖ Strategic planning

Public relations is not only used for ad hoc or crisis management. It can have favourable long-term effects too. Many public relations companies are involved in the preparation of contingency plans for their customers. Long-term involvement in the parliamentary legislation process and 'guiding' bills through this process are another growing area for public relations companies. Such contacts can also keep companies informed of government thinking on their industry in general.

Cost reduction

The cost of general advertising and marketing campaigns is in many cases prohibitive. Concentrating public relations campaigns on a small group of people through a personalised approach can be much cheaper and more effective than reaching indiscriminately for the masses, especially in cases where detailed and complex information has to be communicated.

❖ The increase in the number of media vehicles

When the number of media vehicles (newspapers, magazines, television, etc.) increases, so do the number of opportunities to influence people's opinion and the complexity of such activities. This amplifies the need for public relations experts with wide but also detailed knowledge and experience so that every possible avenue can be explored.

Developments in the media and in the technology of communication also demand increased attention to the presentation of a corporate image. As a result, a new service has developed rapidly in recent years in the grey area between public relations, marketing and advertising: corporate advertising.

This has been used more as a complementary strategy rather than a competing alternative to public relations. Only a limited amount of information can be conveyed by a general advertisement. Public relations consultancies are able to concentrate on imparting more detailed and relevant information to members of key target groups in the knowledge that the climate of public opinion will, in this fashion, be favourable influenced with reference to a particular issue.

Revised by: ERA

The industry is represented at the EC level by:

CERP: Confédération Européenne des Relations Publiques

Address: 35-41 rue de l'Oasis, F-92800 Puteaux;

Tel: (33 1) 47 73 60 72; Fax: (33 1) 45 06 53 43

Market research

The EC accounts for more than one-third of the world market for market research. The Esomar (European Society for Opinion and Marketing Research) directory has full registration of 460 research organisations in the EC (from a total in excess of 1 500). Five of the top 10 world market research companies have their headquarters in the EC. Half of all EC market research is bought by manufacturers, and only 15% by the services sector. The trend in consumer goods research is downwards, compared to research in other industries. The market research sector employs over 23 000 permanent employees and over 100 000 interviewers. The outlook for the sector points to continued growth.

Description of the sector

Market research is covered by NACE category 839.1, and is distinct from management consultancy.

Market research consists of analysing the markets for products and services of all kinds. It identifies the links between consumers, customers, the general public and the market and is used by marketers to:

❖ identify opportunities, threats and problems;
❖ initiate, modify, evaluate and monitor marketing activity;
❖ improve understanding of marketing processes.

It enhances economic efficiency by enabling companies and other organisations to provide the goods and services that customers want, by investigating their needs, beliefs and behaviour, rather than see companies waste resources in developing and producing what is not wanted, or communicating the benefits of their goods and services inadequately.

As an activity based firmly on the application of such aspects of scientific method as hypothesis generation and testing, experimental design and the use of statistical and sampling methods, market research combines many elements of academic rigour with the characteristics of both a profession and a key sector of the business service industry.

Current situation

In 1989, the market research market was ECU 1.85 billion in the EC, representing 37% of the world-wide expenditure on market research.

There are over 1 500 market research companies and consultancies in the EC, including the headquarters of several of the world's largest. Additionally, two of the

Table 1
Market research markets, 1989

	Turnover (million ECU)	89/88 (%)	Share of the total market (%)
Belgique/België	60	13.2	3
Danmark	28	7.7	2
BR Deutschland	409	9.7	22
Hellas	13	30.0	1
España	94	23.7	5
France	360	11.5	19
Ireland	13	18.2	1
Italia	230	11.1	12
Luxembourg	1	0.0	1
Nederland	116	0.0	6
Portugal	10	25.0	1
United Kingdom	518	14.6	28
EC 12	1 852	11.7	100
Other Western Europe	225	12.5	4
Western Europe	2 077	12.3	41
USA	1 850	3.9	37
Japan	485	15.5	10
Other	610	10.9	12
World	5 022	9.2	100

Sources: Esomar; national trade associations and PR societies; Advertising Age; Context; Marketing News

world's three major market research chains (networks of independent companies) have their headquarters in Europe. Although there are a few major players in the EC, the industry is, nevertheless, characterised by considerable fragmentation and intense competition. Barriers to entry are low except in the high tech/high investment areas of market and media measurement (around 35% of total market research expenditure). Pre-tax margins have historically been modest (an average of around 5 to 6% on turnover for ad hoc research organisations) though perhaps a little higher in recent years. Substantially higher margins are earned by research companies with multicustomer services and a contractual customer base.

Traditionally, manufacturers of consumer packaged goods were the main buyers and users of market research. In recent years, a much wider range of businesses and non-commercial organisations (including public sector and government) have used market research to aid their decision making. In the consumer area, companies which market services (finance, leisure, etc.) have become a sector of growing importance to market research suppliers.

The market research market has been growing rapidly since the 1950s, when it first became firmly established in Europe. Its origin dates back to the 1930s and earlier. Only the oil crises of the mid and late 1970s caused some temporary stagnation. While hard figures are difficult to produce on a European basis (particularly since the distinction between market research/information, marketing consultancies and related disciplines is increasingly blurred), the past five years have probably seen annual real growth in excess of 10%.

Broadly, the most rapid growth has been in Southern Europe (20% or greater), particularly in Spain and Italy and, to a lesser extent, in the UK. Growth is usually ahead of inflation in the Northern European countries. There are some signs of a slowing down (eg. in UK) but developments associated with the single European market of 1992 reinforce the growth trend.

Table 2
Market research
World top 10 market research companies, 1989

Research company	Turnover (million ECU) (¹)	Countries with office (²)	Head office	Ownership
1. A.C. Nielsen	862	27	USA	Dun & Bradstreet, USA
2. IMS International	354	62	UK	Dun & Bradstreet, USA
3. Arbitron	216	1	USA	Control Data Corp, USA
4. Pergamon AGB	206	21	UK	Maxwell Foundation, UK
5. IRI	124	4	USA	Public Company, USA
6. GfK	110	22	D	Public Association, D
7. Research International	92	24	UK	WPP Group, UK
8. MAI	79	4	UK	Public Company, UK
9. MRB Group	78	7	USA	WPP Group, UK
10. Video Research	75	1	J	Denisu et al, J

(¹) Excluding associates
(²) Including associates
Sources: Main research companies; Marketing News; Esomar estimates

Industry structure

The market research product can be classified on the basis of the type of client and type of study conducted.

Manufacturing industry (particularly consumer products) still dominates the client portfolio, as shown in table 3.

The most complete time series comes from annual studies organised by the Association of Market Survey Organisations in the United Kingdom, but it is generally ex-

Table 3
Market research
Source of revenue for EC market research organisations, 1989

	%
Manufacturers	50
Service industries	15
Advertising agencies	8
(Quasi-) governmental	8
Retailers/wholesalers	3
(Other) research organisations	4
All others (including media owners)	12

Source: Esomar

pected that the trends shown are mirrored elsewhere in the Community.

Their studies show that expenditure on consumer goods research has declined (relatively) from 52% of total expenditure in 1982 to 37% in 1989. Within this expenditure category, the relative decline appears to be almost entirely due to the slower growth in research expenditure on food and drinks (from 23% of the total to 16%), household products (from 6% to 2%) and tobacco (from 4% to 2%) with the other consumer goods sectors (health, beauty aids, durables and alcohol) remaining more or less constant as a proportion of total market research spend.

Over the same period, market research expenditure by other clients, outside the consumer goods sector, increased from 48% in 1982 to 63% in 1989. Here, the upswing was due to increased spending by the media sector (from 5% to 9%) and public and financial services (from 4% to 13%).

Among its main users in the EC, market research can be roughly split into two-thirds consumer research and one-third other types of research (this excludes research conducted "in house" by marketing companies and other "user" organisations or by non-commercial organisations, which may lead to an under-representation of non-consumer research).

Market research in the form of continuous measurement consumer panels, retail audits and distribution/price checks) accounts for well over one quarter of all expenditure, with a further 15% being allocated to other forms of continuous or regular measurement such as advertising tracking.

Accordingly, altogether, over 40% of the research budget of these major corporations is earmarked for predominantly ongoing contractual services, leaving around 60% for ad hoc or customised projects. Consumer quantitative studies (24%) and qualitative research (17%) (ie. group discussions and in depth interviews) account for most of these.

Table 4
Market research
Number of research organisations in EC Member Countries, 1989

		89/88 (%)
Belgique/België	29	26.1
Danmark	17	13.3
BR Deutschland	88	10.0
Hellas	12	9.1
España	27	50.0
France	66	22.2
Ireland	5	0.0
Italia	63	21.1
Luxembourg	2	0.0
Nederland	43	4.9
Portugal	8	14.3
United Kingdom	100	14.9
EC	460	16.5

Source: Esomar Directory
NB. Only those with full listing in Esomar Directory; total number in EC well over 1 500.

Information on the six main categories of research bought by the major EC research buyers shows that usership & attitude studies and product testing top the budget allocation list.

Various forms of advertising research (development, evaluation and tracking) account for another large block of expenditure as do the continuous market measurement services of retail audits and consumer panels.

Not only is there a wide range of research suppliers that clients can select from in EC countries (see table 4), but this buyer-power is well exploited because buyers usually employ more than one institute on a regular basis.

Trade

Approaching 90% of EC market research is conducted by research organisations for local (national) clients, although these are frequently subsidiaries of multinational corporations (both Community and foreign-domiciled). Subcontracting to foreign research organisations when coordinating international (single or multi-country) studies accounts for a growing proportion of research companies' business and has reached 15% of revenue for UK firms.

There are no hard data either on the source of foreign clients or the destination of sub-

Table 5
Market research
External trade, by value

	Client origin for EC research organisations		Subcontracted by research organisations to foreign research suppliers
(%)	National	Foreign	
Danmark	75	25	8
Hellas	85	15	3
France	91	9	4
Ireland	85	15	2
Italia	85	15	2
Nederland	90	10	N/A
United Kingdom	90	10	15

Source: Trade associations and estimates

Table 6
Employment in EC market research industry, 1988

	Permanent employees	Freelance interviewers
Belgique/België	900	1 000 to 5 000
Danmark	500	1 000 to 5 000
BR Deutschland	4 900	more than 30 000
Hellas	400	1000
España	1 200	1 000 to 5 000
France	3 700	10 000 to 20 000
Ireland	200	1000
Italia	2 100	10 000 to 20 000
Luxembourg	10	less than 1 000
Nederland	2 200	10 000 to 20 000
Portugal	400	1000
United Kingdom	6 700	more than 30 000
EC 12	23 200	more than 100 000

Source: Esomar Directory and estimates; trade associations

contracted revenues. However, industry reports suggest that the proportion of intra-Community research is increasing.

Employment

The market research industry in the EC has over 23 000 permanent employees and offers freelance employment to over 100 000 interviewers, as well as freelance qualitative researchers, data-processing bureaux and other self-employed consultants and subcontractors.

Formal training is particularly well developed for graduate client-service executives and starter interviewers, who are well provided for in skill-acquisition programmes of short duration. Some of the major research companies run their own graduate trainee programmes, as well as more senior courses. Esomar, national societies and specialist market research associations offer a wide range of training and experience-sharing courses and seminars at all levels, covering research in many business sectors.

As a service industry that has only really developed since the 1950s, there are few, if any, employment prejudices or restrictive practices. Many people in their thirties and forties are in senior positions. Women are found in roughly equal numbers to men at all professional levels and are involved in the senior management of many research organisations.

Investment

In a predominantly "people" business, capital investment has historically been a relatively insignificant component, apart from the continuous research sector. The main exception is the computer equipment that major research companies have bought or leased, particularly from the late 1960s onward, which has revolutionised market research.

More recently, the advent of micro-computers has reduced the competitive advantage of the major companies, as small research firms can also afford 1 000-2 000 ECU for a powerful PC.

Changes in data-collection methods have, however, increased investment needs.

In particular, computer-aided interviewing (especially by telephone) has involved the commitment of substantial sums to the installation of facilities typically comprising 20 to 100 telephone booths with appropriate telecommunication and computing equipment.

In the continuous research sector, single-source data from panels that record product purchase and media exposure have required considerable investment in scanning devices, "people meters" to record television viewing and other high-cost electronics. Data thus derived (as well as data from other sources) increasingly form part of computerised databases for marketing management information systems (decision support systems) - a further, significant investment.

Over the past decade, more European research companies in the ad hoc sector have begun to emulate American research firms in the standardising and branding of research products. This, too, involves investment, although typically in the time of first-rate research technologists and innovators. Significant investment in designing, testing and validating new research techniques, and subsequent marketing investment in communicating the benefits of these techniques to customers is only possible if the costs can be amortised by the application of the same techniques across many countries and over time.

Structural changes

Market research is a young industry. Few companies were founded before the 1950s and many started life in the 1980s.

One of the problems in defining the market for market research is that one and two-person research consultancy businesses spring up all the time, even in adverse economic conditions.

At the other end of the spectrum, a number of mergers and acquisitions have been taking place often as part of the creation of major marketing services corporations. This is illustrated by recent changes in ownership of the top 10 research companies operating in the EC, as shown in table 7. One effect of this development has been to reduce the level of American ownership of Community research businesses. Of the top 10 EC market research organisations, only the first two are now under non-EC ultimate ownership.

The other effect has been to increase industry concentration and to produce nine major research holding companies in the EC, as shown in table 8. In aggregate they have revenues exceeding one billion ECUs - but still only represent just over half of the total EC market research market.

The other major structural change process is horizontal specialisation. Increasingly, market research organisations throughout the Community are setting up specialist divisions or operating subsidiaries that concentrate on key business sectors (e.g. media, health care, automotive, finance) or research specialisations/problem areas (e.g. qualitative, advertising). Up to ten or more such entities can be found in many of the larger full-service market research companies in the EC.

Vertical integration has always been a feature of the European market research industry. All but the smallest companies have combined a client service function with a data handling "facility" (data collection, preparation, processing and printing). However, there are signs that this vertical integration is beginning to be questioned by some companies, especially where personal interviewing fieldwork is concerned. The US market has long been characterised by an ownership separation of research companies from fieldwork suppliers.

Geographic features

The structure of the market research industry is remarkably similar across the Member States. Generally, the market can be split into three parts:

Table 7
Market research
Top 10 market research organizations in the EC, 1989
Recent changes of ownership/mergers

Research company	EC market research turnover (million ECU)	EC countries with office (incl. associates)	Acquired by/merged with
1. A.C. Nielsen	293	11	Dun & Bradstreet, USA, 1984
2. IMS International	135	11	Dun & Bradstreet, USA, 1988
3. Pergamon AGB	113	10	Maxwell Foundation, UK, 1988 (acquired AGB Research), Going private, 1990
4. GfK Group	105	7	no change (public association), D
5. Research International	60	8	The Ogilvy Group, USA, 1987 WPP Group (acquired TOG), UK, 1989
6. Infratest/Burke	59	5	Infratest (acquired Burke in Europe), D in 1980 (Infratest is private corporation); Proposed merger with Inter/View (NL) abandoned in 1988
7. SOFRES	48	4	No change (SEMA Group), F
8. Cecodis	47	3	No change - closely held corporation, F
9. Millward Brown	36	2	WPP Group, UK, 1989
10. MRB Group	30	3	WPP Group (as part of JNT - previously US - owned - acquisition), UK, 1987

Sources: Major research companies; Esomar estimates

- Media market measurement;
- Audit shops or scanning (the analysis of consumption data from computerised tickets shops);
- Specialised market research by multinational research companies and local unaffiliated companies. They include specialized quantitative research, ad hoc research and qualitative research.

There is, however, something of an evolutionary, maturing process in any given market. When a national research market first develops, it relies heavily on omnibus studies, brand barometers, qualitative and small-scale quantitative research.

Subsequently, there is a major leap in development in which a retail audit and/or consumer panel (together with media research services - especially television audience measurement) is established. These syndicated continuous services, generally offered by one or two dominant suppliers, then claim a significant proportion (often 56% to 60%) of spending on market research. This leaves relatively little for the ad hoc research sector, which is more geared to problem-solving and the identification of opportunities.

When a market reaches a certain size and stage of maturity, an equilibrium is established, in which continuous research captures about one-third of total expenditure. Other regular services (e.g. advertising tracking, quality of service monitoring) add a further semi-contractual sector, partly substitution for ad hoc studies and partly reflecting overall growth in the market information market.

Other geographic variations stem from broader economic and marketing influences. In smaller countries, less research on new product development is undertaken as the major R&D activities and corporate headquarters are located elsewhere. This leads to more research involving the screening of concepts, products or communications approaches that have been developed and more thoroughly re-

Table 8
Market research
Corporate parents of EC market research companies

Corporate parent	Market research turnover in EC (million ECU)	Main research companies in EC	Countries with office (incl. associates)	Home country of corporate parent
1. Dun & Bradstreet	428	Nielsen IMS	11	USA
2. WPP	126	Research International Millward Brown MRB Group	8	UK
3. Maxwell Foundation	113	Pergamon AGB	10	UK/L
4. GfK	105	GfK	8	D
5. Infratest/Burke	59	Infratest Burke	5	D
6. MAI	52	MIL NOP	2	UK
7. SEMA Group	48	SOFRES Sobemap Sofemasa Abacus	4	F
8. Cecodis	47	Secodip Dympanel	3	F
9. Addison Consultancy	25	Taylor Nelson/MaS	2	UK
Total	1 003	(54% EC market research market)		

Source: Major research companies; Esomar

searched in the larger EC markets.

Market research has developed from consumer marketing origins and tends to be relatively less widely used in those countries where the emphasis is more on industrial products. There have been different patterns in the post-war evolution of markets and of marketing. Restrictions on television advertising (and hence, related research) in a number of countries have also contributed to this differential use of market research across the Community, as have the varying levels of retail trade concentration (broadly, more concentration in the north than in the south). The overall effect of these, and other, factors is that, compared with the level of economic activity in the country, the market research market is particularly well developed in the UK and the Netherlands and somewhat less so in Germany and France (see table 9). The exceptional British results during the last few years may be explained by two factors: a long tradition in market research and an universal language. Spanish and Italian market research companies have also experienced accelerated growth over the last few years, although their activity level remains comparatively low. There is considerable cost and price variation between the EC countries, largely reflecting differences in salaries and social costs. Other factors include:

- ❖ degree of competition in local market;
- ❖ the enhanced efficiency that comes with greater experience in certain types of research;
- ❖ mix of research and data collection methods;
- ❖ geographic dispersion of population.

Price indices, around an EC mean of 10 (for the nine countries surveyed), are shown in table 10.

Impact of Eastern Europe on demand trends In the short term, demand for market research in Eastern European countries is not expected to increase significantly, because of the high cost of studies and the lack of know-how. Nevertheless, as the demand for market research is related to the productive investment rate, the potential demand is significant in the long term. The

Table 9
Market research
Shares of EC Member States (¹), 1989

(%)	Market research expenditure	Advertising expenditure	Gross domestic product	Population
Belgique/België	3.2	2.5	3.3	3.1
Danmark	1.6	2.0	2.4	1.6
BR Deutschland	22.6	24.0	26.2	18.9
Hellas	0.6	0.6	1.1	3.1
España	4.6	9.1	6.7	12.0
France	19.5	16.2	20.5	17.2
Ireland	0.7	0.5	0.7	1.1
Italia	12.5	12.2	17.7	17.7
Nederland	7.0	6.5	5.0	4.5
Portugal	0.5	0.6	0.8	3.2
United Kingdom	27.3	25.8	15.7	17.6
EC 11	100.0	100.0	100.0	100.0

(¹) Except Luxembourg
Source: Esomar, Context newsletter

growth of demand will also depend on variables such as qualification standards, and will be strongest in countries where the labour force is highly qualified.

Over the past year, business opportunities for market research have become apparent. There have been studies made by public institution but also a number of co-operation agreements between EC and Eastern European private companies.

Impact of 1992 on the industry structure The EC countries already account for more than a third of international market research. This leading role can partly be explained by the high profile of British companies which were, in the 1980s, the main suppliers of international studies in Europe. Within the next few years, many opportunities will appear with the prospect of the unified European market. But these opportunities will only benefit companies which have an international dimension of increasing competition especially from American market research companies. It is therefore reasonable to expect an increase of EC cross-border mergers and acquisitions.

Outlook

The EC 10% growth rate of recent years is expected to continue with the possibility of lower growth in northern Europe which will be more than compensated by the strong surge in southern Europe (particularly, in absolute terms, in Spain and Italy). British companies are likely to remain the European leaders due to their experience but especially their capital basis.

The increased demand for market information resulting from (potential) client companies addressing the 1992 situation will add to this underlying momentum and international research is expected to develop rapidly. This trend will be strengthened by the growth in (a) pan-European media and (b) in the number of marketing companies operating on a European rather than a national basis.

There are also a number of industrial and commercial sectors that have only recently started using market research systematically (e.g. finance, retail and utility sectors). They will be likely to add further impetus to market growth. A recent study among the biggest buyers of research in Europe suggests that expenditure on most types of market research is likely to increase rather than decline over the next five years. This will be markedly so in the case of such main areas of research activity as usership and attitude studies, product testing, advertising and concept development and evaluation, customer satisfaction and (ad) campaign tracking.

