

Answering Practises Survey: Service Sector Survey

Answering Practices Survey: Service Sector Survey

Lois Braney, Senior Survey Analyst

Introduction

The CBI service sector survey (SSS) was launched in November 1998, making it the youngest of the CBI's business surveys. The survey covers private sector services provision, excluding financial services and distribution (these two sectors are covered in other CBI surveys). The results are split into two broad categories: consumer services and business & professional services, both bottom-up aggregations of a various smaller sub-sectors.

Like our other CBI surveys, the SSS provides valuable information on key trends within the service sector, as well as providing a useful gauge of future activity by asking forward-looking questions. The SSS also seeks to quantify concepts for which there is no official measure (e.g. business optimism and investment intentions). Results are published ahead of corresponding official indicators, which are closely followed by analysts and external stakeholders.

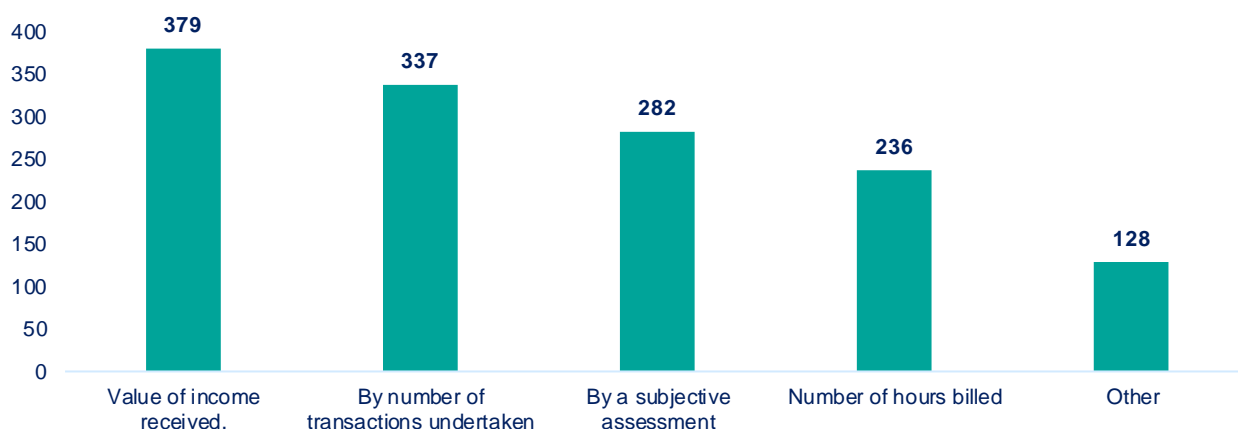
To gain a clearer understanding of how participants answer the survey, and the issues they consider when putting together their responses, the CBI conducts answering practices surveys (APS). These enable both us and external stakeholders to build a more holistic insight of the strengths and weaknesses of the survey. This latest APS for the SSS had 98 responses. It was conducted between 16 March and 29 March 2018.

Business values and volumes

When assessing value in business growth, as expected respondents ranked the total turnover received as the most important factor when assessing the trend in the value of business, in line with the 2012 and 2007 APS. However, the second most popular answer was a 'subjective assessment' when measuring the trend in the value. Both findings are similar to those in the 2012 and 2007 APS.

When looking at the trend in the volume of business, respondents rank the value of income received as the most important factor in line with the 2012 and 2007 APS. Ideally when answering a volumes questions, firms should strip out any growth in business arising from any price changes by looking at the number of transactions undertaken so participants respond regarding real rather than nominal activity. Number of transactions was instead ranked as the second most important factor, despite being the more appropriate proxy for volumes. This was the same as 2012's findings. Instead, the results show that respondents answer in terms of value rather than volume. Business values and volumes have moved closely together over time in the SSS, where it would be expected that there would be some divergence, attributed to price inflation in the sector.

How do you measure the trend in the volume of business compared to three months earlier? (Overall score)



Value of income being the most important factor demonstrates that the data is more reflective of nominal rather than real output, which is something analysts should keep in mind. Nevertheless, results appear to be broadly in line with previous APSs, although the consideration of factors is more evenly distributed than in previous years. Some respondents cited “other” as an important factor. Examples included assessing the pipeline at the time of answering, monthly records and units delivered. Some said they take the change in prices into account too. While others look at different time periods, weekly comparison compared with the same period previous year or the number of paid customer visits vs the previous year to three-month period.

Continuing with trends in the volume of business, respondents ranked current conditions most highly when assessing how the trend is expected to evolve over the next three months. This suggests that this question is significantly influenced by past three months data, rather than being solely a predictor of the next three months. However, the second key factor was firms being influenced by planned activity that they knew of within their firm (such as a new product launch, forthcoming sales, closure of a branch, etc.). One research respondent commented that when answering for the next three months, they do so “by examining forward looking information, e.g. enquiries etc”.

The APS also asked respondents how they assess the level of their business relative to ‘normal’ levels. In order to interpret this question, understanding how companies define ‘normal’ business levels is key. **Like both 2007 and 2012 findings, most respondents considered the historical average or the past level of work to be the most important indicator when assessing normality.** The average score has remained broadly consistent (414) with 2012 results (417). In terms of the second most important factor, budgeted plans or forecasts, average growth of business and potential work capacity of staff were all considered important and were relatively evenly distributed.