Formal forecasts of total market research growth are rare although AMSO, the main British market research trade association, has forecast nominal growth of 6-8% in 1990 (in line with UK inflation) and a return to faster growth of 10-12% in 1991 and 1992.

Table 10
Market research
Price variation across EC countries, 1989

	All ad hoc market research (average of six categories)	Quantitative studies (average of four categories)	Qualitative studies (average of two categories)
Belgique/België	76	77	74
Danmark	105	101	114
BR Deutschland	129	136	115
Hellas	55	59	48
España	96	97	94
France	120	114	131
Ireland	123	127	117
Italia	94	85	112
Nederland	98	95	106
Portugal			
United Kingdom	100	100	100

Source: 1989 Esomar study of market research prices

Table 11
Growth in total market research expenditure

Users' estimations	Past five years (%)	Next five years (%)
Much above inflation (+5)	36	21
A little above inflation (+4)	36	42
About the same as inflation (+3)	19	26
A little below inflation (+2)	6	10
Much below inflation (+1)	3	1

Source: Esomar client study

ESOMAR: European Society for Opinion and Marketing Research.
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Management consultancy

Compared to 1989, there was a 7% downturn in management consultancy, as against 13% between 1988 and 1989 and around 15 to 20% during previous years. This reduction is basically the result of the general economic slowdown in Europe.

The fact that it has become commonplace to resort to outside services to improve company management, both for strategic advice and for the installation of information and management systems, means that we can look forward to moderate growth in 1991 which is unlikely to exceed 5%.

Definition of sector and description of activities

Management consultancy consists of providing advice and assistance on the management of organisations in a totally independent, objective manner. This includes the identification and analysis of problems and/or opportunities, the recommendation of appropriate action and solutions, together with assistance with implementation, if required.

Services are performed by qualified or specially trained general or specialist consultants.

This service sector falls within NACE Sub-Group 839.1: "Market research and organisation consultancy".

The following list outlines the scope of this sector of activity:

- corporate strategy and development of organisations;
- administrative and financial systems;
- management of human resources (including recruitment of executives and temporary managerial staff);
- management of production and services (including technology, organisational support management, research and development and quality control);
- marketing and corporate advertising and promotion;
- information and management technologies and systems;
- project management;
- economic and environmental impact studies.

Table 1
Management consultancy
Turnover and statistics of FEACO member firms and of the overall market, 1989

Members of FEACO	No. of firms	Turnover (mio. ECU)	Turnover in percentage of total market (%)
Belgique/België	24	90	70
Danmark	50	34	40
BR Deutschland	310	1 550	36
España	35	130	40
France	40	323	49
Ireland	15	N/A	N/A
Italia	51	270	50
Nederland	30	151	65
Portugal	19	N/A	N/A
United Kingdom	31	980	70
EC 10	605	(¹) 3528	46
Total market (¹)			
EC 10		7 676	100

(¹) Estimates
Source: FEACO

Sectorial limits

FEACO, the European Federation of Management Consultancy Associations is an amalgamation of 17 European national associations which encompasses the leading firms within the sector. However, most of the major strategic consultancy practices, which are generally of American origin, are not members. The national associations include only some of the multitude of small firms within the sector which fluctuate at a rapid rate.

In the absence of any reliable national, Community or professional statistics, the data supplied by FEACO characterises the trends taking place within the sector. Taking the various countries overall, the FEACO figures represent between 40% and 70% of the activities of the sector.

Management consultancy is closely allied to two other sectors:

- ❖ computer services;
- ❖ consulting engineers.

The development and installation of information and management systems forms an important part of management consultancy activities (approximately 35%). This service is very similar to the computer-based management schemes developed by computer software houses.

Management consultancy firms are increasingly involved in the use of information technology and the implementation of computer tools. Conversely, computer software houses have to take into account the specific features of each client sector and their implications on management systems. Functional analysis is therefore increasingly embracing certain consultancy elements.

This overlap occurs to a lesser extent with consulting engineering firms, and concerns production, or computer-based production, organisational support, project management, as well as economic and environmental impact studies. There is little overlapping with market research and opinion poll firms. Consultancy firms may carry out market research surveys within the scope of strategy consultancy or marketing consultancy activities. In contrast, market research firms, tend to focus on the supply of information on markets and, as the situation stands, carry out very little marketing consultancy.

Present situation

Level of activity in 1990 The consolidated turnover of FEACO members - 3 528 million ECU in 1989 - shows a 13% increase over 1988, a figure which remains within the annual growth bracket recorded over the past 5 years: between 10% and 20% according to the country.

The FEACO figures, however, must be looked at carefully. The turnover of the Federal Republic of Germany includes computer and information technology related firms and businesses which cannot be distinguished from consultancy activities. The rates of growth observed in Great Britain, France, Italy and Spain give a true picture of the reality of the market and the rapid penetration of management consultancy in the countries of Southern Europe.

The sizeable "hole" made by Great Britain fully reflects to what extent services have been externalised (recourse to firms outside the firm) and the gap filled by major firms within the consultancy sector.

The overall consultancy market for 1989 is estimated at 7 676 million ECU i.e. a rate of growth (+ 12.8%) similar to that of FEACO.

Fields of activity The development and installation of information and management systems is still the main area of activity and the most buoyant sector for the future, bearing in mind the needs of companies and the rapid evolution of information technology.

The interface between strategy and information systems (pilot systems, consultancy in information technology strategy, interactive decision-making support systems) is a growth area. Strategy consultancy is becoming in-

Table 2
Management consultancy
Fields of activity of FEACO members

(% of total turnover)	Countries bracket	EC Average
Information and management systems (information technologies)	30-45	34
Finance - Administration	10-30	14
Strategy - Structures	10-20	16
Human resources	10-25	12
Production	10-15	13
Marketing	5-10	7
Others	5-10	4

Source: Sema Group Management Consultants estimates

creasingly involved in implementation (corporate plans, mergers and acquisitions, the implications of strategies on structures). There is, however, still a strong demand for production, organisational support and quality control specialists.

Finally, the concern for overall management of human resources (career plans, pay systems, training schemes), something in which Europe was behind in comparison with the United States, is leading to strong growth in consultancy in this field.

Contrary to what is sometimes believed, management consultancy mainly concerns the private, competitive sector, whilst the public sector (administrative authorities, public services) accounts for only 10% to 20% of the market, this percentage being higher in France and the Netherlands vis-à-vis information systems and to guidance on public capital spending. A growing demand for consultancy is being seen in certain public services (health, education, transport), particularly in respect of the United Kingdom, and local authorities.

Large companies tend to resort to consultancy (in the region of 60% to 70%). Several countries, however, including the United Kingdom, France and the Federal Republic of Germany, have adopted schemes to encourage the implementation of management consultancy by small and medium-sized businesses, particularly in respect of production system automation. These programmes have prompted the development of a new consultancy supply area in France and the United Kingdom. In the Federal Republic of Germany, where a larger number of medium-sized businesses exist and where independent, regional consultants have been appearing for some time, the banks, by acquiring shareholdings in consultancy activities, are encouraging their customers to seek advice from external consultants.

The level of remuneration (consultancy fees) for consultants is 500 ECU to 1 500 ECU per day. For large specialist firms, the fee may even be as high as 2 000 to 3 000 ECU. The average turnover per consultant is in the region of 100 000 to 160 000 ECU per annum.

Table 3
Management consultancy
Management consultancy situation, 1989
FEACO members

	Number of management consultants	Annual turnover per consultant (in ECU)
Belgique/België	853	105 000
Danmark	330	127 000
BR Deutschland	10 200	152 000
España	1 600	81 000
France	1 990	162 000
Ireland	369	N/A
Italia	2 300	157 000
Nederland	1 300	116 000
Portugal	733	N/A
United Kingdom	6 760	145 000
EC 10	26 435	
Total market (1)		
EC 10	62 825	

(1) Estimate
Source: FEACO

Commercial trends

Management consultancy activities, by dint of the services required and the structure of the firms involved, are essentially confined to the domestic market. Exports (5% to 25% according to country) are mainly to developing countries.

There are, however, signs of embryonic trade flows within the Community itself (at present very low: in the region of a few% of turnover), particularly in the area of strategy and highly sophisticated specialist areas (organisational support, computerised production, strategic consultancy in information technology). "European" teams are increasingly appearing. The opening up of

Table 4
Management consultancy
Leading consultancy firms within the EC (¹)

BR Deutschland	España	Italia	France	Nederland	United Kingdom
Roland Berger	Andersen Consulting	Ambrosetti Consulenza	Arthur Andersen	Berenschot	Coopers Lybrand
MC Kinsey	Price Waterhouse	Andersen Consulting	Bossard	Twijnstra Gudde	PA
Kienbaum	CP	Mc Kinsey	Cegos	KPMG	Andersen Consultants
Treuarbeit	Mc Kinsey	Coopers Lybrand	Sema Group	Ernst and Young	Price Waterhouse
Deloitte	KPMC	Cueno et Associati	Euroquip	Deloitte	KPMG
Arthur Andersen	Mac Group	Galgano & Associati	Algoe	GITP	PE Inbucon
Wibera	Bedaux	Hay	Eurosept	Andersen	Ernst and Young + Braxton
A.T. Kearney	Bossard	KPMG	O & A	C & L	Touch Ross
KPMG	C & L	Orga	Bernard Julhiet		Bain
BCG		Praxi	Gamma		ADL
		Telos Consulting			

(¹) For information purposes: approximate classification by turnover of management consultancy activity, excluding computing.
Source: Siar Bossard and Sema Group Management Consultants

the Eastern European countries also opens up opportunities for consultancy firms (analysis of needs, industrial restructuring and the overhaul of public corporations, privatisation, corporate diagnosis, management training, etc....). The former Democratic Republic of Germany currently represents 15% of the turnover of German consultancy firms.

Structural changes

A large number of companies (US/UK auditing and strategy consultancy practices) have established trading partnerships (an average of one partner for every ten consultants). With regard to multiple shareholder companies, large shareholdings by computer software houses can be seen in France, by banks in the Federal Republic of Germany and France, and in certain cases, by advertising and promotion firms. Single shareholder companies which belong to their founders/creators are becoming scarce. The amalgamation phenomenon is continuing with large practices growing more quickly than medium-sized ones.
The top six auditing consultancy practices have strengthened their market footholds and networks, as have the large American strategy consultancy practices, with the sector continuing to experience strong growth, and numerous small firms appearing every day, both at regional level and as a result of the emergence of new specialist areas, together with the development of large groups.
Medium-sized national firms are looking to strengthen their alliances in order to cope with the competition from large networks. Contrary to previous years, however, mergers and acquisitions within this sector appear to have declined, apart from one or two exceptions (the Siar-Bossard merger, the acquisition of Hartman (N) and Bak-Jensen (DK) by PA, and, conversely, Saatchi's break away from Hay).
The concept of mixed professions is on the increase, with strategy consultancy practices expanding in the direction of the development and installation of orientation systems, "systems or organisation" consultancy practices widening their range of activities, the general trend being for large firms to become multidisciplinary or multi-specialised, whilst at the same time strengthening their networks and international coverage.

Trends within the sector

Three main trends are predominant within the management consultancy sector;

- recourse to management consultancy is becoming increasingly common practice, at least among large companies. They all have their own consultants, e.g. accountants, lawyers, legal and tax advisers;
- the use of strategy or systems consultancy is becoming increasingly recognised as an intangible/strategic corporate investment. Consultants who formerly intervened from time to time with regard to improving performance, productivity, reducing costs, is being increasingly used to promote quality and the optimisation of resources in all corporate functions, key factors in acquiring the competitive edge;
- the professionalism of the sector is being enhanced: consultancy firms are investing more and more in the training of consultants, quality control, the development of new "products", concepts and methods, the mastery of computing tools. "Qualification" and "certification" procedures are being developed, more especially in France, the United Kingdom, the Netherlands, Denmark and Italy. The attempts to comply with international standards (ISO) confirm the way in which the sector is maturing.

Prospects

Since May-June 1990 growth appears to have weakened (0% to 10% instead of the

10% to 20% of previous years) reflecting the economic downturn. The opening up of the countries of Eastern Europe, however, presents an opportunity for new growth providing that international financial support is established. Altogether, low growth between zero and 5% is anticipated for 1991. The slowing down of demand and the maturity of the sector should lead to more intense competition and a greater number of alliances between large consultancy, auditing and strategy consultancy firms and computer software houses.

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Labour recruitment

In the majority of EC countries private enterprise personnel consulting is only tolerated alongside the State's monopoly on labour recruitment in the very narrow sub-sector of the recruiting of specialist and executive staffs. A continued very dynamic development is predicted for this segment of the market (+10% for 1991). Experts also foresee further specialisation within personnel consultancies themselves.

Description of the sector

Private enterprise personnel consulting has increasingly specialised as an area of business consultancy over recent years and established itself as an independent market. Personnel consultancies generally recruit highly specialised skilled operatives and executive staffs on behalf of client companies, and are briefed to identify suitable individuals and to advise clients on their choice of recruits. The definition of their sphere of activity is rather fluid. Some extend personnel consulting to include business consultancy in matters of staff policy, thereby encompassing additional issues such as personnel planning, basic and advanced training and staff promotion. Others provide personnel for a limited period only, thereby acting as temporary employment agencies. The institutional delimitation of the sector is currently a very difficult matter: personnel consulting often forms part of a broader business consultancy or staff leasing base. Personnel consulting is part of the NACE Group 839.1 "Market Research and Organisation Consulting".

Current Situation

Legal situation The distinction between personnel leasing and personnel recruiting is of legal significance. While personnel recruiting is practised on behalf of a client company, personnel leasing can also be done on behalf of employees themselves. Existing legislation particularly concerns a ban on staff leasing for gain so as to protect employees from the possible commercial exploitation of an emergency situation. This particularly applies to the Federal Republic of Germany and Italy. Both countries have statutory provisions forbidding employment agencying and have established state monopolies that handle the lion's share of labour recruitment. Private 'head-hunting' for client firms is permitted in the narrow market segment for highly qualified personnel. The German Federal Labour Institute has also issued its "Guidelines on the Distinction between Personnel Consulting and Employment Procurement". In France personnel agencying is forbidden by law, and personnel consultancies are tolerated solely within the sphere of staff recruitment.

Table 1
Labour recruitment
Main indicators, 1988

	Number of enterprises	Turnover (excl.VAT) Mio. ECU
BR Deutschland	271	231.0
España	N/A	61.1
France	1100	100.0
Italia	N/A	121.0
Nederland	N/A	95.2

Source: FEACO

The United Kingdom on the other hand has no public monopoly on labour recruitment and private companies are at liberty to recruit both permanent and temporary personnel under a broad-minded licensing system. Nor are there any restrictions on temporary staff agencying in the USA, where legal requirements concern the organisational form of companies, while the actual procurement and provision of staff for profit is dealt with very tolerantly.

The associations that make up the European Federation of Business Consultants (FEACO - Fédération Européenne des Associations de Conseils en Organisation) have compiled a joint code of practice for personnel consulting that has been accepted by all member associations. The major rules include:

- Confirmation of business professionalism;
- Definition of the job in the form of a preliminary study;
- A ban on payment of a fee by the applicant;
- A ban on indirect influence on the choice of candidate
- Guarantee of reliable transmission of information between candidate and employer;
- Contract protection for the candidate.

Table 2
Labour recruitment
Size structure (share of total in %), 1990

Turnover (million ECU)	D	UK
less than 1	60	47
1 up to 5	29	34
5 up to 10	5	6
10 and more	6	13
Total	100	100

Source: Creditreform, Dun & Bradstreet, Ifo-Institute.

Market Structure FEACO estimates that around 270 firms are involved in personnel consulting in Germany (Table 1). In France there are approximately 1100. The annual turnover in the five EC countries under review is around 600 million ECU of which 40% were generated in the Federal Republic of Germany. In publishing these statistics FEACO stressed that they did not include all the firms actively involved in this field. Among firms offering personnel consulting services there is a large number of small businesses (Table 2). In Germany 60% of the firms achieved an annual turnover of less than one million ECU. In the United Kingdom this was 47%. However larger enterprises also account for a sizeable proportion of the market. In Germany 6% of personnel firms achieved a turnover of 10 million ECU and more per annum, a level achieved by as many as 13% in the United Kingdom. This is a typical market structure for qualified, business-oriented services, affording plenty of scope for small enterprises able to respond flexibly to market needs despite the commanding position of major suppliers.

The independence of personnel recruiting as a separate branch of business consultancy has led at the same time to an increasing specialisation by staff recruiting companies in professional groups and commercial sectors. This trend was pioneered in the USA where the specialisation process is far advanced. The segmentation of the market is linked to a differentiation in prices. According to statistics compiled by the Dallas Business Journal gross fees per recruitment for specialists in the fields of marketing, information technology and health were between 8 000 and 12 000 USD, and between 2 000 and 4 000 USD for administrative personnel.

Future Prospects

According to FEACO, personnel consulting firms achieved a growth in turnover of 10% per annum on the European average in recent years. This trend seems set to continue in 1991. Although the available data do not permit quantifiable predictions, there are nevertheless distinct signs that point to continued healthy growth in this sector:

- In many EC countries a healthy economy has not only reduced unemployment, it has also brought about labour shortages in certain areas. This means that positive employment trends will also encourage the increased use of outside personnel consulting services in 1991;
- The reorganisation of companies in the wake of technical and commercial adjustments has in the past generated a strong demand for executives and specialists. This trend will be further enhanced as the implementation of the single European market goes ahead;
- The growing internationalization of corporate operations calls for internationally experienced and linguistically skilled, highly qualified personnel not always available in sufficient numbers at home, and personnel recruiting will play an increasing role in the international procurement of such experts;
- Small and medium-sized firms have only limited scope for the internal training of executives and are therefore reliant on outside personnel. The importance of small and medium sized businesses will continue to expand, especially in the wake of the steady growth in the service sectors;
- The current age structure of executives indicates a growing need for successors in the future;

Further development potential will come

about as a result of the relaxation in the very restrictive legislation on the private recruiting of staff that exists in most EC countries. Changes in legislation will be long-term however, and this factor will be hardly likely to affect trends in 1991.

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Temporary work services

Temporary work services belong to the fastest growing area of business services. The sector has experienced turnover growth rates of 15% per year since 1987 and is expected to continue along this path in 1991. The number of offices and employment figures are growing fast. This is due to increasing labour shortages in the EC countries as well as to the deregulation measures taken by the governments in recent years. The share of temporary work in total employment is less than 2% in all EC countries.

Description of the sector

The essential characteristic of this service is that temporary work business (TWBs) hire temporary workers and put them at the disposal of a third party (triangular relationship). It is essential in this setup that the workers receive their salary from the TWB but their work orders on assignments from the third party. Basically, a TWB is a local business. Most companies operate through a network of local offices. The national federations of TWBs are organised internationally through the Confédération internationale des entreprises de travail temporaire (CIETT). Temporary work businesses are classified under NACE code 839.3 covering all business services non elsewhere classified and under NACE Rev.1 code 74.50 covering "Labour recruitment and provision of personnel".

Over the past four decades, temporary work services have progressively changed into a sophisticated, professional service industry providing instruments for labour management for profit as well as non-profit and governmental organisations. The industry, which emerged relatively recently, has turned itself not only into the main tool for helping businesses to fill temporary shortages in their workforce, but also - since temporary workers often find permanent employment through their temporary assignment - into personnel recruitment advisers.

Temporary work serves a complementary, but key economic role in the labour markets where it is permitted. For the temporary workers, TWBs satisfy particular individual needs and preferences. Some people are able or willing to work for only part of the year. Others want to work only now and then, or simply prefer temporary work to steady, permanent employment. This last group, however, constitutes only a minor percentage of the total number of temporary workers. Additionally, many young people experience their first introduction to the workforce by way of a temporary assignment.

For the client firms, the services provided by TWBs are of great value in coping with temporary labour shortages caused by the absence of permanent staff on holiday, by illness or maternity leave. These services can also be of use in cases of sudden or seasonal increases in work, unfilled vacancies or reorganisations. For the client firm, the hourly cost of temporary labour may at times be higher than that of permanent workers, but since temporary labour is usually resorted to for short, well-defined periods or for specific tasks, the cost is borne only for effectively supplied hours of labour. The alternatives (overtime or a permanent reserve of extra personnel) would be more expensive. TWBs bear the cost of recruitment, selection, pay-rolling, statutory social security insurance, etc.

In addition to the traditional pattern described, a growing number of jobless workers resort to TWBs to find temporary employment, often with the expectation of finding permanent positions at a later stage. It is now estimated that on average, well over one-third of temporary workers find permanent jobs as a result of temporary contracts. The actual proportion varies widely between different EC countries.

The ageing of the European workforce and the increase in the female component have also had an effect on the temporary work business. These developments have been associated with a greater desire for more flexible and temporary working arrangements.

Current situation

Legal situation Organised temporary work is widely practised in the majority of the Member States. There are, however, considerable regulatory differences amongst EC countries. Three Member States, Greece, Italy, and Spain forbid the operation of TWBs. In those countries where TWBs are forbidden, illegal practices are known to exist. In Spain, although TWBs are officially forbidden, they are tolerated in practice. There are ongoing discussions between the government and employers' organisations and trade unions about the possibility of legalising temporary work businesses. There are two unofficial federations in Spain and the number of agencies is estimated to be over 200. Several multinational TWBs have already opened offices in these Spain and Portugal or are planning to do so.

Several countries restrict the use of temporary workers in one or more business sectors. Denmark maintains a general prohibition except for the commercial and administrative sectors. The Netherlands and the Federal Republic of Germany prohibit temporary work of blue collar workers in the building and construction industry. The Netherlands also exclude the metal industries and the port of Rotterdam. Belgium has the same rule for construction industry as well as for furniture removal and storage. France maintains some limitations in sectors under medical surveillance.

A number of other restrictions and requirements are common to most regulations in Member States, the most important being:

- registration of TWBs;
- limitations on the conditions under which temporary work is allowed;
- limitations on the duration of contracts (from 3 to 24 months);
- requirements for wage levels and social security conditions.

A summary indicating the degree of regulation is shown in table 1.

The importance of temporary work can be shown by two elements. One is the number of people engaged in temporary work during one year. The other is the person-year equivalent of temporary work as a percentage of the person-years employed. Both of these are given in table 2. From these figures it is possible to deduce that the

Table 1
Temporary work services
Degree of regulation

Liberal	Restricted	Prohibited
Belgique/België	BR Deutschland	Hellas
Danmark		Italia
France		España
Ireland		
Luxembourg		
Nederland		
Portugal		
United Kingdom		

Source: CIETT; Bakkenist Management Consultants

Table 2
Temporary work services
Employment

	Number of contracts with temporary workers per year		Person-year equivalent (3)		Person-year equivalent as percentage of total employment	
	1988	1989	1988	1989	1988	1989
Belgique/België	108 000	140 386	25 000	(1) 27 028	0.7	0.8
Danmark (2)	21 300	N/A	1 580	N/A	0.1	N/A
BR Deutschland	250 000	300 000	69 000	83 000	0.3	0.3
España (1)	150 000	N/A	9 500	N/A	0.1	N/A
France	1 500 000	N/A	260 000	300 000	1.2	1.5
Nederland	420 000	(1) 600 000	91 300	122 000	1.7	2.0
United Kingdom (1)	2 500 000	N/A	400 000	N/A	1.6	N/A
USA (1)	6 500 000	6 500 000	850 000	1 030 000	0.8	0.9

(1) Estimates
(2) Data for 1987
(3) Full time equivalent of column 1 and 2
Source: CIETT; Bakkenist Management Consultants

TWB-market is best developed in the Netherlands, the UK and France. On the whole, it is estimated that each day over a million people work through temporary agencies in the EC.

The temporary work business is growing in most countries. The estimated growth in turnover for the world market in 1989 was around 15% compared to 1988. Total turnover in the world is around 30 billion ECU. The total market for the EC is estimated to be around 15 billion ECU (approximately 45% of the world market). Most of the business is done in just five countries: Belgium, France, Germany, the Netherlands, and the United Kingdom (table 3).

Market structure The six largest TWBs in the EC are: Adia (CH), Manpower (UK), BIS (FR), ECCO (FR), Randstad (NL), and Vedior (NL). Their estimated total market share in the EC is 35%. In the USA, where it is estimated that the four largest companies hold 30% of the market, the industry is only slightly more concentrated. TWBs of EC origin account for well over 80% of the EC market.

Adia operates in 20 countries and ECCO in 12. All other companies mentioned operate on an EC-wide scale. Manpower, which is the largest company in Europe following the takeover of Blue Arrow, is represented in all EC countries except Italy. It has almost 400 subsidiaries, most of them located in France and the UK.

Many TWBs operate under more than one name in the same market. Some have the same management; others operate more or less independently. Franchising is known to be practised by Manpower and Adia.

In recent years, cost-based government TWBs emerged, notably in Belgium (T Interim) and the Netherlands (Start). They have gained a considerable share of the market. At the same time, their operation has proven to be beneficial to the acceptance of organised temporary work in these countries, and thus to market size.

Cost structure It is estimated that the wages of temporary workers represent between 70 and 80% of the TWB's total turnover. The salaries of TWB staff in permanent employment represent another 7 to 10%. Other costs account for around 10% of turnover. Depending on the competitive situation in the country concerned, the profit margin before tax may vary from less than 4% to as much as 10% of the turnover.

The number of local offices can serve as a basis for market coverage calculations and concentration figures, as shown by table 4. This table indicates clearly that TWB is the most concentrated in the Netherlands - far more concentrated than in Belgium, the second-ranking country in this respect.

Market coverage in terms of employment

Table 3
Temporary work services
Turnover per country, 1987-1989

(million ECU)	1987	1988	1989	1989/88 (%)
Belgique/België	363	470	599	27
Danmark	N/A	60	N/A	N/A
BR Deutschland	1 100	1 450	1 810	25
France	3 820	4 530	5 700	27
Ireland	N/A	41	N/A	N/A
Nederland	1 150	1 644	1 955	19
United Kingdom	4 050	4 650	N/A	N/A
USA	10 900	12 600	13 683	9

Source: CIETT; Bakkenist Management Consultants

per local office is highest in the UK. Every TWB branch there serves 4 700 head of active population. Compared to the estimated 84 000 persons a branch office has to serve in Spain, this is quite a different figure.

Table 4
Temporary work services
Data on enterprises, 1988

	Number of enterprises 1988	Number of local offices 1988	Number of offices per TWB 1988	Employment per office 1988
Belgique/België	77	(2)365	4.5	(2)11 359
Danmark	75	100	1.3	29 290
BR Deutschland	1 259	(2)1 861	1.2	(2)15 995
España (2)	N/A	200	N/A	(2)84 222
France	929	3 610	3.9	6 690
Ireland	100	160	1.6	8 188
Nederland	106	1 220	11.9	5 443
United Kingdom	2 500	6 000	3.1	4 722
USA	3 200	(1,2)11 000	3.1	(2)11 414
Japan	1 183	1 825	1.5	33 786

(1) Estimates
(2) 1989
Source: CIETT; Bakkenist Management Consultants

Profile of temporary work

The fields in which temporary workers are employed are different according to the country considered. In Belgium, France and Germany, the majority of temporary workers are blue-collar workers. In the UK and the Netherlands, temporary workers work primarily in the administrative or commercial sectors, as in the USA. In some countries this is due to restrictive regulations.

In Germany most temporary workers find employment in industry, whereas in Portugal and the UK demand is mainly from the commercial services.

Temporary work is male dominated in the EC: almost two-thirds of temporary workers are male. The only countries to deviate from this pattern are the UK and the Netherlands, where the proportions of male and female temporary workers are fairly equal. US figures show exactly the opposite: almost two-thirds of the temporary workers there are female.

Temporary work tends to attract primarily those from a younger age group. In most countries approximately two-third of the temporary workers are under 30 years of age.

In most countries where temporary work is allowed, salaries tend to be equal to or higher than fixed contract salaries. In France, for instance, the TWB has to pay a temporary worker an insecurity bonus upon termination of each assignment. This amounts to at least 15% of total gross pay, or 10% if the agency renews the contract within three days of the expiry of the old one.

Different regulations exist in EC countries concerning minimum wages and working conditions. Except for the UK and Ireland where no regulations exist, in most countries wage payments for agency workers have to be at the level of comparable work within the agency. France and Belgium, however, require payments comparable to the level of the host company.

Cross-border activities Cross-border activities can take two distinct forms: a TWB hires a foreigner to work in the country where the TWB is established, or a TWB hires out a domestic temporary worker to a client abroad. To date, this type of activity has not played an important role in temporary work services. In a number of Member States, such as France and the UK, around 1% of temporary workers serve their assign-

Table 5
Temporary work services
Temporary workers by sector (%)

	DK (1)	D (2)	E (1)	F (2)	NL (2)	P (1)	UK (1)
Agriculture	0	N/A	(3) N/A	0	0	0	0
Industry	0	80	45	43	51	35	24
Construction	0	N/A	(3) N/A	22	N/A	2	24
Commercial services	100	20	40	20	33	53	50
Other non-profit making & governmental	0	N/A	10	15	26	10	2
Total	100	100	100	100	100	100	100

(1) 1988
(2) 1989
(3) Agriculture plus construction reaches 5 %
Source: CIETT; Bakkenist Management Consultants

Table 6
Temporary work services
The largest TWB's of EC member states

TWB	Country of origin
BIS	France
Ecco	France
Manpower (former Blue Arrow)	United Kingdom
Randstad	Nederland
Vedior Group	Nederland

Source: CIETT; Bakkenist Management Consultants

ment abroad. In the Netherlands, the TWB has to report any temporary assignment abroad within three days. Foreign assignments are to be found with oil firms, sea transport, health-care activities (Middle East), courier services, etc.

Education and training Most of the TWBs now provide education and training for their temporary workers. Typing courses, wordprocessing training and low-level technical courses are forms of training that figure regularly in their programmes. Specific training tailored to the individual or to the job is also common. In most countries, this training is paid for wholly by the TWB, with the exception of the Netherlands, where temporary workers also bear part of the costs involved.

Structural changes In the past years TWBs - and particularly the larger groups - have diversified into less related services such as security, contract cleaning and maintenance, language services, business information and financial services. The present trend is more focused on efficiency and upgrading, while expansion is strongly geared to service related to personnel management and internationalisation.

The trend towards upgrading is illustrated by the fact that many TWBs are shifting towards temporary workers with higher educational qualifications and more experience. The major TWBs are expanding their businesses internationally. Internationalisation not only takes place in EC countries - whether or not by acquisition - but also outside the Community, notably in the USA and the Far East (including Japan). Expansion into personnel management areas is to be found in services such as personnel management for small and medium-sized enterprises, recruitment (including head-hunting) and training of personnel. This trend is triggered by the fact that the distinction between permanent and temporary employment is becoming less pronounced (the contract of well over one-third of temporary workers is turned into a permanent contract).

Outlook

The share of temporary work in total employment is still very small in most of the EC-countries. Nevertheless, it belongs to the fastest growing areas of business services. Growth of turnover for 1991 can be expected to stay at a level of 15 to 20%. This is due to labour shortages in some EC countries and enlarged market potentials from deregulation measures. The present uncertainty about the development of the world economy might give further support to the demand for temporary work as companies might become more reluctant to increase their own labour force.

Both economic recession and full employment tend to reduce turnover, which seems to thrive best in a climate of moderate or brisk general economic activity.

In those countries where TWBs are well developed, the most important growth sectors are to be found in high-tech industries such as robotics, informatics, biochemistry, etc.

Medium and smaller-sized enterprises are making more and more use of temporary workers at the moment and this trend is likely to increase in the future.

In those countries with a liberal regulatory regime, a shortage of qualified temporary personnel is becoming a major obstacle to growth. This shows the importance of education and training, which are now provided by an increasing number of TWBs.

The large variety of national regulations within the EC shows the need for harmonised regulations in view of the increasing mobility of the labours force after 1992. The Commission is presently examining possible regulatory schemes for the sector.

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In 1989 this sector achieved a turnover of 6 400 million ECU, 6 174 million of which were accounted for by the three main types of service (manned guarding, the transport of securities and valuables and remote surveillance) representing over 95% of the total turnover of the sector. The sector provides employment for approximately 290 000 persons.
Growth prospects are excellent, and the utilisation of security services is set to expand in numerous sectors of the economy.

Description of the sector

Until roughly ten years ago most clients in these sectors provided their own security using internal resources; now however they are resorting more and more to specialist firms with the experience, the equipment and the skilled personnel to do the job for them. The involvement of security firms also helps companies to comply with a number of national regulations and to satisfy the requirements of their insurers. The operations of these firms can be described and classified as follows:

Traditional forms of security The traditional forms of security service involve the supply of security guards, armoured car transport and alarm equipment;

- Manned security services primarily concern administrative and commercial premises as well as plant facilities, but also encompass security duties performed at public gatherings and the provision of bodyguards for the protection of individuals;
- Armoured car transportation of cash and valuables such as fine art represents a further form of private security service.

Firms providing these services have incorporated in their security service package other services for banks including the counting and packaging of banknotes and coin. They have also extended their services to include air and sea transport security.

The major security services have established central alarm communications stations enabling them to remotely survey and respond to alerts which occur in their clients' premises where these are equipped with alarm systems. All installations are linked by telephone line to the central station which is manned round the clock. Response to emergencies is further expedited by communications links with mobile patrols as well as with local police and fire units. Some of these central stations have over 40 000 connections.
Retail stores are beginning to equip themselves with installations designed to prevent theft (shoplifting and break-ins) by outsiders and theft committed by staff. Retailers are devoting a substantial budget to services such as closed-circuit television and electronic article surveillance (EAS), a

Table 1
Security services
Turnover 1989

	Manned guard services (1)		Transport of valuables (2)		Remote surveillance and alarms (3)		Total (4)	
	in million ECU	89/88 in %	in million ECU	89/88 in %	in million ECU	89/88 in %	in million ECU	89/88 in %
Belgique/België (5)	115.2	2.8	37.7	3.8	49.7	2.3	202.6	2.8
Danmark	51.0	1.2	N/A	N/A	95.5	4.5	146.5	2.0
BR Deutschland	971.3	23.8	52.2	5.2	N/A	N/A	1 023.5	14.2
Hellas	5.6	.1	2.2	.2	6.0	.3	13.8	.2
España	495.1	12.1	98.9	9.9	128.9	6.0	722.9	10.0
France	497.6	12.2	258.7	25.8	255.7	11.9	1 012.0	14.0
Ireland	33.8	.8	8.6	.9	N/A	N/A	42.4	.6
Italia	625.3	15.3	3.9	.4	668.1	31.2	1 297.3	17.9
Luxembourg	8.6	.2	2.6	.3	4.7	.2	15.9	.2
Nederland	154.2	3.8	42.8	4.3	115.6	5.4	312.6	4.3
Portugal	61.7	1.5	6.4	.7	N/A	N/A	68.1	.9
United Kingdom	430.0	10.5	466.8	46.6	419.7	19.6	1 316.5	18.2
EC	3 449.4	14.2	980.8	28.3	1 743.9	18.6	6 174.1	17.5

(1) Manned services include mobile services and property guarding
(2) Including armoured car transport
(3) Alarms installed by members of LISS
(4) The 1989 total does not include "various", the 1988 total includes "various"
(5) The 1988 includes manned services only.
Source: Group 4 Securitas S.A.

system whereby magnetic or radio transmission security tags are attached to retail articles. This sector is currently enjoying a growth rate of over 20% per annum in most EC member countries.

So-called social alarms are being installed by local authorities and the social services aimed at serving the needs of emergency communication by the elderly and the sick. This is quite a recent development for which continued future growth is forecast in view of the increasing average age of the population and the need to curb increases in hospitalization costs by placing greater emphasis on home care.

Data security services The latest and most sophisticated of the security services is data security, a service intended to provide protection for data recorded on magnetic media or during transmission (including electronic fund transfer through the communications network), protection against unauthorised access ("hacking") and fraud. The protective devices against computer crime include:

- simple "ignition key" systems, coding and control aimed at preventing intrusion (access to the computer and/or to storage premises)
- sophisticated data inscription systems by means of special software, anti-radiation and radio-interference and call-back telecom systems.

Some firms specialise in the prevention of unauthorised access by perfecting entrance code systems providing access to premises or signature authentication, while others concentrate on the safe storage of computer tapes.

Certain security firms perform sweeps of premises for companies which have problems with bugs that allow sensitive information to be filtered. These firms also supply secure telephone systems.

Security counselling service While all security firms obviously give advice on matters of security in the course of their operations, some companies actually specialise in the general design of security systems, both in terms of procedures and in terms of equipment, and even at the planning stage of industrial plants (in the United Kingdom, Control Risks Prevention Services). Others offer "full protection packages" to business travellers, providing information about certain risks (kidnapping, for instance) in various parts of the world, as well as bodyguards and security awareness courses for executives (Shield International in the United Kingdom, and Interseco in the Netherlands).

Other firms specialise in consultancy on data security (Matra in France and Guardata and the Racal-Chubb group in the United Kingdom).

Current situation

The information presented in this monograph has been gathered by the Ligue Internationale des Sociétés de Surveillance (LISS) from among its members. Table 1 shows the total turnover and number of persons employed for the three different categories of security service:

- manned security patrol and guard services transport services;
- remote surveillance and alarm services.

The figures are presented for 1989 for each of the member countries of the EC. For 1989, LISS puts the total turnover of the EC security services sector at 6,174 million ECU. Services involving manned teams are as a rule the most important source of income for security firms, since they account for around 55% of total revenue. In the EC, the turnover on manned security services is estimated to be 3,449 million ECU for 1989, while installed alarm systems represent 30% of total turnover for 1989. In Italy however the turnover achieved in this latter category actually surpasses the turnover realised on manned security services.

Transport services account for some 15% of the total turnover of security firms. The United Kingdom is the only country to reflect a fairly even weighting among the three main types of service - one-third each - although the transport sector enjoys the highest turnover level.

Employment

The quality and integrity of the personnel employed by the security industry are naturally of paramount importance if security firms are to guarantee effective security systems. Under the British system established by the British Security Industry Association (BSIA) for security vetting to be applied to prospective employees, checks on their employment background go back over a period of 20 years or starts with their very first job. Prospective employees must of course give their consent to this examination of their employment history.

The security services sector in the European Community was estimated to provide employment for in excess of 290 000 persons in 1989. Details by type of service are available for manned services and security transport but not for remote surveillance.

Employment conditions, such as wages and salaries, social benefits and working hours, are negotiated regularly between labour representatives and national security industry federations or, where such federations do not exist, with the major security companies who establish a frame of reference for the national security service industry. Such nation-wide agreements are negotiated in all member countries with the exception of Greece.

Regulatory environment

In some member countries there are very strict rules which govern the constitution and operations of security firms. Where such national regulations exist (as is the case in Belgium, Denmark, the Federal Republic of Germany, Spain, France and the Netherlands), the Interior Minister is responsible for their enforcement. The United Kingdom has preferred to allow the security industry itself to act as its own regulatory watchdog rather than to control it by means of legislation: private bodies such as the BSIA (British Security Industry Association) exercise regulatory functions in accordance with their own codes of conduct and their own standards, with security vetting procedures for prospective employees and for the monitoring of their members. In Greece, Portugal and in the Grand Duchy of Luxembourg, the operations of security companies are not subject to specific regulations.

Very different regulations governing the transportation of valuables have been introduced in certain countries such as France, Spain, Italy and the Netherlands; others will soon take effect in Belgium, Luxembourg, etc.

Carriers of securities intent on avoiding the high costs and risks involved have sometimes looked for alternative solutions such as clearing procedures which have considerably reduced the physical transport of security. But the supply and repatriation of foreign exchange, the speculation in precious metals and the transport of docu-

Table 2
Security services
Number of companies and employees in the "manned services" (guards) sector and transport of valuables in 1989

	Manned services (guarding)		Transport of valuables		
	Number of companies	Number of employees	Number of companies	Number of employees	Number of vehicles
Belgique/België	40	7 800	4	1 000	350
Danmark	263	3 000	2	45(²)	18
BR Deutschland	721	61 272	55	3 500	800
Hellas	15	600	6	95	56
España	450	32 000	8	4500(²)	1 000
France	1 400	50 000	15	7000(²)	1 600
Ireland	150	5 000	5	290	95
Italia	820	29 000	25(¹)	3 000	1 100
Luxembourg	4	650	2	95	45
Nederland	100	7 600	4	750	300
Portugal	80	12 000	4	300	80
United Kingdom	43	34 000	46	30 000	3 200
EC Total	4 086	242 922	176	50 495	8 644

(¹) Companies operating over 5 vehicles
(²) Number of employees in security transport companies including those not directly involved in security services
Source: LISS, Group 4 securitas S.A. - ESTA

Table 3
Security services
The main companies in the EC, 1989

Belgique/België	Group 4 Securitas S.A. Intergarde Monitor Security S.A.
Danmark	ISS Securitas A/S Boligministeriet
BR Deutschland	Gesellschaft für Eigentumschutz mbh Niedersächsische Wach- und Schliessgesellschaft Eggeling & Schorling K.G.
Hellas	Group 4 Securitas S.A. Wachenhut Security
España	Prosegur Prosesa
France	S.P.S. S.G.I.
Ireland	Securicor Group 4 Securitas S.A.
Italia	Cittadini dell Ordine Vigilanza Mondialpol
Luxembourg	Securitas S.A. Securicor S.A.
Nederland	Nederlandse Veiligheidsdienst (NVI) Randon beveiliging
Portugal	Securitas S.A. Ronda
United Kingdom	Group 4 Total Security Limited Reliance

Source: LISS

ments are all increasing the volume of securities transportation.

Because of their geographical location and financial importance, Switzerland and Austria, although not part of the Community, necessarily form part of the security circuits and should be integrated into a true liberalisation of international securities transport.

At international level several multilateral bodies are concerned to maintain the standards of competence and probity in the security services industry. The Ligue internationale des sociétés de surveillance (LISS) is the oldest and most representative of these bodies.

Links with other service industries

Insurance companies play a major role in the security services industry, chiefly by linking their policy coverage and the level of their premiums to conformity with very specific conditions and standards. They advise their clients on the best means of loss and damage limitation and prevention. Currently, before issuing certain policies, insurance companies will often stipulate that their clients must obtain the advice of a security firm (and act on that advice) before taking out cover against computer crime.

Despite the close links that exist between security measures and insurance premiums, it would seem that only a very small number of insurance companies have actual financial interests in the security services industry. One exception to this is the company Assurances générales de France which has a holding in the French firm of SPS.

A number of security companies (and especially the older firms) have diversified into other service areas such as cleaning (in particular bank vaults and museum strongrooms) and courier services. Group 4 Securitas International is one example of this; this company runs courier services and cleaning operations in Belgium, Greece, Ireland and Portugal. It is far more often the case, however, that firms in other service sectors expand into the security business. The ISS company (Denmark) has diversified out from the cleaning business into security systems and property management, activities which, taken together, currently represent some 15% of its turnover; ADIA (Switzerland) has diversified from temporary services into security; and Randon of the Randstad/Vedior group (Netherlands) which was active as both an office cleaning and temporary employment agency, has branched out into security services.

Cost structures

The cost structures of security firms vary according to the type of service provided. In the manned guard sector more than 90% of total costs are directly linked to labour (salaries and social charges). As regards armoured car transport the costs are spread roughly 25% for vehicles and security and safety equipment, 10% for insurance and 60% for personnel. The major proportion of costs relating to data security is linked in most cases with computer hardware and software (access controls, security software, inscription systems).

In the economically more developed members of the EC, the average turnover per employee involved with traditional security operations is approximately 20 000 to 25 000 ECU per annum. Although the wages of guard and patrol personnel are fairly modest in terms of the overall wage scales in these member countries, the fact nevertheless remains that they would appear to exceed those paid in the United States, for example. Community companies which are well managed have make an effort to increase their competitive position thanks to organizational and managerial skills which have enabled them to overtake their counterparts in the rest of the world.

Structure of the industry

Within the Community itself, the predominant company and one that is present is virtually every member country is Group 4 Securitas, with headquarters in the Netherlands. This firm employs nearly 10,000 people in 17 countries throughout the world. Table 3 shows the principal security service companies in the European Community.

EC companies have retained a strong position on home markets and some have even succeeded in establishing a significant presence on world markets as well, most of the time by direct foreign investment. Foreign companies play only a limited part on the EC security services market but they are nevertheless strong in certain lines of products (Japanese companies in inexpensive closed-circuit television systems, for example).

Outlook

The private security services market is enjoying rapid growth in most member countries of the EC. Originally created by the financial sector for the protection of high-value transports, banking premises, etc., these services are now well established in virtually all sectors of the economy, so much so in fact that many insurance companies require their clients to enlist private security services before accepting policies on important buildings and the transport of high-value securities.

A comparison with the United States however clearly demonstrates that there is still plenty of growth potential that should enable security firms to penetrate the economy even further.

It is anticipated that the expansion in security services will continue at an annual growth rate in excess of 10% over several years to come, a rate which is way above the overall macroeconomic growth rate in the countries of the EC and even higher than the pace of expansion in most other sectors.

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Industrial cleaning services

The contract cleaning services sector had a turnover in 1989 of 13 thousand million ECU over 1.5 million employees, and comprised more than 30 000 firms. It is a sector undergoing full expansion, characterised by continual adaptation and innovation to optimise efficiency and service quality. For this reason, there is an increasing use of highly sophisticated techniques and technology, as much in equipment and products as in the organisation of work. This goes hand in hand with a demand for qualified staff, which requires employees and the workforce to have growing levels of technicality.

Description of the sector

The service activity considered in the present chapter comprises the cleaning by specialised firms of the interior and exterior of buildings of all kinds, whether they are used for commercial or industrial ends (such as offices), or by public authorities (schools, hospitals, etc.). Related services such as the cleaning of furniture, effects (textiles) and public spaces, tidying around buildings and general sanitation services are also included in these activities, except for gardening and painting. Contract cleaning roughly corresponds to section 92 of the NACE classification and is defined as "cleaning services" which group together window cleaning, chimney sweeping, and firms which specialise in the cleaning of industrial, commercial and government premises. Most of the sector's major firms also sell services found under classification NACE 921: sanitary services (refuse disposal, disinfection, fumigation, refuse and waste collection, restoration after disasters, etc.). Exterior wall cleaning (but not restoration), classified under reference 501.5, is also covered, as is the hiring of clean towels and industrial clothing (NACE 981). On the other hand, services for individuals such as those offered by laundries and launderettes - dry cleaning, pressing and dyeing of clothing - are not in principle part of the activities of contract cleaning firms and are not listed here.

Trends in consumption

Overall, the Community market of cleaning firms was over 13 thousand million ECU in 1989. Despite relative stagnation compared to previous years, it remained a market of strong growth (more than 10% in two years). This growth can be explained not only by the economic upturn in Europe (increase in the number of customers) and the general rise in living standards, but also by an increase in the level of market penetration by cleaning firms. The overall market is in fact split between, on the one hand, firms and departments which contract out the cleaning of their offices to cleaning firms, and, on the other hand, the

Table 1
Cleaning services 1989
Main indicators

	Number of enterprises		Turnover		Market penetration		
		89/87 (%)	Mio. ECU	89/87 var (%)	1989 (%)	1987(%)	var (%)
Belgique/België	1 002	8.7	448	19.98	47.00	44.00	3.00
Danmark	2 598	0.0	385	13.45	22.50	22.50	0.00
BR Deutschland	(1) 2 700	N/A	(2) 2 634	N/A	N/A	N/A	N/A
España	5 200	25.0	2 077	12.12	37.00	30.00	7.00
France	7 232	6.3	2 693	18.99	43.00	40.30	2.70
Italia	5 500	0.0	1 997	1.70	40.00	40.00	0.00
Luxembourg (1)	16	N/A	19	N/A	N/A	75.00	N/A
Nederland	2 400	12.5	917	21.39	55.00	55.00	N/A
Portugal	150	25.0	56	15.47	45.00	40.00	5.00
United Kingdom	4 500	14.7	(3) 1 610	(7.02)	20.00	20.00	0.00

(1) 1987
(2) 1988
(3) The turnover in national currency was increasing, but there was a devaluation of the £ in relation to the ECU
Source: Eurostat, FENI

"self-cleaners" who continue to run their own in-house cleaning service.
The level of market penetration is measured as a percentage of the sum of the activities of the two categories. It approaches or exceeds 40% in most EC countries, reaching 55% in the Netherlands. It is, however, very low in the United Kingdom (20%) and Denmark (22.5%), which explains a relatively low turnover for the sector in these two countries compared to that achieved in countries of the same category.
Indeed, industrial cleaning activity represents 2 thousand million ECU or over in the "big countries" of the EC (D, E, F, I), while it comes to only 1.6 thousand million in the United Kingdom.
For cleaning firms, expanding their activities is achieved mainly through the capturing of these markets and the switch from "self-cleaning" to contracting out. The potential is enormous, since the level of penetration is generally still well below 50% in EC countries.

External trade

The international expansion of industrial cleaning firms' activities is relatively low. Industrial cleaning is an activity in which it is imperative for the service provider to be in close proximity for the daily control and monitoring of work sites. Cross-border suppliers are therefore the exception and more often than not amount to special cases (border regions.....).
The internationalization of a firm's activity is achieved, as a result, by setting up business in the host country.
The cleaning sector is essentially made up of small firms which in general do not have the capacity to capture international markets. Nevertheless, these two observations should mask neither the international scale of some firms, nor the major disparities between situations nationally. For example the ISS group produces around two-thirds of its turnover in western Europe and one third in the United States and Brazil, through 53 subsidiaries set up in 15 countries and employing over 110 000 people. Similarly, the German company, PEDUS, is established in Brazil, Saudi Arabia and the United Arab Emirates.
Whilst the implantation of Community companies outside the EC is in general relatively low, it should be mentioned that, outside the EC, Danish companies produce turnover which is the equivalent of that produced by the entire sector within this particular country.
Besides unfavourable economic conditions and restrictive or dissuasive national practices, the access of cleaning firms to international markets may be limited by the existence of obstacles to trade and establishment. The signing of a general agreement on trade in services within the framework of GATT should make it possible for many cases of discrimination to be resolved.

Industry structure

The cleaning industry is characterised by the presence of a very high number of firms and by the dominance of small and medium-sized enterprises. 30 000 firms have been registered in Community countries, of which more than 80% employ fewer than 500 people and 60% fewer than 20. Two-thirds of the workforce are concentrated in 15% of enterprises. Although turnover per category is not known, it can be reasonably estimated that firms of fewer than 100 people represent no more than 25% of the industry's turnover. The presence of large multinational firms is particularly marked in the northern part

Table 2
Cleaning services - Size of the enterprises, 1989

Percentage of total	Enterprises with less than 20 employees (%)	20 - 99 employees (%)	100 - 499 employees (%)	500 and more employees (%)
Belgique/België	78.4	15.2	5.1	1.3
Danmark	93.3	5.8	0.8	0.1
España	69.2	16.5	12.0	3.3
France	85.5	10.5	2.7	1.3
Nederland	75.0	16.7	6.2	2.1
Portugal	56.7	10.0	20.0	13.3
United Kingdom	48.0	33.3	17.8	0.9

Source: Eurostat, FENI

of the EC (including France). Established large groups can be found in several Member States, with some of them enjoying positions of strength: ISS, for example, is not only the largest Danish firm, but is also one of the ten biggest firms in Belgium, the Netherlands and the United Kingdom.

Geographical characteristics

In France, two-thirds of firms employ fewer than six people; at the same time, more than thirty have over 1 000 employees.
The largest, ONET, has over 24 000 employees. The situation is similar in the United Kingdom, where the ten largest firms employ more than 100 000 people, whereas more than 80% of firms have fewer than 100 employees.
The same is true of Belgium, where ten firms employ more than half of all salaried workers. Denmark is in an extreme example, where 98% of firms employ fewer than 100 people, while it can count only two firms with more than 1 000 people (including the ISS group, which represents over half of the Danish market and which employs in total more than 100 000 people, with activity spread across the western world through over 50 subsidiaries).
In Italy, the Chamber of Commerce has over 30 000 positions open to cleaning work, of which the overwhelming majority cover only small-scale structures.
Out of the 5 500 firms listed, only fifteen or so have more than 1 000 employees.

Structural changes In the north of the Community, including France, the trend towards concentration is undeniable. There have been numerous takeovers, although mergers are rarer. In the south (Italy, Spain, Portugal, Greece), large companies remain few in number, although developments are taking shape. Although the vast majority of companies are modest in size in the Community as a whole, the tendency towards reorganisation and polarisation is clear. Moreover, the large cleaning firms are becoming more and more multinational. In Belgium for example, the five biggest companies are Dutch, Danish, American and French multinationals. Contracts fulfilled outside their national markets represent a growing share of the income of firms. The major companies have diversified by adding related associate services so that the best possible use is made of their technical expertise and organisational talents.
Multiservices for buildings, as they are known, include security services, energy-saving services, building repairs and transformation, ranging from the renewal of walls, ceilings and floors to carpet refurbishing and applied software for cleaning. The Danish firm, International Service Systems (ISS), has developed a range of office furniture specially adapted to the demands of cleaning.

Table 3
Cleaning services - Market leaders, 1989

Country	Leaders
Belgique/België	Cemstobel, ENI, ISS, Laurenty, Lefevre, Office des Nettoyages, TSI, Vitrolux
Danmark	ISS, JRS
BR Deutschland	Gegenbauer, NWG Nord Deutsche Gebäudereinigungs-Gesellschaft, Pedus Service, Piepenbrock, Wisser Gruppe
France	Abilis-Bis (Cleaning sector), Compagnie Générale des Eaux (Cleaning Sector), DOSIM, GSF, ONET, SAFEN
Luxembourg (1988)	ICE, Nettoservice, NVG, Pedus
Nederland	Asito, CSU, De Gast, GOM, Hago, Hodon, Korrekt ISS, Stuyvers, Lavold
Portugal	Climex, Limpotecnica, Servilimpe, Vadeca
United Kingdom	BET, ISS, OCS, Initial

Source: FENI

Table 4

Cleaning services - The cleaning sector in Europe : Social figures (¹)

	Revenues Minimum annual full-time revenue 1989 (ECU)	1987 (ECU)	difference (%)	minimum salary (ECU/h	charges on salaries (% / gross)	Cost of work (²) Cost of one hour's work 1989 (ECU)	1987 (ECU)	difference (%)
Belgique/België	12 813.0	11 610.0	9.39	5.80	88.33	10.93	9.93	9.15
Danmark	17 523.0	16 049.0	8.41	9.21	24.30	11.55	10.33	10.56
BR Deutschland	N/A	10 160.0	N/A	N/A	N/A	N/A	9.58	N/A
España	8 042.0	6 927.0	13.86	3.91	60.00	6.24	5.30	15.06
France	9 767.0	9 191.0	5.90	4.47	80.00	8.12	7.68	5.42
Italia	12 947.0	11 454.0	11.53	5.35	57.37	13.00	11.44	12.00
Luxembourg	N/A	8 482.0	N/A	N/A	N/A	N/A	5.35	N/A
Nederland	11 723.0	11 383.0	2.90	5.64	36.55	9.26	8.69	6.16
Portugal	3 029.0	2 520.0	16.80	1.22	62.60	1.98	1.29	34.85
United Kingdom	8 108.0	9 399.0	(15.92)	3.24	15.00	3.51	3.84	(9.40)

(¹) The figures concerning F.R.G. and Luxembourg date from 1987.
Estimations for Ireland and Greece are not available.
(²) The cost of one hour's work in the UK has risen from 0.15/h between 1987 and 1988. The depreciation of the Pound Sterling in relation to the ECU has undergone a constant drop in value.
Source : FENI Surveys

Many firms are working in fields other than cleaning alone: as a result, it is difficult to identify, from the figures available for these companies, the proportion related to cleaning in the strict sense, even when results are broken down. This segmentation can vary from one year to the next.

Employment

The cleaning industry is a highly labour-intensive sector, in which the cost of wages and expenses has been put at 80% of turnover before tax.

Industrial cleaning employs over 1.5 million persons across the Community, most of whom are workers (92% on average).

After experiencing a strong rise over the last ten years (up to +50% in France, for example), employment levels have stagnated slightly for two years. This stagnation, parallel to economic growth in the sector, can be explained chiefly by an appreciable increase in workforce productivity, through the advancement of cleaning techniques and the introduction of highly sophisticated equipment.

Thus productivity, which is measured in m^2 cleaned per worker per hour, has more than doubled (even five times over in some sectors) since the beginning of the 1970s, moving from 100 m^2/worker to over 230 on average. The increase in the level of market penetration and economic growth generating new customers have not been large enough to thwart it.

Salaries and social conditions At present, cleaning is still one of the worst paid activities, with women earning even less than men.

In Germany, Belgium, France and Italy, social conventions are negotiated between employers and labour unions. In Germany, these agreements are drawn up at regional level, and wage levels consequently vary depending on the region. Salaries fluctuate around ECU 4.7 (DM 10 for inside cleaning, while specialist cleaners earn arout 40% more). In Belgium, 90% of workers belong to a labour union. In France, social conventions have set down a national classification of types of work, taking into account levels of qualification, minimum salaries, periodic adjustments, etc. Wage levels above the guaranteed minimum are negotiated freely with firms.

In 1986, guarantee of job tenure for the majority of the workforce was negotiated for in the event of mergers of cleaning firms; this constitutes an obstacle to mergers. In Italy, social conventions are also reached on a regional basis and a classification drawn up of the different types of cleaning work.

Most cleaning work which is contracted out is performed in the evening or very early in the morning. The offices of public administrations, or of private companies in which the working day begins relatively late, may also be cleaned in the early morning. Hospitals are cleaned during the day: for factories, the situation is variable.

Structure Part-time working is the most common in the cleaning sector. In the main, it is granted to women (60%). In France, Spain and Italy, this characteristic seems to be less than in the rest of Europe (48 to 65% are part-time workers, compared to a band ranging from 80 to 95% in the other countries).

Average hours per day are influenced both by the demands of customers (cleaning outside hours of office use, for example), and by the rules of social law applied. In Germany, for example, the law makes provision for an exemption from (National In-

Table 5
Cleaning services - The cleaning sector in Europe : Social structure (1)

	Number of people employed	Structure			average per hour	Work organisation	
	1989	% workers	% immigrants from outside EC	% workers full time	workers (hrs/day)	legal minimum	Time off (days/yr)
Belgique/België	30 000	94.70	50.00	16.00	5	2.5 h/jr	20
Danmark	20 000	85.00	N/A	20.00	4.4	15 h/wk	25
BR Deutschland (2)	400 000	98.00	40.00	5.00	2.5	N/A	29
España	175 000	92.00	N/A	40.00	4	N/A	26
France	187 000	92.00	28.00	52.00	6.4	N/A	25
Italia	350 000	92.00	N/A	35.00	5.5	15 h/wk	26
Luxembourg	1 500	96.00	N/A	5.00	3	N/A	25
Nederland	120 000	89.00	11.00	12.00	3.22	N/A	23
Portugal	13 000	95.00	5.00	5.00	3	3 h/d	30
United Kingdom	200 000	90.00	10.00	15.00	3	N/A	15
EC	1 496 500						

Notes:
(1) The figures concerning BR Deutschland and Luxembourg date from 1987.
Estimations for Ireland and Greece were not available.
(2) BR Deutschland - estimation.
Source : FENI Surveys

surance and National Health) contributions for work which is below a twin ceiling of DM 47/month and 15 hours/week, which is reflected by firms frequently turning to this type of employment. In the opposite direction, Belgian law grants reductions in such expenses for jobs with a minimum 19.5 hours/week, creating the opposite trend.

The proportion of immigrant workers (non-Community) in the cleaning industry is very strong in the countries of northern Europe (50% in Belgium, 40% in the F.R.G.), but is virtually insignificant in certain countries of southern Europe (5% in Portugal). Lastly, the share of supervisory and operational staff in the sector has been estimated at 6%.

Training and instruction The growing technical nature of cleaning work is producing a greater need for qualified personnel and labour. Considerable efforts have been made in this field, while, at Community level, the realisation can be detected from firms that there is a need to organize adequate training courses: employers' federations are organising management training courses (in Belgium and France, for example). The training of workers is a far trickier problem. In France, where the law has laid down a training budget for firms, an important network has been developed for the training of the workforce in cleaning techniques.

The trade is organising itself in this field along Community lines and is instituting dialogue to permit a more accurate appraisal of the needs.

Technological factors

The cleaning industry is turning into a genuine specialists' industry which is implementing ever more sophisticated methods to cope with the growing complexity of the services with which it is entrusted. The mechanisation of large jobs has become fact. The chemical industry has provided ranges of cleaners offering both greater efficiency and increased chemical safety, but which are more complex in their handling. Certain jobs call for a high degree of technical prowess (cleaning/sterilisation of hospitals, the removal of dust from computer rooms, the cleaning of nuclear plants, etc.). Firms have therefore had to adapt themselves to the new demands of the market by resorting to investment in this field. Beyond mechanisation, organisation of the work itself has undergone a major transformation. In the major firms especially, methods have been transposed which were until now reserved for industry. In this sense, competition plays a crucial role in increasing productivity.

However, whilst competition has generally stimulated productivity, it has led in some cases to difficulties in striking the right balance between price and quality.

Some firms have tried to enter the market by drastically cutting prices. In order to control quality, the Dutch Federation of Research into Cleaning has attempted to implement objective criteria for the measurement of cleaning quality. Similar work has also been conducted in Denmark (BM-Consults a/s and the National Institute of Environmental Research), as well as in France (CTIP - Technical Centre for Cleanliness), where the IS09004 standards have been interpreted for the cleaning sector.

However, the "a priori" definition of objective criteria to determine the required level of quality of work carried out is an extremely sensitive thing to establish and presupposes the setting up of dialogue between firms and their customers.

Outlook and the impact of 1992

The development capacity of the cleaning industry is very considerable. Its principal lines are the improvement of market penetration, and a context of economic growth bringing with it a rise in total cleaning needs.

This development will come about at different speeds, depending on countries, in relation to levels already reached.

In such a context, the completion of the Internal Market will undoubtedly have a bearing on the sector. Insofar as cleaning is not an easily exportable activity, the consequences will essentially make themselves felt in the way firms are set up. Henceforth, the concerns of the trade will be about conditions for the carrying out of activity which must neither produce any discrimination according to country nor permit the compartmentalisation of markets.

In services, the completion of the Internal Market is highlighting the risks of a distortion of competition which stem chiefly from the extreme diversity of social provision applied in EC countries and which necessitate the implementation of rules guaranteeing the application of the social provisions in effect at the place where the work is carried out.

The opening up of public service markets at Community level means that considerable development in cleaning activities can be anticipated, yet also sets the problem of eliminating distortions of competition. These problems are particularly acute in the border regions of the Member States.

Finally, particular attention must be paid to the effects which the Single Market will have on the small and medium-sized enterprises dominating the sector and which will face active competition from the biggest firms without always having the means to confront it.

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Express services

The European courier and express business has undergone rapid expansion and radical transformation. After a period of explosive growth, the market has entered a new phase of change. Despite the lack of reliable data, it is estimated that the sector has been expanding at a rate of around 30% a year, induced by fast economic growth, increasingly sophisticated services and intense competition among the main players. European integration and the developments in Eastern Europe will lead to a further increase in express services as trade intensifies. Market developments on both the demand and supply side have sparked market participants and new entrants into action. Their aim is to develop an integrated product in response to the increasing market demand for just-in-time deliveries and one-stop shopping. This aim for product integration is reflected in heavily investing market participants and in many acquisitions and other cooperation agreements. As a result, the difference between mail, express services and freight is becoming increasingly blurred. Postal administrations are offering express services. Express-service companies are closely watching the prospects which may emerge from a possible break-up of the European postal monopolies as well as the potential for penetrating the air-cargo business currently offered by airlines and freight forwarders. On the other hand, airlines are moving into the express service sector.

Sector definition

Express services are part of communication and transportation services. In the definition used here, the industry is considered to be part of 'Communications' (NACE 790) as 'this class includes units exclusively or primarily engaged in transmitting sounds, images, documents and packages for the benefit of the general public'. The express industry can be best described as the rapid door-to-door transportation of time-sensitive parcels, hard-copy communications and commercial shipments. It is a market servicing a wide range of commercial and industrial sectors within Europe and throughout the rest of the world.

This description includes the following types of express companies:

- those employing 'air couriers' travelling on commercial flights;
- express companies with specialised air-and-ground distribution networks ('integrated carriers');
- door-to-door services organised by commercial airlines or railroads;
- traditional freight forwarders who have established exceptionally rapid and controlled door-to-door networks;
- door-to-door specialised services provided by national postal operators (EMS).

Table 1
Express services - Estimated number of express shipments, 1988

(million ECU)	1987	1988 Total	1988 Intra-EC	1988 Extra-EC
Belgique/België	1.2	1.5	0.7	0.8
Danmark	0.3	0.4	0.2	0.2
BR Deutschland	2.5	3.1	1.1	2.0
Hellas	0.4	0.5	0.2	0.3
España	0.8	1.0	0.4	0.6
France	2.0	2.7	1.0	1.7
Ireland	0.3	0.5	0.2	0.3
Italia	1.9	2.4	0.9	1.5
Luxembourg	0.2	0.3	0.2	0.1
Nederland	1.6	2.0	0.8	1.2
Portugal	0.2	0.3	0.2	0.1
United Kingdom (1)	5.3	6.6	2.5	4.1
EC 12	16.7	21.3	8.4	12.9

(1) Including Datapost traffic
Source: IECC

Current situation

The traditional national carriers, mainly postal operators, have seen significant shifts in the markets and in the breadth of competition since international operators began to move aggressively into the market. The EC cross-border market is now dominated by four big players, three of them of US origin: United Parcel Service, the world's largest carrier of small packages, DHL, Federal Express and Australia-based TNT. These four companies are the only ones with the financial and technical weight to operate on a worldwide scale. UPS is considered to be the largest company with an estimated world turnover of $11 000 million. DHL is the smallest of the big four with a total turnover in 1989 of $1 600 million.

In 1988 the total growth of express shipments was nearly 28%. More than 60% of the total international shipments from the EC found their way to countries outside the EC.

Market trends

The European market for express and courier services has been growing at a rate of 30-40% a year in the last few years. The advent of a Single European Market will provide an additional incentive and challenge. Distribution is one area in which the greatest changes are anticipated from the elimination of red tape and cross-border restrictions and the gradual dismantling of limitations on road-haulage movements. Because of the removal of Europe's fiscal, physical and technical barriers, trade volume is expected to grow fast. The express sector, which correlates closely with increases in economic activity, will particularly benefit from the European Integration.

Where traditional air cargo services are in direct competition with high-performance LTL (less than truck load) road services and other surface express operators, the road operators stand to gain an even greater competitive advantage from the removal of barriers in 1992.

Demand

On the demand side, some important developments can be observed. In the past few years there have been changes in European manufacturing, production and distribution systems. Growth in overall demand for express services is for the larger part due to the increasing number of companies using express and courier service companies. Further development of the services offered by integrators will also increase the size of the market. A study of the market for courier, express and parcel service markets in Europe by Prognos indicates that 56% of all firms presently make use of the services offered by the international couriers, thus leaving room for expansion of the market.

The express transport of documents lost

Table 2
Express services
Estimated turnover and employment, 1988

	Revenue (million ECU)	Employment
Belgique/België	18	1 300
Danmark	7	200
BR Deutschland	103	1 100
Hellas	9	100
España	26	320
France	83	950
Ireland	13	200
Italia	78	1 050
Luxembourg	3	40
Nederland	39	700
Portugal	7	80
United Kingdom	180	2 100
EC 12	566	8 140

Source: IECC

some of its market share as a result of new communication methods such as the facsimile and electronic mail and has shifted from documents to packages and light freight. As a result, the average weight of units transported has risen. That development fits the just-in-time philosophy of companies. The increasing adherence to just-in-time techniques has led to shrinking inventories and fewer warehouses and distribution centres. The distinct shift from make-to-stock to make-to-order gives rise to smaller shipments, shorter customer's order cycles and shorter transport lead times. This in turn demands more faster and direct door-to-door deliveries from supplier to end user.

A growing number of companies are calling for single-stop shopping because of the growing importance that is attached to complete integration of the transportation chain. These companies are seeking single transportation partners capable of taking responsibility for the total journey and liable for the entire transportation chain.

Table 2 shows the estimated turnover and employment in each Member State. In some Member States, such as Belgium and the Netherlands, employment is relatively high as some express companies have their European headquarters in these countries. Brussels in particular has become an important capital for international companies, as can be derived from table 3.

In 1988, the United Kingdom recorded almost 32% of total EC revenue. Compared to the Federal Republic of Germany, France and Italy, this figure shows that the UK is the EC country were express services are strongest.

Developments in market structure

The change in distribution patterns resulting from European Integration have sparked other market participants into action. Hauliers on the lookout for extra business, have been tempted into the courier and express services market and are trying to rival some of their services. Airlines are also trying to respond to market developments. The growth of the Big Four has posed considerable problems for them, but scheduled airlines, having the advantage of combining passengers and cargo on the same plane, can be more efficient and cheaper in terms of cargo space than the express carriers. British Airways, KLM, Lufthansa, and Air France are among the airlines that have attempted to match the competition with services based on door-to-door delivery. Their fundamental problem is that the passenger rather than freight is king, and their timetables are geared to the needs of passengers rather than cargo.

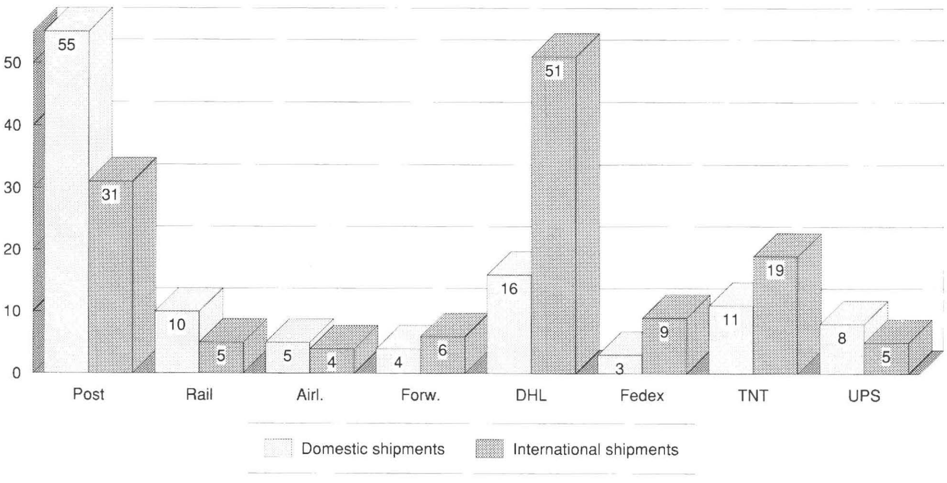
From figure 1 it is clear that the major participants are the national postal services and the integrated couriers. The competitive disadvantage of airlines and freight forwarders is that they do not generally offer door-to-door service. The flexibility of the integrators gives them an advantage over the postal services, especially in the internal market.

Table 3
Express services
Major private firms operating in the EC

International companies	Headquarters Location	Country
Air Securicor	Sutton	IRL
DHL International	Brussels	B
Emery Worldwide Services	Maastricht	NL
EMS (postal services)	Brussels	B
Federal Express	Brussels	B
Jet Worldwide Courier	Roissy	F
Overseas Courier Services	Brussels	B
TNT-Skypak	Windsor	UK
United Parcel Service	Cologne	D
World Courier	Brussels	B
Domestic companies		
Kühne & Nagel		D
TNT		D
UPS	Cologne	D
Jet Services	Lyon	F
SFMI (postal subsidiary)	Paris	F
TAT Express	Tours	F
Elan	Birmingham	UK
Red Star (British Rail)	London	UK
Securicor	Birmingham	UK
TNT		UK

Source: IECC

Figure 1
Express services
CEP services in Europe, 1989



Source: Prognos

The demand for door-to-door delivery will bring market participants together. Joint ventures between large European forwarders who already control extensive European ground networks, and scheduled airlines are likely to increase and will represent a serious threat to the air-express companies. With their pan-European and worldwide capacity for shipments of all sizes, such alliances could count on a large existing multinational customer base. Some of the airlines hope to attack the express market on their own. Swissair is setting up a service offering nationwide delivery of packages up to 100 kg to 54 countries. And British Airways already has a door-to-door service called Speedbird Express. Such services have encountered stiff competition because of the costs involved in the development of the necessary ground infrastructure.

A consortium led by Japan Airlines and Lufthansa has chosen another strategy. The two airline companies are planning to take a majority stake - together with a Japanese trading house - in DHL, the smallest of the four large express companies. This could herald the start of a series of links between airlines and express companies.

The express operators on their part have clearly realised that the profitable express winners will be those with pan-European combined air and surface networks. TNT, the Australian-based company, is already used to combining its air and road system for shipments of any weight. Behind TNT, the US air express parcel companies are runners-up in express integrated operations in Europe.

United Parcel Service has picked up Atlas Air and IML Air Services in the United Kingdom as well as a string of companies in continental Europe. TNT has acquired XP Express from KLM, the Dutch airline company, as well as Air de Cologne from SAS. Federal Express purchased Tiger International and its subsidiary Flying Tigers, a large cargo airline.

Two years ago, most European administrations together with the post offices in the US, Canada, Japan and Australia joined forces in Unipost, whose object is to co-ordinate the express and time-sensitive activities of the member administrations. Their services are branded EMS (Express Mail Services).

EC policy

In 1989, the Dutch courier and express companies made a complaint before the European Commission. The Dutch Government and Parliament approved a new law - the so-called Post Act - laying down a registration duty and introducing minimum tariffs per express service. However, the Dutch express service companies considered these measures as stimulating false competition as they were not made applicable to the commercial services of PTT Post, the privatised Dutch Postal company. In December 1989, the European Commission prevailed upon the Dutch Government to adapt this Act in line with European Law, thus confirming its aim of free and fair competition also in the express services industry.

Eastern Europe

Eastern Europe is the most recent operating field for international courier companies. DHL was the first to build up a strong position since its early start in Eastern Europe in 1986. In 1988, it established DHL Hungary and moved its East-European head office to Budapest. Although not yet a great financial success, these moves should be looked upon as strategic steps to open up the East-European market.

Outlook

Until the end of the century, the growth in the number of shipments can be expected to decrease steadily. Present high growth rates of about 30% are likely to fall to 5 or 6%. By then, the express service industry will have penetrated most of the market so that growth rates will no longer depend on the acquisition of other companies but on the frequency with which the express services are used.

The expectation is that the differences between mail, express services and freight will be further blurred partly because the customers' increasing reliance on flexible manufacturing systems asking for just-in-time deliveries, preferably by one single integrated transport company. On the other hand the market participants and new entrants - as scheduled airline companies - will fight for strong market positions as the express market continues to offer huge and potentially profitable growth opportunities in the next few years. The market prospects will be enhanced as European integration and the opening up of Eastern Europe leads to intensified trade between Member States and countries in Eastern Europe.

The developments mentioned will further encourage market participants to co-operate not only to increase their market power but also to offer an integrated product which suits the demand for just-in-time deliveries and one-stop shopping. These developments call upon participants to invest generously in the extension of their road fleet as well as their air fleet. Joint ventures, for example between large European forwarders and scheduled airlines are likely to become more frequent, as cooperation between express companies and airlines develops.

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The export-related services sector covers a diverse range of services which cater for the needs of firms marketing products on foreign markets. Such services include: information, consultancy, management, marketing, financing, training, transport, etc.
It is difficult to ascertain the economic importance of some of these sectors. One example is export consultancy, which cannot be isolated from other forms of consultancy.
The sector is evolving in anticipation of the single European market. Among the main trends observed, the most significant are:
- the privatisation of public services, the shift in the intra-EC export service towards an "international marketing" service, increased co-operation between the public services of the various Member States
- restructuring and transformation of professions in certain sub-sectors such as forwarding agents.

Definition of the sector

The sector is highly diverse and in most cases export services represent sub-sections of a wider NACE category. NACE categories 63 - 772 - 839 for example, partly comprise export-related services in cases where the service described in each of these categories applies to export operations. Categories 63 and 772 cover marketing and transport services respectively. These are the most uniform categories, where the service is provided exclusively by private firms.

Description of the different types of export-related services

The services which exporters use vary according to the function of the export operations which they wish to sub-contract. By dividing the operation into a series of functions, one can pinpoint the various types of services available. Such services can be broken down as follows:

- assistance/guidance which enables the exporter to clarify his approach by seeking the advice of experienced consultancies;
- information on markets, prices, competitors, regulations, solvency;
- canvassing which enables firms to get in touch with potential buyers;
- promotion which enables firms to make potential buyers aware of their products,
- finance insurance which enables exporters to cover the risks incurred by market-

ing in a foreign country

- ❖ marketing via an agent specialising in a particular sector or geographical area in cases where the firm does not want to run the direct risk of marketing abroad
- ❖ forwarding in order to guarantee delivery of goods training.

Such activities are performed either by public services or by professionals in the private sector.

Current situation

Assistance/guidance services, information, promotion In the case of assistance/guidance, information and promotional services, the public sector prevails. All the EC countries have set up similar structures in order to support and promote exports except for the Federal Republic of Germany where the system is very different. Among the various features which these systems have in common are:

- a central public body for foreign trade (Institute of Foreign Trade in Italy, the French Centre for Foreign Trade (CFCE) in France, the Belgian Office of Foreign Trade (OBCE) in Belgium etc.) which centralises information and which serves as a government tool for the promotion of exports;
- bodies which liaise with local firms, mainly chambers of commerce and industry, although there are certain national differences in terms of the structure of the network and the level of support received from local industrialists. In the countries in question, the English CCI network (Chamber of Commerce and Industry) is very weak compared with that of other countries. This can be explained by the fact that membership in the United Kingdom is voluntary, whereas in most other countries it results from payment of a tax. By way of an example, the Paris CCI has 250 000 members compared with 5 000 for its London counterpart and their revenue amounts to 1.5 billion Francs and 35 million respectively;
- a network aimed at gathering information abroad and providing support-assistance for exporters. In the case of France, this function is performed by the PEE network (Poste d'Expansion Economique - Economic Expansion Agency). In the Federal Republic of Germany, information is provided by the BfAI (Bundesstelle für Außenhandelsinformation) and the AHKs (Außenhandelskammer, Germany CCIs abroad). The French PEEs collect information relayed to the CFCE as well providing assistance for visiting exporters on trade missions. In the Federal Republic of Germany, information is primarily the job of the BfAI agencies, while assistance is provided by the AHKs. Strictly speaking, the Federal Republic of Germany does not have a central assistance body for foreign trade apart from the BfAI whose function is confined to information. The task of assistance/guidance is left to the consular network: AHK.
- an insurance company: COFACE (Compagnie Française d'Assurance pour le Commerce Extérieur) in France, HERMES in the Federal Republic of Germany, CESCE (Compagnià Española de Transitarios Expedidores Internacionales y Asimilados) in Spain, Office National du DUCROIRE in Belgium, SACE (Sezione Assicurazione Crediti Esportazione) in Italy, ECGD (Export Credit Guarantee Department) in the United Kingdom.

The originality of each system lies in the respective influence and powers of each of its operators, which vary from country to country;

- the French PEEs abroad and the AHKs (German CCIs abroad) are a good example of this phenomenon: the PEEs gather information and provide assistance-guidance. The sectoral representatives, civil servants, who keep track of developments in each sector (food,...) relay the information to Paris and assist visiting exporters.
- the AHKs do not gather information (this is left to a German government representative in each country) but like the PEEs, they do provide assistance and guidance. They differ from the PEEs however in terms of organisation and the degree to which they are integrated in local industry. The AHKs basically provide a forum where industrialists from two countries (the Federal Republic of Germany and target-countries) can meet since they belong to the same association. The AHKs represent a network of 36,000 members, 11,000 of whom are German and the rest foreign. This arrangement helps to ensure a greater degree of osmosis between the two countries' economies (Federal Republic of Germany and target countries).

Assistance, guidance, information and promotional services are also provided by consultancies or private operators such as banks but it is practically impossible to ascertain what proportion of their business relates to exports.

Services relating to sales, distribution and transport Services relating to sales, distribution and transport are exclusively provided by private operators: by ITCs (International Trading Companies) in the case of sales and distribution, and by hauliers and forwarding agents in the case of shipping services.

International trading companies (ITC)

International trading companies number around 10,000 in the EC. The designation ITC covers a wide variety of companies ranging from small businesses employing a few staff specialising in a particular product and destination to large, multi-product multinationals with world networks.

On average, ITCs account for 25% of external trade in Europe (compared with 80% for Japanese ITCs). In the Netherlands, Denmark, Belgium, Federal Republic of Germany and the United Kingdom, they account for between 25 and 40%, with 20% in France and 10 to 15% in Southern Europe. The fact that ITCs account for a larger share in some countries is partly due to a clearer distinction between production and trade functions within firms.

In the Federal Republic of Germany, for example, all the major industrial groups have an ITC which is either a subsidiary of a production company (Thyssen Handel Union), or parent company (Klöckner et Company), or a sister company of the group's other subsidiaries. The ITC thus represents the group's marketing network but:

- it does not confine itself to the group's products, it also markets the products of other companies which are in many cases complementary,
- it does not necessarily handle all the group's products: each production company within the group can choose between the company ITC and another network.

Forwarding agents

Forwarding agents account for around 15 000 companies within the EC. Their function is to organise shipping operations and customs-related activities. Customs-related activities account for approximately 70% of forwarding agents' total business. The situation is very different in Southern Europe where the two professions of customs agent and forwarding agent are quite separate. We are now seeing various mergers and moves towards greater concentration, as firms prepare for the advent of the single market. The trend is towards specialised integration rather than the development of large multi-product firms. The current need is for increasingly specific services, tailored to customer needs.

Geographical disparities

International trading companies

The situation as regards ITCs varies markedly from one country to the next.

In the Federal Republic of Germany, a distinction is made between International Trading Firms which are family businesses, of average size and integrated ITCs which are companies attached to large industrial groups. The association only lists the 750 member companies but the total number of ITCs (International Trading Firms + integrated ITCs) is put at over 3 000. 28% of exports (50% in the case of the most distant countries) pass through the ITCs which tend to be sited in large ports or major industrial areas. Of the 750 companies which belong to the association of international trading companies, over a third are based in Hamburg, a hundred or so in Bremem, 80 in the Ruhr (here a number of large companies such as Krupp and Thyssen form a very dense industrial fabric, most notably in consumer goods, the steel industry, chemicals and machine-tools) and finally, 140 in Bavaria (services and high-tech industries).

In Belgium the age-old trading tradition has spawned a multitude of ITCs, which have grown up around the various centres for goods arriving from or departing for abroad: ports (Antwerp,...) or border areas (Tournai, Liège, Antwerp,...). Belgium has around 450 such companies, 150 of them intercontinental. The average number of employees is 6 and the average turnover 500 million Belgian Francs although in some cases it can be as high as 10 billion Belgian Francs.

In Italy, 80% of the 1,000 ITCs which belong to the ANCE (Associazione Nazionale del Commercio Con l'Estero) are located in the north (Lombardy, Piedmont, Venezia, Tuscany), in keeping with their object, i.e. close to the major industrial and economic centres. The average size of Italian ITCs is between 20 and 50 employees and they operate mainly outside Europe. The general tendency is to specialise on a country-product basis. The 163 export consortia which handle the exports of their 7 000 small and medium-sized member firms and account for 10% of total Italian exports are a variant of the international trading company. They differ markedly in terms of their function since the aim is not simply to trade but rather to trade in the products of their members.

In Spain, as part of the "Plan de Fomento de la Exportacion", the Spanish State has opened an official register of international trading companies: still in its early stages, the register features only six companies (3 private companies and 3 public companies, one of which specialises in the sale of arms). In Spain, ITCs number around 300 in total. The Spanish ITC sector has not yet been properly organised. One prob-

Table 1
Exports promotion
Economic indicators for the international trading company sector

	Association	Number of companies	Turnover (billion ECU) (¹)	Employees (¹)
Belgique/België, Luxembourg	ABNEI	450 of which 150 inter-continental	45	10 000
Danmark	N/A	100(¹)	0.3	2 000
BR Deutschland	BGA, BDE	3 000	120 to 150	60 to 100 000
Hellas	GFTBA	50(¹)	0.6	1500
España	AECE	300	8 to 12	6000
France	FSNCE	5 to 1 000 1000 of which belong to the association	55 to 70	50 000 to 70 000
Italia	ANCE	1000 (168 consortia)	25 to 35	30 000
Ireland	N/A	20(¹)	0.05	1 000
Nederland	N/A	300(¹)	1.9	6 000
Portugal	N/A	50(¹)	0.2	1 500
United Kingdom	BEA	800, 150 of which belong to the association	70 to 80	16 000
EC	CITHA	10 000	320 to 400	200 000

(¹) Sema Group Management Consultants estimates
(²) This figure is based on the estimate of the % of trade realised by ITCs, and is therefore probably too low.
Source: Professional Federations

able reason for this lack of organisation is the sheer diversity of the companies included under the heading "ITC": diversity in terms of size, in particular, since within the AECE the turnovers realised by the member companies vary between a few dozen million Pesetas in the case of the smallest firms and over 10 000 million for the largest.

Taken as a whole, ITC members of the AECE realise a total annual turnover of 3 billion ECU, mainly exports, i.e. roughly 10% of the country's total exports.

10% of the companies work on a commission basis, 30% occasionally use this form of payment and the rest operate solely by buying and reselling goods.

Most of the ITCs are located near Madrid. In a few specialised sectors such as textiles, they tend to be sited closer to the production centres (Valencia, Alicante). Their operations are primarily aimed at markets outside the EC.

In France, ITCs are responsible for 20 to 25% of external trade depending on the sector. The companies in question are highly diverse and number between 5 and 6,000, some of which are very small.

Roughly speaking, French ITCs can be categorised as follows:

- the large traditional ITCs which originated in colonial times: SCOA, CFAO, OPTORG etc.;
- the large ITCs created after 1945, either by banks or major industrial groups: SOCEXPORT, SEFRANEX, RHONE POULENC, OMC; in terms of their concept, the latter two are similar to the integrated German version;
- the international wholesale trade: a number of wholesalers have developed a full-scale network abroad. SOMEPAR and COME, the leading French wholesalers dealing in electricals, have exports in excess of 5 billion Francs.

The international wholesale trade is developing mainly:

❖ in border areas;
❖ around the main shipping points: the multi-product wholesalers located in Rungis export 18% of their turnover on average;
❖ turnkey operators: foreign administration supply involving a set of products, etc.
❖ small and medium-sized import/export firms, encompassing a multitude of companies which differ in terms of their products, destination, size and know-how.

In France, the public authorities have taken various steps in an effort to bring small and medium-sized firms and ITCs closer together, by creating a data bank on ITCs, based on the countries and products dealt with.

In the United Kingdom, the BEA (British Export Association) has 150 members (traders, finance houses, distributors,...). The total number of International Trading companies is thought to be around 800 however. A high percentage of these companies are involved in finance (around 30%) and in the United Kingdom, the emphasis is often placed on the financial rather than the commercial role of ITCs. One does find, however, a more conventional breed of "International Traders" similar to the large French and German ITCs with commercial and sometimes even industrial operations in the Commonwealth countries, Africa and the Middle East. The role of these companies has declined since the nineteen fifties. In the eighties, a number of large agents were taken over by banks (Confirming Houses).

Forwarding agents In the Federal Republic of Germany, 85% of exports pass through these transport agents. 4,500 companies, half of which are internationally oriented, represented a total turnover of around 20 billion ECU in 1986. The average forwarding agency has between 1 and 20 employees, although the number can be as high as 2,000 (e.g. Schenker - the Bundesbahn forwarding agency) or even 12,000 in the case of Kühne und Nagel whose international headquarters are in Switzerland.

In Belgium, one finds 550 such companies with an average of 10 employees. As in Germany, forwarding agents tend to be centred around major economic hubs, i.e. ports (Antwerp,...) or major industrial centres (Brussels, Liège).

In France, the new structure of the French Federation of Transit Agents (FFOCT) reflects the profession's eagerness to prepare for 1993 by incorporating all the various activities relating to transport and forwarding agencies into a single federation. The new body is closer to the Germany model which includes everything from parcel delivery firms to road transport charterers and multimodal transport companies and has 2 850 members with a turnover of 8 billion ECU (exclusive of customs duties). Together they account for 60% of overland transport, 70% of shipping freight, 90% of air freight and 85% of customs operations.

In Italy, 2,500 companies are listed, accounting for 95% of international traffic. The total turnover for the profession is put at around 2 billion ECU.

In the United Kingdom, 700 of the 3 500 forwarding agencies are members of BIFA (British International Freight Forwarders) and realise 70% of total turnover for the profession as a whole (around 15 billion ECU).

The 12 largest companies account for around 65% of total turnover. There are signs, however, that their share is being slowly yet steadily eroded in favour of smaller companies whose growth is based on a highly specific, high-value-added service. The growth rate is around 8% per year. One of the main worries currently facing English freight forwarders is the arrival on the scene of couriers or express parcel delivery firms (DHL, Federal Express, TNT) which handle every aspect of small deliveries, with fast service and guaranteed delivery times.

In Spain almost all Spanish forwarding agents belong to associations, organised by large regions*, which in turn belong to a National Federation, FETEIA (Federacion Española de Transitarios - Expedidores Internacionales y Asimilades), made up of around 500 forwarding agencies. The overall volume of business for this sector is very difficult to analyse, owing to the lack of reliable statistics. One thing, however, is certain: over the past few years the sector's turnover has grown steadily by around 10% per year.

According to FETEIA, the size of the companies varies tremendously.

The fact that one finds a large number of small firms alongside a few large companies is due to numerous factors, not least the situation in the Spanish transport industry. Of all the various means of transport (plane, ship, train, lorry), road transport is the most significant in terms of value. Supply is extremely dispersed, with a few major companies operating alongside a large number of independent hauliers. This dispersion in turn gives rise to a vast number of forwarding agencies.

Growth factors in the sector

The export-related services sector is evolving in response to the new rules of international trade, among which the advent of the Single Market in 1993 appears to be the main catalyst. Clearly, sales to other EC countries are not about to change radically on 1st January 1993. The removal of the last remaining tariff, non-tariff and regulatory barriers between Member States will not affect that other distinguishing feature of the export business, i.e. adapting products to suit a market with different characteristics and its own specific distribution

Table 2
Exports promotion
Economic indicators for the forwarding agent sector

	Association	Number of companies	Turnover in billions of ECU (¹)	Employees (²)
Belgique/België, Luxembourg	CEB	550	2 to 4	5 000 to 10 000
Danmark	N/A	80(²)	N/A	2 000
BR Deutschland	BSL	4 500	20	50 to 80 000
Hellas	N/A	50(²)	N/A	2 000
España	FETELA	500	N/A	5 to 10 000
France	FFOCT	2 850	8	50 000
Italia	FNS	2 500	2	15 to 20 000
Ireland	N/A	50(²)	N/A	1 500
Nederland	N/A	200(²)	N/A	5 000
Portugal	N/A	200(²)	N/A	5 000
United Kingdom	BIFA	3 500	15 to 20	50 to 80 000
EC	CLECAT	N/A	N/A	100 to 270 000

(¹) This figure is based on an estimate of the % of trade realised by ITCs and is therefore probably too low.
(²) Sema Group Management Consultants estimates
Source: Professional Federations.

networks. For a company currently established in France, exporting to another European country will be rather like increasing the sales of a regional Lille-based company to the Marseilles region: a different culture, a different mentality and different consumption habits. The "international marketing" aspect of exports will remain intact. Finally, intra-EC exports will be influenced by: the growth in trade including among other things, the creation of pan-European central purchasing offices and the Europeanisation of wholesalers, which will allow access to other markets, in the case of certain products, without the need for specific procedures, increase in the size of the potential market, forcing exporters to rethink the logistics of distribution, on a larger scale. All this implies that from 1993 onwards, services will evolve according to two types of exports: intra-EC where the exports business will change and eventually become international marketing ("European"), extra-EC where the conventional exports business will remain, influenced however by a major shift in the international context.

The "conventional" exports business, i.e. extra-EC, will also change, in response to: the liberalisation of trade with Eastern Europe, the opening up of certain markets within the framework of the Uruguay Round of the GATT talks, the increasing penetration of certain markets by competitors such as Asian countries (Taiwan, South Korea), the lack of financial resources on the part of numerous client countries, forcing them to resort to barter on certain markets.

As regards the export-related services currently offered by the various national public bodies, the key issues likely to influence their development concern: the maintenance within each country of a national body designed to promote exports; the handling by these various bodies of the "Export" service in respect of EC countries and the conventional export service.

As regards the export services offered by the private sector, there are already indications that the various professions are changing. In the case of assistance-guidance ser-vices, two trends would seem to be emerging: the withdrawal of the public sector in EC countries and the expansion of the private sector which will seek to increase its role by offering services which are no longer strictly export services, as the export function in this area moves towards international marketing, services are becoming increasingly standardised and shifting away from consultancies towards conventional service companies or commercial agents. As far as extra-EC exports are concerned, the overall trend, which is expected to continue, is to use local companies in the country of destination, together with networks (banks, established companies of the same nationality,...).

With regard to sales-related services, of the various ITCs (in the widest sense) operating within the EC, it is wholesalers who will have to find a new slot at a Community level. In a sector dominated by regionally or nationally based firms, the key factor lies in the ability to sustain one's activities over a long period of time, maintain a sufficient level of business to meet the European challenge and form appropriate alliances with partners in other EC countries. With regard to forwarding services, we can expect to see certain changes in both the profession and the type of services offered within the EC: disappearance of customs clearance operations, which will probably be replaced by another as yet ill-defined function designed to keep account of trade between the various EC partners, changes in the logistics function. The latter, which includes a higher level of services in terms of storage, adjusting deliveries and possibly too stock control, is being increasingly taken over by forwarding agents and wholesalers. The role of the forwarding agent within the EC is in the process of being redefined.

Written by: Sema Group Management Consultants

The largest proportion of trainees involved in labour market training programmes consists of the unemployed. Current expenditure in the EC for training unemployed adults has increased about 60% between 1985-89. The sources of the European Social Fund are expected to increase fivefold by 1993 to reach 5.2 billion ECU. A weakness of vocational training is that its field orientation and content are not sufficiently geared to the actual business requirements. State subsidised training programmes are oriented more towards the traditional professions. It is the private training sector which provides for the more modern professions. Vocational training is likely to be an important component of industrial and employment policies in the 90s with special attention being given to first time job seekers and long-term unemployed. Certificate recognition is presently under consideration on the basis of specific European Commission proposals.

Description of the sector

Vocational Training refers to both Vocational and Technical Training and the education is provided either within the formal education system or within the informal training system, for the purpose of acquiring, updating, or perfecting necessary skills for a specific occupation. The informal sector covers a number of training schemes which include apprenticeship, in-company training, special state subsidised courses for unemployed persons, recurrent training, intensified short-cycle training, and training of trainees. Trainees may be:

- recent school-leavers quitting general education to enter vocational training for the first time;
- long-term unemployed undergoing re-training in new professions;
- currently employed undertaking short-cycle courses to update and perfect their skills;
- currently employed but facing the possibility of redundancy;
- young apprentices;
- others attending part-time or correspondence courses, the latter often supplemented with radio and TV broadcasting tuition, and generally regarded as second chance education.

Whether accomplished through full or part-time formal school attendance, apprenticeship or correspondence schemes, training takes place mainly at upper-secondary or

Table 1
Percentage of trainees to labour force in 1988 by major types of vocational training

(%)	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	US	J
I. Labour Market Training	1.70	6.90	2.30	0.60	1.30	3.90	3.00	-	-	2.30	0.60	1.80	6.40	0.90
- For unemployed adults and those at risk	1.60	1.40	1.50	0.10	1.20	2.30	1.40	-	-	2.30	0.10	1.40	6.40	-
- For unemployed adults	0.10	5.50	0.80	0.50	0.10	1.60	1.60	-	-	-	0.50	0.40	-	0.90
II. Apprenticeship and related general youth training	-	-	2.10	0.30	0.04	2.90	0.60	0.70	-	0.80	0.10	1.40	0.10	-
III. Vocational rehabilitation for the disabled	-	1.40	0.70	0.02	-	-	-	-	-	-	0.10	0.06	0.70	-
Total	1.70	8.30	5.10	0.92	1.34	6.80	3.00	0.70	-	3.10	0.80	3.26	7.20	0.90

Source: OECD, Labour market policies for the 1990's, Paris 1990

even post-secondary, but non-university level. Some non-graded training is also available.

Contribution of the sector to the economy

Vocational training is widely recognised as an important factor in improving human capital resources which, in modern technology-oriented economies, is becoming a decisive factor in contributing to economic and social progress. Inevitably, training has become a powerful tool in the hands of policy makers. Its power stems from its two distinctive dimensions: the short-term dimension and the long-term dynamic dimension.

- ❖ Vocational training, used as a tool in the fight against unemployment, stresses its short-term aspect;
- ❖ Dynamically used, vocational training is an effective tool in achieving economic growth and development and, to this end, there is strong evidence that education and training increase the productivity of a nation's labour force.

The relative importance of each of these two aspects varies according to the individual country. Belgium, for example, stresses its importance in combating unemployment, whereas Greece uses vocational training primarily as a means of economic restructuring and development. Figures in Table 1 indicate the significance of vocational training for the improvement of skills in the labour force on the basis of certain types of training programmes. The proportion of trainees in the labour force in 1988 by country and type of training varied from about 0.7% to 8.3% among the EC Member States, whereas in USA and Japan the corresponding ratios were 7.2% and 0.9%. In most countries, the largest of such proportions are connected with labour market training programmes for the unemployed. Only a few countries concentrate more on apprenticeship schemes or training for those already in employment but who need to adapt to a changing labour market environment.

Table 2
Value added in the vocational training sector in 1985

(million ECU)	Value added
BR Deutschland	2 263
Hellas (¹)	86
España	135
France	3 049
Ireland	30
Italia	2 796
Luxembourg	37
Nederland	1 238

(¹) Refers to 1989
Source: Estimates based on UNESCO, Statistical Yearbook 1989

The value added of the sector is shown in Table 2 for a number of individual EC Member States. It should be noted that since this sector is highly labour-intensive, its value added consists mainly of wages. Therefore the figures shown in Table 2 are based on the wages of teachers and all other personnel.

Sectoral structure and past trends

Training services INITIAL VOCATIONAL TRAINING Two main systems characterise vocational training provided by the EC Member States for young people aged between 15-18 years, referred to as initial vocational training:

- ❖ full-time school-based vocational training which involves attending courses in secondary and post-secondary level, usually for a period of two to six years;
- ❖ the apprenticeship system, which combines on-the-job training with theoretical learning at schools for a period of between two to four years.

Both systems are used in the EC Member States but with a different emphasis on each. Most young people in the Federal Republic of Germany and in Denmark receive their training mainly as apprentices; in Belgium, France, Italy, Netherlands and

Portugal most young people receive full-time vocational training in schools or colleges, and apprenticeship plays only a minor role. In Greece, Spain, Ireland, Luxembourg, and the United Kingdom, both systems are applied, though with the emphasis on school-based training.

These two systems, as shown in Table 3, accounted in 1988 for only one tenth of the trainees in the EC total. However, the figures by Member States ranged substantially from as low as 4.7% in the United Kingdom to as high as 48.6% in Portugal, reflecting differences in both training needs and systems applied by individual Member States.

Table 3
Vocational training
Percentage distribution of enrolements according to purpose by EC Member State, 1988 (1)

(%)	Vocational training	Advancement in career	Changing career	Other purposes
EC (2)	10.0	61.9	16.9	11.2
Belgique/België	13.1	54.9	20.2	11.8
Danmark	25.6	68.3	5.6	0.5
BR Deutschland	7.6	61.0	17.6	13.8
Hellas	27.2	52.5	2.2	18.1
España	28.3	18.0	13.4	40.3
Italia	39.5	42.9	12.3	5.3
Luxembourg	18.2	47.5	2.0	32.3
Nederland	6.2	53.0	15.3	25.5
Portugal	48.6	29.3	6.0	16.1
United Kingdom	4.7	68.4	18.9	8.0

(1) Enrolements refer to the age group 14-49 years for a period of four weeks before the survey
(2) EC10 excluding France and Ireland
Source: Eurostat, unpublished data based on the 1988 Labour Force Survey

VOCATIONAL TRAINING FOR CAREER ADVANCEMENT The second group of trainees concerns people who are either in full-time employment or involuntarily employed part-time seeking advancement in their career. As shown in Table 3, in 1988 this group accounted for about three fifths of the total number of trainees in vocational training. However, in two Member States - Spain and Portugal - this group of trainees had less importance ranking third (18%) and second (29.3%) respectively in trainee enrolments by training purpose during 1988. The most important single purpose training in these countries being initial vocational training.

In this group of trainees the following training services are supplied:

- in-company training programmes, the numbers of which are fast increasing. They are generally of a short-cycle nature and relate to a company's own needs. These programmes aim at updating the qualifications of a company's own employees so as to help them adapt more easily to changing technological conditions or to take up higher managerial responsibilities. Although there are no detailed data for this form of training, such programmes are provided in most Member States usually by large-scale enterprises in a broad range of industrial branches as well as by small-medium enterprises in advanced technology sectors such as information technology and related services. As an example of the latter we may indicate training programmes for specific word processing, spreadsheet or dbase packages such as DBase IV, Word, WordPerfect or Lotus 1-2-3 provided by software dealers for the personnel of interested companies;
- part-time and correspondence courses, provided to a large extent by private firms against fees payable by the trainees themselves. Since these courses fall outside the formal education system and there are strong indications for a fast growing demand, there seems to be a potentially large market calling for private training enterprises.

VOCATIONAL TRAINING FOR CAREER CHANGE Another important group of trainees concerns those wishing to change their career. This group includes people in long-term unemployment and at high risk of being made redundant undertaking a specific form of training, sometimes referred to as labour market training. Such training is of an intensified short-cycle form, provided either within state-subsidized training centres or in premises of firms which are under special contracts implementing state programmes against unemployment. The group of trainees changing career in the EC as a whole represented about one sixth of the total trainees in 1988 (see table 3). Figures by individual Member States ranged widely in this group too, from a low 2% in Luxembourg to a high 20.2% in Belgium.

Formal education certificates are issued by the Ministry of Education of each country, whereas informal certificates can be issued by the school itself. Significant progress has been made on mutual recognition of such certificates and diploma issued by the EC Member States within the framework of increasing labour mobility among Member States. Implementation begins in 1991 for university certificates obtained after at least 3 years of

Table 4
Secondary level vocational training:
Number of pupils by individual EC country, 1975-87

(1000)	B	DK(1)	D(1)	GR(1)	E	F	IRL	I	L	NL	P(2)	UK	EC12
1975	301	38	460	133	550	1 009	10	1 334	7	506	127	209	4 684
1980	N/A	126	610	100	889	1 103	14	1 586	18	561	N/A	255	N/A
1982	N/A	N/A	N/A	75	N/A	N/A	15	N/A	N/A	N/A	N/A	N/A	N/A
1983	N/A	141	687	100	945	N/A	16	N/A	18	626	N/A	309	N/A
1984	375	144	2 523	102	969	1 319	20	1 734	16	619	3	401	8 225
1985	374	151	2 528	109	1 206	1 328	23	1 783	18	633	7	403	8 564
1986	371	157	2 473	N/A	1 220	1 326	N/A	1 821	17	618	N/A	418	N/A
1987	372	N/A	N/A	N/A	1 242	N/A	N/A	1 858	N/A	N/A	N/A	N/A	N/A

(1) Institutional changes have taken place in the educational sector
(2) Due to changes in the education system, data cannot be separated between formal and informal education
Source: UNESCO, Statistical Yearbook 1989

Table 5
Share of pupils in secondary vocational training to total
secondary education by EC Member State, 1975-1987

(%)	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EC
1975	37.8	10.4	7.5	20.0	17.3	20.6	3.7	27.4	32.9	39.5	27.3	4.1	16.7
1980	N/A	25.3	9.3	13.6	22.4	22.0	4.7	29.9	66.9	40.3	N/A	4.8	N/A
1982	N/A	27.1	10.4	10.0	22.7	23.0	4.7	30.8	N/A	41.5	N/A	5.4	N/A
1983	N/A	29.0	11.5	12.7	23.0	23.0	4.9	31.0	N/A	42.7	N/A	6.0	N/A
1984	45.2	29.8	34.0	12.7	23.0	24.8	6.1	32.5	N/A	42.8	0.6	8.0	25.9
1985	45.4	30.9	35.6	13.5	26.5	24.7	6.7	33.2	68.7	44.0	1.3	8.3	26.9
1986	45.7	32.0	36.5	N/A	26.2	24.6	N/A	33.9	N/A	44.3	N/A	8.9	N/A
1987	46.2	N/A	N/A	N/A	N/A	23.1	N/A	34.8	N/A	N/A	N/A	N/A	N/A

Source: UNESCO Statistical Yearbook 1989

studies. Certificate recognition at lower education levels, including secondary, is presently under consideration on the basis of specific European Commission proposals.

Comparing 1975 and 1985 figures, for which data are available for all EC Member States (table 5), we may conclude that the share of secondary level vocational training has grown more or less uniformly at the EC level during the 1975-1985 period. Out of the 12 EC Member States, only Greece and Portugal showed a decline in their respective figures. More importantly, the 1985 figures compared with those of 1975 showed a smaller dispersion, implying that although still high, differences among countries are decreasing. These differences are inevitable since the education systems have been developed independently of each other and to some extent are due to:

- differences in the education systems where, in some Member States, the upper-secondary vocational training is part of the general education;
- differences in the number of years of compulsory education.

It is generally recognized that although state subsidized training programmes are oriented more towards the traditional professions, it is the private training sector which provides for the more modern professions.

A weakness of vocational training, as presently provided in most EC Member States, is that its field orientation and content are not sufficiently geared to the actual needs of modern enterprises. Very often business requirements, in terms of occupational profiles, seem to differ substantially from those provided by the various systems of vocational training provide, with the risk sometimes of producing obsolete skills.

This situation underlines the gap between industry or business needs and the education-training sector, and mainly arises from the lack of cooperation between them. In an attempt to overcome this weakness, in 1987 the EC initiated the programme COMMET, which refers to the cooperation between universities and enterprises, and one would expect that similar programmes will follow, covering the education-industry cooperation at the non-university level.

Employment Employment in the sector refers mainly to the number of teachers employed, but it also includes supporting teaching staff and other personnel directly involved in the functioning of the schools.

As such, employment in the public sector in 1986 shown in Table 6 was estimated to be about 737 000 people in the EC. Although there are no available data concerning employment in the private sector, it can be estimated indirectly for the EC

Table 7
Vocational training - Percentage of pupil enrolments in the non-government sector of the school year 1986-87

(%)	Primary	Lower Secondary	Upper Secondary: General Education	Upper Secondary: Vocational & Technical Education
EC	16.7	20.2	18.7	31.7
Belgique/België	55.2	N/A	66.1	59.9
Danmark	9.4	15.3	9.0	96.4
BR Deutschland	1.6	6.8	10.4	9.1
Hellas	5.8	3.3	3.8	9.3
España	34.6	35.1	30.0	27.6
France	15.2	20.7	23.9	17.2
Ireland	N/A	N/A	N/A	4.0
Italia	N/A	N/A	N/A	N/A
Luxembourg	N/A	10.3	5.0	11.6
Nederland	68.6	79.1	71.3	87.3
Portugal	6.4	9.4	6.6	9.6
United Kingdom	4.6	8.0	10.0	N/A

Source: OECD

Table 6
Vocational training Employment, 1986

(1000)	1986
EC 12	737.3
Belgique/België	48.3
Danmark	18.3
BR Deutschland	204.1
Hellas	8.8
España	59.6
France	82.0
Ireland	1.6
Italia	224.6
Luxembourg	1.2
Nederland	46.7
Portugal	0.7

Source: Estimates based on data in UNESCO Statistical Yearbook 1989

as a whole, taking into account that on average 30% of pupils in vocational training attend private schools (see table 7). As a result, employment in the private sector is estimated to be about 220 000 people, raising total employment of the sector in the EC to about 957 000.

Investment expenditure Investment in this sector covers mainly acquisition of land, construction and maintenance of school buildings, acquisition of office and teaching equipment and school vehicles. Estimates of investment expenditure in vocational training for several individual Member States are given in table 8 together with investment figures for total education. It can be seen from these figures that investment in vocational training varies from 3.6% to 20.4% of investment in total education. It should be noted, however, that investment in education varies widely from year to year in each country, so that the absolute figures in Table 8 have meaning for that particular year only and cannot be used to predict the sector's future investment behaviour.

Current expenditure Available OECD data on public current expenditure for a number of vocational training categories (table 9) indicate that in 1989, labour market training for unemployed adults is the biggest category in all Member States, except for Denmark, Greece and Portugal, where expenditure in training for employed adults is the more important. Moreover, current expenditure in training for unemployed adults over the 1985-89 period has increased by more than 45% in the Federal Republic of Germany and France, more than 100% in Spain, more than 300% in the United Kingdom, whereas in the EC as a whole, the increase is of about 60%.

With regard to youth training, it is difficult to draw firm conclusions from the available data (table 9) because of the substantial differences between education systems at secondary level. Nevertheless, although in some countries like Italy and to a lesser extent Spain, youth training is relatively more important than adult training, substantial amounts are also spent by the Federal Republic of Germany, France and the

Table 8
Investment in vocational training and total education

(million ECU)	Year	Total education	Vocational training	(%)
EC 12 (¹)		11 929.8	N/A	N/A
Belgique/België	1987	49.5	N/A	N/A
Danmark	1987	257.9	N/A	N/A
BR Deutschland	1986	3 968.0	364.0	9.2
Hellas	1985	60.0	4.7	11.5
España (²)	1986	701.4	15.7	7.8
France	1986	2 465.0	282.4	N/A
Ireland	1986	136.3	4.9	3.6
Italia	1983	1 622.3	292.6	18.0
Luxembourg	1983	17.6	3.6	20.4
Nederland	1985	1 394.7	169.1	12.1
Portugal	1987	156.6	N/A	N/A
United Kingdom	1986	1 100.5	N/A	N/A
USA	1985	29 180.9	N/A	N/A
Japan	1986	31 074.8	N/A	N/A

(¹) Total EC figure is given only as an approximation for comparison with the USA and Japan as its components do not refer to the same year
(²) For Spain, investment in educational training refers to 1980
Source: Estimates based on UNESCO Statistical Yearbook 1989 and Eurostat, Eurostatistics, No7, 1989

Table 9
Public current expenditure in informal education by main vocational training schemes in 1985/86 and 1988/89

(million ECU)	Total		For unemployed & those at risk		For employed		Apprenticeship and related forms of youth training		Vocational Rehabilitation for disabled	
	1985/86(¹)	1988/89(²)	1985/86(¹)	1988/89(²)	1985/86(¹)	1988/89(²)	1985/86(¹)	1988/89(²)	1985/86(¹)	1988/89(²)
EC 12	12 910	21 762	4 889	7 863	1 149	1 723	5 757	9 652	1 115	1 731
Belgique/België	181	261	115	169	5	7	N/A	N/A	61	85
Danmark	520	662	215	235	190	259	N/A	N/A	115	168
BR Deutschland	4 484	6 105	1 684	2 493	502	673	1 405	1 527	893	1 412
Hellas	N/A	117	N/A	8	N/A	88	N/A	16	N/A	5
España	385	792	157	326	5	31	221	431	2	4
France	2 557	4 793	1 542	2 204	217	313	798	1 484	N/A	N/A
Ireland	268	257	105	105	58	49	105	103	N/A	N/A
Italia	2 011	4 462	317	226	N/A	N/A	1 694	4 236	N/A	N/A
Luxembourg	6	6	N/A	1	N/A	N/A	5	4	1	1
Nederland	401	515	335	401	N/A	8	66	107	N/A	N/A
Portugal	77	133	N/A	8	63	73	5	35	9	16
United Kingdom	2 020	3 659	419	1 687	109	221	1 458	1 710	34	41
USA	9 450	6 849	6 416	4 373	N/A	N/A	881	667	2 153	1 809
Japan	590	769	54	N/A	536	769	N/A	N/A	N/A	N/A

(¹) D, E, P data for 1986
(²) B, GR, E, F, IRL, I, L data for 1988
Source: Labour market policies for the 1990's, OECD 1990

United Kingdom where youth training ranks second.

Current expenditure in this category at EC level has increased by more than 65% over the 1985-89 period. Available figures for the USA indicate a high concentration on labour market training for unemployed adults and relatively smaller amounts for youth training, whereas Japan spends more on training for employed adults.

Finally, with regard to the vocational rehabilitation of disadvantaged young people, data limitations do not permit comparisons between all countries (table 9), but significant amounts seem to be spent by such countries as Belgium, Denmark, and the Federal Republic of Germany.

Table 10 shows public current expenditure in vocational training separately for the formal and the informal systems.

Upon comparing figures showing public current expenditure on informal training programmes as a percentage of GDP in 1988 (see table 11), it is evident that there is a large variation between the EC Member States; from 0.05% to 0.85%. The corresponding figures for USA 0.15%, and Japan 0.07%, are much lower than the EC average rate and much smaller than the respective rate of the larger EC Member States. In addition, there are substantial differences in relative importance of public expenditure on each training programme between the countries concerned.

It maybe noted that these training programmes for the EC Member States are largely supported by the European Social Fund.

Table 10
Public current expenditure in vocational training by major types of training (¹)

(million ECU)	Informal Education	Formal Education
Belgique/België	181	N/A
Danmark	520	N/A
BR Deutschland	4 484	3 038
Hellas	117	94
España	385	150
France	2 557	4 200
Ireland	268	39
Italia	2 011	3 365
Luxembourg	6	42
Nederland	401	1 649
Portugal	77	N/A
United Kingdom	2 020	N/A

(¹) All data on formal education refer to 1985 except for Greece which refers to 1989. Data on informal education refers to 1980 in Spain, 1983 in Italy and Luxemburg, 1985 in Greece and the Netherlands, 1986 in Germany, France and Ireland
Source: Labour market policies for the 1990's, OECD 1990 and Eurostat.

Trade Imports and exports of training services take the form of pupils studying abroad or foreign pupils coming to study at home. Although this applies more for university students no significant figures for the movement of pupils are recorded at secondary level vocational training. An apparent incoming flow of students is associated with non-university post-secondary training in schools which have a certain reputation for the quality of their programmes. Specific

Table 11
Public current expenditure in 1988, on major types of vocational training as a percentage of GDP (¹)

(%)	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	US	J
I. Labour Market Training	0.14	0.53	0.30	0.21	0.12	0.32	0.58	0.03	0.02	0.21	0.21	0.25	0.11	0.03
- For unemployed adults and those at risk	0.13	0.25	0.23	0.02	0.11	0.28	0.40	0.03	0.02	0.20	0.02	0.22	0.11	-
- For employed adults	0.01	0.28	0.07	0.19	0.01	0.04	0.18	-	-	-	0.19	0.03	-	0.03
II. Apprenticeship and related forms of youth training	-	-	0.42	0.04	0.02	0.19	0.09	0.43	0.02	0.05	0.09	0.22	-	-
III. Vocational rehabilitation for disabled	0.07	0.18	0.13	0.01	-	-	-	-	0.01	-	0.04	0.01	0.04	0.01
Total	0.21	0.71	0.85	0.26	0.14	0.51	0.67	0.46	0.05	0.26	0.44	0.48	0.15	0.07

(¹) Expenditure includes programme costs and trainees allowances
Source: OECD, Labour market policies for the 1990's, Paris 1990.

examples are certain Hoherschulen in the F.R. of Germany, Ecoles Supérieures in France and Polytechnics in the UK, which usually attract many non-EC students.

Role of public and private sector

Although financial data are generally limited, available aggregate estimates provide a general overview of the sector's financial structure. According to recent data made available by UNORF, households finance their vocational training by only 1-1.5% of the total, whereas the private profit-making education institutions account for about 12% of the total.

Moreover, according to recent OECD data presented in table 7 in most EC Member States the private sector's proportion of pupil enrolments at aggregate level, including enrolments in both general and vocational education, is higher at the upper-secondary than it is at the lower-secondary level. Specifically, in 1986-87, the EC average proportion of the private sector at the upper-secondary level in EC was estimated to be 23.6%, whereas the same proportion for the lower-secondary level was 20.2%. This proportion was even higher in school-based upper-secondary vocational training, being 31.7%, than in upper-secondary general education, which amounted to only 18.7%.

Furthermore, there is a growing tendency for increased participation in labour market training by private institutions and companies. This is especially so in post-secondary non-university education level and in specialisation fields which require much flexibility to meet the changing needs of the labour market. The number of trainees attending private schools in recent years has grown steadily, also representing a wider range of social backgrounds. Therefore, the recognition that there is a growing demand for training, private concerns will have an increased role to play in the forthcoming years if they adapt their training to take account of new demands for either young people or adults. The private sector's greater involvement in adult training rests primarily on state support.

Young people are not obliged to pay for their initial vocational training in any of the Member States. In most countries the school-based initial training is provided at public schools. Exception to this practice is made by Belgium and the Netherlands, where most of the school-based training is with private schools or independent institutions mainly financed from public funds.

Training within companies is not limited to its own employees. But training programmes for their own employees are financed by the company's funds, whereas programmes for non-company trainees may be financed by State and EC funds, in the context of special contracts signed with the companies involved. In the latter case, the costs involved include both direct training expenses and personal allowances granted to the trainees.

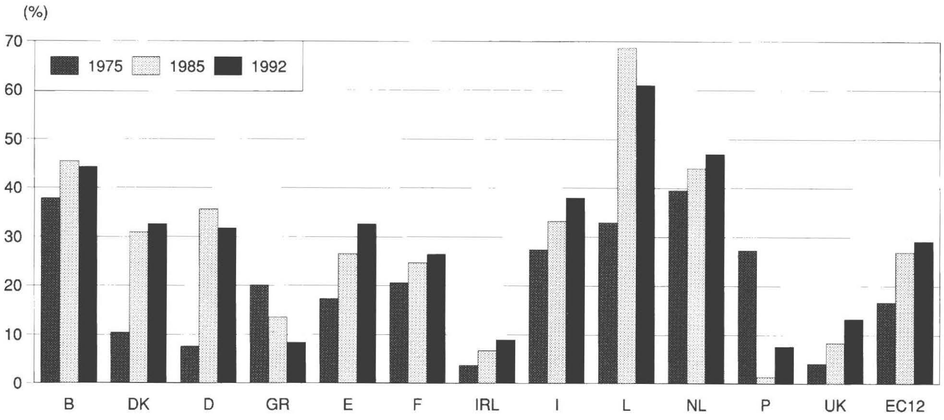
In all other forms of training such as post-secondary non-university correspondence courses, whenever private concerns are involved, financing is made by public (including EC financing) and private funds.

EC Policies and Finance

EC funds are available to all Member States in support of a wide range of vocational training programmes provided by both public and private institutions. The European Social Fund is the main source of Community finance for vocational training projects, including, where necessary, vocational guidance. Its financial support extends to a number of training programmes which include:

– The youth for Europe programme, which

Figure 1
Share of pupils in secondary vocational training to total secondary education: 1975, 1985, 1992



Source: UNESCO Statistical Yearbook 1989 and estimates based on forecasting techniques.

concerns training of young people in the age group 15-25 years. During its first phase of implementation (1989-91), 80 000 trainees are expected to participate

- The PETRA programme, where 200 specific training projects for young persons were initiated during its first stage in 1989
- The EUROTECNET programme, concerning training in innovation and new technology fields, where 135 demonstration projects were implemented during 1989, being the last year of the programme's initial phase. Training or retraining for persons in long-term unemployment
- The IRIS programme, adapted to the needs of women. 71 projects were implemented in 1989
- Training for women who wish to return to the labour market after a long break from work
- Training for handicapped people who may join the labour market
- Training for migrant workers aiming at improving their integration into the labour market
- Retraining for persons employed in small-medium enterprises so as to adjust to the needs of advanced technology or improve their management skills.

The total amount of available EC funds for training has substantially increased during the 1980s. Community financial support is expected to reach 5.2 billion ECU by 1993 in comparison to about 1 billion ECU available in 1980-81. These funds are made available for financing 50%-75% of the total cost of the proposed projects. The actual participation rate depends on the eligibility criteria and the objectives established in the new regulations concerning the form of EC structural funds.

Apart from the provision of finance, in 1975 the EC established in Berlin the European Centre for Development and Vocational Training (CEDEFOP). The Centre aims at encouraging the promotion and development of vocational training at Community level through publications, exchange of information and experience.

Factors affecting the development of the sector

The main factors which may affect the future development of vocational training services in most EC Member States include:

- Inefficient utilisation of public resources.

There are several reservations on whether today's education and vocational systems can adequately cover all future industry requirements in job specialisations, through the 1990s;

- Availability of resources

Budget constraints in most Member States often impose limits on the financing of both general education and vocational training;

- Problems arising from decision-making under risk

Prevailing uncertainties in the labour market associated with high unemployment rates and rapid technological changes increase the private opportunity cost for training in a specific vocation;

- Legal and other obstacles to the development of the private sector

The participation of non-subsidised private firms in vocational training is still limited in most countries.

The most important reasons being the overall control of education and vocational systems by national authorities; the high initial capital requirements to provide for the necessary training facilities in a wide range of training courses; and the low or medium-income of trainees' families who cannot afford large fee payments and other school expenses usually charged by non-subsidised private institutions.

Outlook

The participation of vocational training to total education is expected to increase further during the next few years.

This tendency, however, does not appear to be uniform in all the EC Member States, the main exceptions being:

❖ Belgium and the Federal Republic of Germany, which show signs of decline after having reached a peak by 1987. In both countries total enrolments in secondary education have recently decreased, most likely due to demographic factors, and this decrease is faster in vocational training. However, they still remain above the EC average;

- Greece, where a decline in the share of vocational training started in the mid 1970s, and is still declining. For the early years at least, the decline is largely due to the educational reform which took place in the late 1970s and which resulted in the abolition of lower-secondary vocational training. The effective number of pupils in vocational training has since decreased.

This general trend is expected to continue beyond 1992. Employment in the sector is directly related to the number of trainees. Given the trend of the number of trainees in the EC it is expected that total employment in the sector will also rise by about 2.2% annually in the next few years.

In EC Member States much effort is expected to be devoted, by both the private and public sectors, to improving vocational training over the next decade. Accordingly, priority will most likely be given - though with a different degree of involvement by each sector - to the training or retraining of the following main target groups:

a) Candidates for post-secondary non-university education interested in being trained in the more modern professions;

b) Persons in employment whose jobs are threatened because of technological changes;

c) First-time job-seekers, usually young persons between 15-24 years old

d) Skilled persons in long-term unemployment.

e) Vocational training will most likely continue to be an important component of industrial and employment policies in the 90s. Special attention is therefore expected to be given by the public education sector of all Member States to the above target groups (c) and (d). Moreover, the most recent EC Member States - Greece, Spain and Portugal- are expected to take full advantage of the increased EC funds allocated for such purposes, so as to improve their training systems and offer better opportunities to prospective candidates.

The future market for the private training sector, on the other hand, seems to be associated with groups (a) and (b), since the persons coming under these groups often find training provided by the public education sector unsatisfactory. They are expected therefore, to turn to the training services offered by the private sector, which may undertake increased responsibility for the provision of training and retraining opportunities.

Vocational training with a high technical or business content, though much needed by those in group (a) seems to be lacking. Its provision is essential in order to respond to the new labour market situation associated with a changing business environment in view of the 1992 objectives. The structural changes resulting from the completion of the internal market have already put pressure on new or improved specialisation needs. Accordingly, demand for training and retraining for the adaptation of the labour force to the new market requirements is expected to increase rapidly. Furthermore, the market for correspondence courses seems also to be expanding. The most likely group demanding this type of training services is group (b). It is expected that the private sector will respond to this potential demand with much interest.

Finally, current preparatory work at the EC level concerning vocational training improvements with respect to the content of courses, the specialisations provided, and the mutual recognition of certificates, is expected to upgrade professional qualifications and increase mobility of skilled labour within the Community. This should contribute to the provision of sufficient and appropriately qualified human resources for EC industry.

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Private or public contract research companies account for 10% of the overall R&D carried out within the Community. These companies are concentrated mainly in the five major EC countries (90% of turnover) and employ around 18 000 people. Future prospects are good due to increasing need for EC industry to efficiently develop new technologies.

Description of the sector

Private and public contract research companies can be defined as entities with public or private share capital, whose financial resources are for the most part derived from the completion of contracts involving research, development and the accomplishment of innovative assignments for industrial firms.

The rest of their income is derived from technological service activities other than R & D, industrial activities, patent exploitation or subsidies.

The NACE list does not define this sector as such which falls within the scope of section "940 - Research and Development".

Contract research is also carried out by other organisations such as:

- university research centres, highly developed in the Federal Republic of Germany;
- State research centres;
- research centres for industrial groups.

It is considered that contract research accounts for 10% of industry's Research and Development activities.

Through the various organisations involved, "contract research" enables innovative solutions to be found for industrial customers, technology to be transferred between various industrial sectors, as well as the results of essential research into industrial technology to be applied.

When contract research organisations discover a new technology within the context of a contract or research programme, this can subsequently be transferred to other applications and other sectors, which is often the case.

The continuous enrichment of their technological knowledge is a vital factor for every contract research organisation and one which is difficult to fund through its own cash-flow alone. Bearing in mind the investment required, in some countries special public aid schemes have been implemented at a national level. Moreover, more than half the contract research organisations are involved in national or EC research programmes (Projektförderung, in the Federal Republic of Germany), with EC funding being limited to a maximum of 50%. This international cooperation encourages the establishment of closer links and trade between Research Centres (e.g: the partnership of TNO and Fraunhofer within the context of the BRITE and ESPRIT programmes) and reduces costs.

Professional representation, at national or EC level, exists in the form of structures such as:

- the EACRO (European Association of Contract Research Organisations);
- the AIRTO (Association of Independent Research and Technological Organisations, UK);
- the ASIRDI (Association des Sociétés Indépendantes de Recherche et Développement Industriels, France).(Association of Independent Industrial Research and Development Companies, France).

Current situation

"Contract Research" activity within the EC is highly concentrated. Five countries (Federal Republic of Germany, France, United Kingdom, Italy and the Netherlands), accounted for 90% of this sector's turnover in 1990. Within the EC 8, 41 firms, employing 17 915 people, total a turnover of 1 156 million ECU.

The individual national distribution patterns for both turnover and the total number of employees, are very closely related, reflecting a uniform level of productivity per employee. The leaders are the Federal Republic of Germany (36% of turnover) and the Netherlands (26%).

In contrast, production fluctuates between one firm and another:

- in the Federal Republic of Germany and in the Netherlands 3 firms achieve 61. 5% of the turnover of the EC 7;
- in France, one firm achieves approximately 40% of the turnover, the rest is divided amongst approximately 20 firms;
- in the United Kingdom, contract research activity is divided amongst many firms, each with a low turnover.

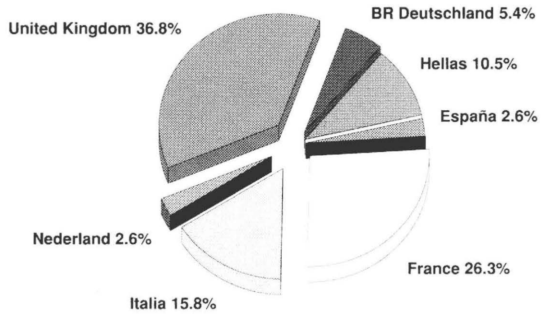
The three predominant companies active

Table 1
Contract research
Main indications

	Number of enterprises	Turnover (excl. VAT) million ECU	Number of employees
Belgique/België	1	15	125
BR Deutschland	3	403	5 800
Hellas	4	3	80
España	1	5	125
France	10	101	1 300
Italia	8	185	2 035
Nederland	1	283	5 200
United Kingdom	13	161	3 250
EC 8	41	1 156	17 915

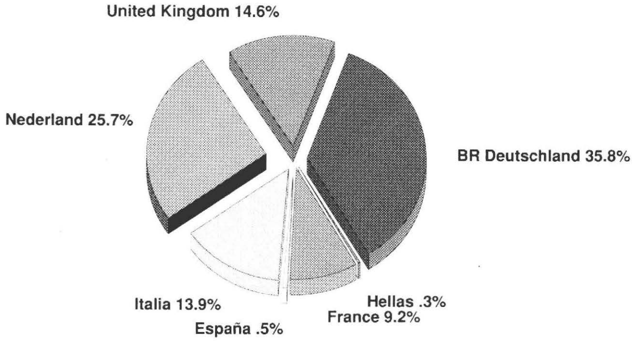
Source: EACRO (European Association of Contract Research Organizations)

Figure 1
Contract research
Distribution of the businesses in the European Community (7)



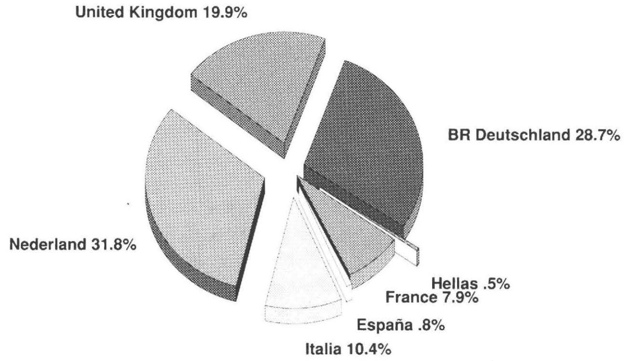
Source: Sema Group Management Consultants

Figure 2
Contract research
Distribution of turnover by country



Source: Sema Group Management Consultants

Figure 3
Contract research
Distribution of employment in this sector



Source: Sema Group Management Consultants

Table 3
Importance of contract research in the global budget of organisations

(%)	France	Italia	BR Deutschland	Nederland	United Kingdom
% Contract research activity	64	70	53	48	46
% Organisations whose contract research activities are above					
70%	45	40	31	N/A	18
90%	23	20	11	N/A	17

Source: Sema Group Management Consultants

Tableau 2
Contract research
Main contract research organisations in the EC

Countries	Organisations
BR Deutschland	I.A.B.G. (Industrieanlagen Betriebsgesellschaft Fraunhofer - Gesellschaft Batelle Europe
France	Bertin et Cie
Italia	ISMES CISE CESI
Nederland	TNO
United Kingdom	SIRA P.A. Technology Ricardo Life Science Research ERA Technology Cambridge Consultants IRI BMT

Source: Sema Group Management Consultants

in the EC contract research sector, with a turnover in excess of 100 million ECU are:

❖ in the Netherlands, TNO. Contract research accounts for 48% of overall turnover;

❖ in the Federal Republic of Germany, Fraunhofer Gesellschaft, (the Fraunhofer Company), whose share of turnover from contract research stands at 62% and the I.A.B.G. (Industrieanlagen Betriebsgesellschaft) whose contract research activity is mainly carried out in the defence sector and accounts for 70% of its income.

In the 50 to 100 million ECU turnover bracket are:

❖ Bertin et Cie, France (65 million ECU);

❖ Battelle Europe, Germany (55 million ECU);

❖ CISE and ISMES, Italy (55 million ECU).

More generally, the share of "contract research" in the overall turnover of the organisations and firms concerned is as follows:

❖ the greater share in France and Italy;

❖ the lesser share in the Federal Republic of Germany, the Netherlands, the United Kingdom and the other EC countries.

Other activities carried out, inter alia, are consultation, industrial production, exploitation of patents...

TNO, like Fraunhofer, enjoy international standing, their customers being national or foreign (mainly EC). For example, 6.5% of TNO's "contract research" income comes from foreign customers.

Legal structure

Although it is difficult to compare corporate legal status between one country and another, it is a fact that in each country there is a prevailing legal structure:

❖ either a company limited by shares, redistributing profits (such as an SA, or limited liability company, or an SARL or private limited liability company);

❖ or a "non-profit-making" body (such as a partnership, technical industrial centres, or companies limited by guarantee).

Within the EC, the "associative" type of structure is prevalent. Fraunhofer (FRG), TNO (NL), and the ATV Institutes (DK) are heavily subsidised associative organisations, whereas in France, Italy and the United Kingdom, it is the private contract research firms which are most common.

Prospects

The contract research sector is currently enjoying a favourable period, providing prospects for growth mainly due to:

❖ the increasing need for small and me-

Table 4
Breakdown of research contract organisations by legal status and country

	Danmark	BR Deutschland	España	France	Italia	Nederland	United Kingdom
Limited company	17	15	0	75	70	0	32
Non profit-making organisations	83	85	100	25	30	100	68

Source: Sema Group Management Consultants

dium-sized businesses to develop new technologies adapted to market developments, i.e. firms unable to find all the necessary resources internally;

- recognition of the quality and effectiveness of contract research;
- the choice of specific large industrial groups to subcontract out part of their research for specific needs, with a view to improving the profitability of their Research and Development sector and have access to additional technological and creative resources;
- the availability of national and EC subsidies.

Since contract research is an influential factor in giving a country the technological advantage and therefore enhancing its competitiveness, the advent of 1992 should help encourage the development of this sector by stimulating activity in those countries which currently have none, and by means of aid provided by the EC Commission for organisations and firms active within this sector, at a financial, promotional and institutional level.

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Operational leasing

At the beginning of the 1960s, the renting sector in different European countries expanded into a new and, as it has subsequently demonstrated, highly successful variant.
The idea of equipment leasing, which was imported from the USA, very quickly gained general acceptance. Today, leasing is by far the most important form of investment goods renting in Europe, followed by renting itself. In some Eastern European countries, around 30% of plant investments in the whole economy can be apportioned to this financial alternative. Over the next few years, a continuation of the positive trend in leasing can be expected, not least owing to the effects of the European Internal Market and the opening up of markets in Eastern Europe. Should this form of renting to become accepted in Eastern European countries, there is even the possibility of a leasing boom.

Definition and delimination

The term leasing, which is of English origin, has become accepted throughout the world as the expression for certain forms of the medium to long-term commercial renting of consumer goods. The sole exception is France, where this type of renting is denoted using the term "credit bail". The result of this is that equipment leasing in English-speaking countries is less easy to differentiate from traditional renting forms than elsewhere; for example, signs are hung outside accommodation for rent which also bear the inscription "For Lease". Also in the countries of the European Community, the difference between leasing in the narrower sense, hire-purchase, renting or other rental forms varies a great deal, a fact which has arisen particularly because of the different fiscal and civil law regulations. By disregarding the renting of living space, it becomes easier to define the difference between renting and leasing in all EC countries. Renting includes the short-term delivery, even on a daily or hourly basis, of vehicles or plant machinery for example on payment of a fee. In comparison, it is extremely difficult to make a distinction between hire-purchase and equipment leasing. A large number of English and French leasing contracts would, in Germany for example, be classified as hire-purchase or even as a hidden sale by installment, with all the financial and fiscal consequences. It can be generally said that in actual leasing - unlike renting - the financial, civil law and fiscal regulations of individual countries play a major role. Since most commercial and civil law codes in EC countries were developed at a time when leasing in its modern form was still non-existent - the first leasing firm was founded in the United States in 1952 - there are in the main still no corresponding legal definitions of leasing: only in France was leasing (credit bail) put on a legal footing as long ago as 1966. Over the years, ministerial decrees and judgements from the highest courts have failed to improve matters. The legal framework conditions which have thus arisen to cover leasing vary a great deal in individual EC countries. This has meant, on the one hand, that the market shares for leasing in individual countries vary quite considerably in places, and that, on the other hand, cross-border leasing has until now had a relatively small part to play.

In most countries, equipment leasing has greatly pushed back traditional medium to long-term forms of renting; even the manufacturers of office machines and EDP equipment, who earlier used traditional manufacturing renting to a relatively widespread degree, have today mostly switched to leasing, either through their own leasing firms or through distribution leasing, namely by calling upon the services of an outside leasing firm. By disregarding the renting of accommodation, which is not the subject of this analysis, leasing in the EC today is thus the most important of all rental forms, followed by renting itself, which supplements leasing in the short-term sector.

Table 1
Leasing firm new business, 1989 (¹)

(million ECU)	Number of firms	Investment leasing	Growth rate in %	Leasing shares (²)	Assoc. level of representation in %
Belgique/België	60	1 323	39.1	8.3	90
Deutschland	66	9 911	13.5	17.8	53
Danmark	25	779	56.7	(³)7.8	75
España	85	8 933	19.1	27	95
France	197	21 789	14.8	19.7	95
United Kingdom	69	20 161	19.6	30.1	90
Italia	90	8 328	21.2	14.7	70
Ireland	17	784	80.2	28.4	95
Luxembourg	8	161	168.8	9	99
Nederland	20	2312	25.9	17.4	80
Portugal	8	804	19.4	(³)10	N/A
Total	645	75 285			

(¹) Only member firms of respective national associations
(²) Share of leasing investment in total economic investment
(³) Source: World Leasing Yearbook 1990
Source: Leaseurope.

In the planned revised version of NACE (NACE Rev. 1), the functions of the rental sector are defined in section 71 as, "the renting of machinery and appliances without operating staff; abandoning of the workforce and renting of machines and appliances without operating staff; abandoning of the workforce and renting of consumer goods", with four sub-categories:

71.1 motor vehicles

71.2 other transport facilities

71.3 other machines and appliances

71.4 consumer goods

Current situation

In the larger EC countries, equipment leasing has existed since the early 1960s, with particularly rapid development from the middle of the 1970s. In the meantime, the United Kingdom, Ireland and Spain, with leasing shares of around 30%, have almost caught up on the United States, the spiritual home of leasing; there, leasing's share of overall equipment investment amounted to 32.9%. Despite leasing's already high market share in most EC countries, two-digit growth rates have mostly remained right up to the present (cf. table 1).

In the years between 1972 and 1989, according to figures from LEASEUROPE, annual new business of leasing firms rose thirty times over.

The idea of leasing as an alternative in investment and finance has undoubtedly carved a niche for itself. In the first years of leasing, both in the United States and Europe, the market was dominated by investment goods manufacturers. Gradually, leasing firms were established in Europe with no manufacturing links, often as the sister firms of banks, and these developed the leasing product further. In the mid 1970s, they overtook leasing by manufacturers themselves in terms of new business generated. Certain innovations were introduced, especially in the arrangement of contracts.

Essentially, two types of contract are offered today, one with "full pay-out" and the other with "non-full pay-out". In the latter case, the lessee only uses the investment goods for a fraction of their usual business life. This means that, as a rule, there are one or several other further users. The rates of leasing are therefore

Table 2
Structure of leasing investment according to object, 1989

(million ECU)	Machinery & industrial equipment	Office machines and EDP	Commercial vehicles	Motor vehicles	Shipping aircraft & rail	Other equip-ment
Belgique/België	187	374	254	286	26	139
Deutschland (¹)	1 136	2 163	1 190	2 578	533	524
Danmark	162	167	118	43	73	216
España	3 453	854	2 586	723	N/A	242
France	4 566	2 635	3 025	5 453	N/A	251
United Kingdom	5 084	3 772	2 500	6 124	1 239	919
Italia	2 722	727	926	1 923	285	540
Ireland	225	79	300	180	N/A	N/A
Luxembourg	11	22	60	15	44	9
Nederland	400	771	43	176	796	126
Portugal (¹)	229	110	231	65	4	124
Total	18 175	11 674	11 233	17 566	N/A	N/A

(¹) Estimate
Source: Leaseurope.

only calculated at a fraction of the purchase value. This type of contract is used almost always in relation to motor vehicles, for example. It also used to be very widespread in computer leasing, although it is no longer used as extensively by leasing firms due to falls in the price of computer hardware. A particular form of "non-full pay-out" contract is represented by "operating leasing". The distribution of operational leasing in EC countries is subject to extremes, being relatively high in the United Kingdom and relatively low in Germany. In addition, the term "operating leasing" is used occasionally to have the same meaning as non-full pay-out leasing.
The success registered by independent leasing firms with their modern contracts also brought investment goods manufacturers back strongly into contention towards the end of the 1980s. This period saw the strong expansion of car leasing in Europe. Assorted large vehicle manufacturers employed leasing during sales promotion campaigns as a sales promotion instrument. The boom in vehicle leasing has been sustained until now in most EC countries. Gradually, the product group made up of EDP and office machinery lost its dominant position on the European leasing markets. Today, road vehicles occupy first place in most EC countries in terms of leasing goods (see table 2).
With growing market value, the established European leasing firms expanded their services in the 1980s. Today, renowned leasing firms are investment, finance, law and tax experts.
At the same time, the dependence on large industry, as well as on banks and insurance as customers, declined. With increasing standardisation of leasing contracts and tests to ascertain credit worthiness, as well as the widening of sales channels, leasing firms were also in a position to offer competitive prices to small and medium-sized companies from practically every economic sector. By doing so, leasing gained a fairly rapid foothold in the various service industries, but also in business. The service sector is today ranked number one or two in most EC countries in the list of the most important lessee sectors (see table 3).
The trends in leasing in the industrialised countries outside Europe are similar to those found in the EC. Leasing shares in the USA stand at 32.3%, at 33.3% in Australia and 10.3% in Japan. Although the market share in Japan is still behind, growth there is nevertheless very strong (1987-88: 26.8%); when measured in terms of leasing volume, Japan even comes second behind the United States (source: World Leasing Yearbook 1990). In the countries of Eastern Europe, leasing has yet to become widespread, with Bulgaria and Hungary making the largest advances.

Employment

Due to the functional definitions of the rental sector, it is impossible to give any details regarding employment numbers. The problem is that the number of leasing deals made outside of leasing firms, namely in banks, building societies, trading companies or industrial undertakings, cannot be determined. Nevertheless, it is certain that productivity in the leasing industry is relatively high, which already explains the intense competition within the industry, and also the competition with credit institutions. Compared to credit institutions, staff numbers in leasing firms

Table 3
Structure of leasing according to renting party, 1989

(million ECU)	Agri-culture	Industry	Services	Public sector	Consumer	Other
Belgique/België	18	356	771	50		71
Danmark	65	409	171	52	31	51
Deutschland	41	2 624	2 746	203	1 186	1 324
España	262	3 076	3 379	74	291	776
France (¹)	381	4 774	5 978	358	4 439	N/A
United Kingdom	707	7 200	10 427	1 304	N/A	N/A
Italia	17	4 488	1 831	228		559
Ireland	49	36	326	8	33	5
Luxembourg	4	18	110	22		7
Nederland	69	1 379	550	227	6	111
Portugal (¹)	12	286	312	40		113
Total	1 625	24 646	26 601	2 566	N/A	N/A

(¹) Estimate
Source: Leaseurope.

are relatively low.

Differences according to country

In the EC countries, not only is the term leasing differentiated differently, but the most disparate civil law, fiscal and financial rules are also in force. In addition, there is no standardised administrative supervision by governments or central banks.

In relative terms, the rental sector in France is organised unconventionally. There, "credit bail" (credit lease) is the most widespread form of renting; it even has its own laws. A "credit lease" firm is only present when an option to buy is arranged from the outset. The law stipulates, moreover, that the purchase of consumer goods for the purposes of renting is a precondition of "credit bail" business. This means that manufacturers are specifically excluded from leasing. Firms like, for example, Peugeot, Renault and IBM have therefore set up special finance companies, in order to comply with these requirements.

Alongside "credit bail", France also has more diverse companies offering other forms of leasing contracts (e.g. location simple), but which do not have the significance of established "credit bail" firms. For the latter, legal regulations guarantee advantages in the form of limitations on entering the market and re-financing advantages among others; on the other hand, they are subject to strict government controls and rules on advertising, as finance companies are treated like banks.

In the United Kingdom, leasing is not subject to any specific regulations or restrictions, which is also the case in Germany, the Netherlands and Denmark. An unusual aspect of British finance leasing is that the lessee can enter the leased object on the assets side, an element taken from US law. In the United Kngdom, operating leasing is considerably more widespread than it is in most other EC countries. However, this can be traced back in part to differences in definition.

According to the financial guidelines decree SSAP 21, finance leasing contracts are those agreements transferring all the major risks and advantages from the possession of the leased object to the lessee. All other leasing contracts are treated as operating lease contracts.

In Germany, the lessor is accountable as the legal owner of the leased object and not the lessee. As a rule, this is viewed by both contracting parties as an advantage, which is why, for example, hire-purchase and other renting contracts which do not conform to edicts on leasing are comparatively rare in occurrence in Germany. Operating leasing in Germany is understood to mean short and medium-term leasing contracts, in which the lessee has the right to discontinue the agreement at short notice and at any time. This form of contract is used especially for motor vehicles and in the plant machinery sector.

A specific aspect in the Netherlands is that, as a rule, no real leasing and rather hire-purchase is practiced there on fiscal grounds and to obtain government grants.

Spain and Portugal have, like France, introduced laws and relatively tight regulations. In Spain, leasing firms are obliged by law to operate as limited companies. In addition, they have to comply with minimum equity provisions.

In Italy, there are still no specific rules on leasing, although these are under preparation. An outstanding feature is the incorporation of leasing firms within financial institutes. In Belgium, "location-finance-ment", which corresponds to the French system of "credit bail", is governed by law, with the lessee obliged to enter the leased goods on the assets side; private leasing is not permitted.

The outstanding aspect of the leasing market in Ireland is the relatively favourable legal position and various grants, e.g. from the Industrial Development Authority. Moreover, the GPA group, which is by far the world's largest aircraft leasing firm, has its headquarters in Shannon, in the west of Ireland. Greece's first leasing firm was only founded in 1987, since then eight other firms have appeared. By law, they are placed under the control of the Bank of Greece.

Outlook

In the 1990s as far as 1992, the rental sector in EC countries should grow at least to the same extent as respective net plant investment within the economy, excluding house building. In most countries, there will be even higher growth rates, i.e. market shares will be increased. In this, vehicle investment will play a decisive role. The need for road vehicles will increase further, in view of the EC Internal Market and opening up of Eastern Europe. In this segment, leasing should raise its high market share even further. Renting itself also has favourable prospects in both private and commercial tourism. In particular, travel combining rail, air and private car rental should give rise to growth. The available forecasts on increases in air travel and the resultant need for aircraft will spur aircraft leasing. In the last few years, leasing of aircraft has already been able to register substantial market share gains.

The traditionally high share of renting and leasing in the areas of EDP, office machines and telecommunications should also see further rises, in view of the rapid technological development and level of penetration of these appliances which is still rising. Finally, especially in Germany, machinery and industrial plants for further expansion will be provided by the leasing industry. Up until now, private leasing has only existed in half the EC countries; in some places, this form of leasing is not permitted. Should this situation change, possibly with the entry into force of the EC Internal Market, a considerable acceleration in growth in leasing in the EC should be expected. Due to intensified national and international competition, the movement towards concentration on the leasing markets should continue, even in the form of cross-border takeovers.

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