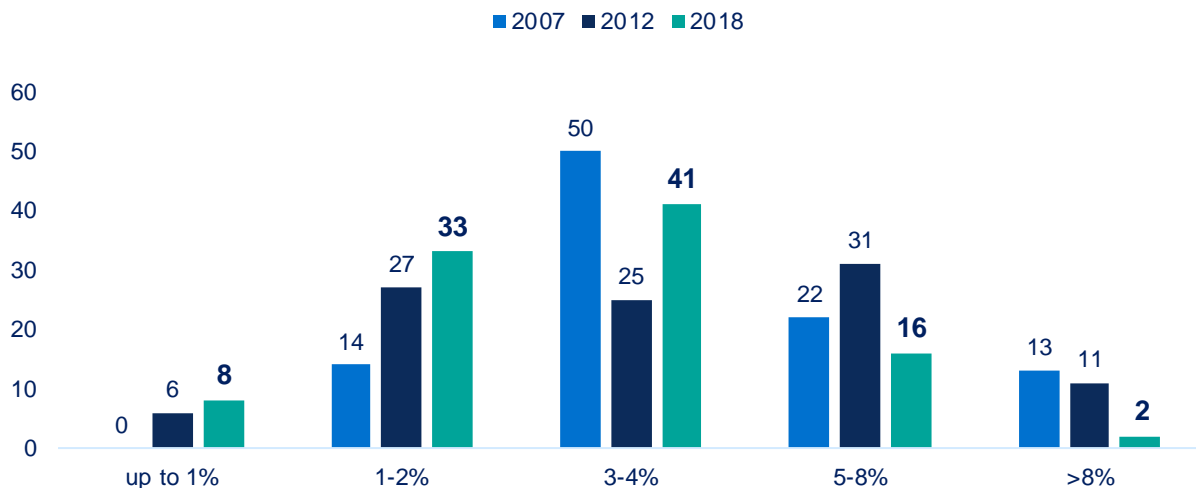
Trigger points

When assessing changes from the previous quarter, some questions ask respondents to tick ‘up’, ‘down’ or ‘same’. The APS asked participants what percentage change would act as a trigger point for selecting ‘up’ or ‘down’ around the base level of no change (‘same’). **Most respondents selected 3-4% as their significant change (41%) reflecting 2007 findings, although not as drastically.** Meanwhile around a third viewed their trigger point as 1-2% (33%) and a smaller percentage for 5-8% (16%). These answers are preferable, as it means that data on activity in the survey more effectively captures different growth rates, rather than being skewed towards larger movements. Firms appear to have become more sensitive to lower growth rates over time – the trend is particularly clear at the lower end.

When comparing the sub-sectors of services, i.e. business & professional services and consumer services for the previous question, we can see that there are some differences between trigger points. **Business & professional services results are more closely aligned with the overall services sector, where 3-4% is**

their trigger point (44%). This was almost double the percentage of consumer services (24%). Instead, consumer services are more likely to view 1-2% as a significant change (52%).

What percentage variation around a no change base would you say would act as trigger point to cause you to answer up or down? (%)



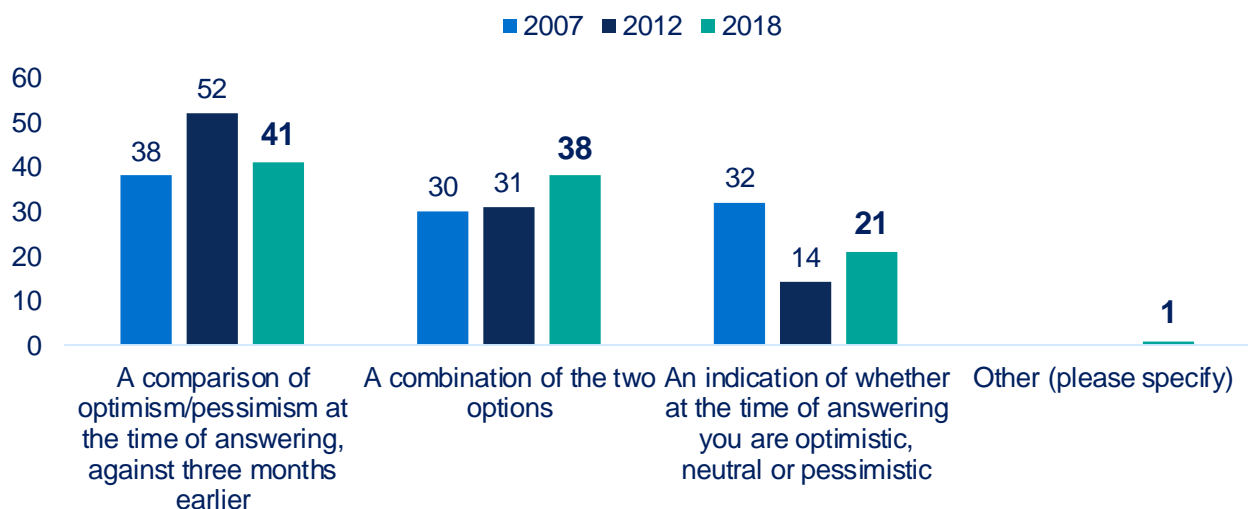
Competitiveness

When assessing changes in competitiveness, both in domestic and foreign markets, the highest percentage of respondents (16%) measure it by products/services of greater quality. The answer options of this question differed slightly to 2012 and 2007 choices, so we are unable to do a direct comparison. However, like the previous SSS APSs, increasing market share relative to overseas competitors was still a key component of measuring competitiveness (12% in 2018, 9% in 2012, 13% in 2007). Most respondents left how they measured competitiveness blank or responded 'N/A'. It appears that a large proportion do not attempt to measure competitiveness at all.

Optimism

Results for this year's APS showed that the majority of respondents look at a comparison of optimism/pessimism at the time of answering vs three months earlier. Ideally, this is the answer we want respondents to cite, as was clearly the case in 2012. However, 21% of respondents look at an indication of sentiment at the time of answering while 38% look at a combination of the two options. Perhaps a further clarity of wording is required in this question.

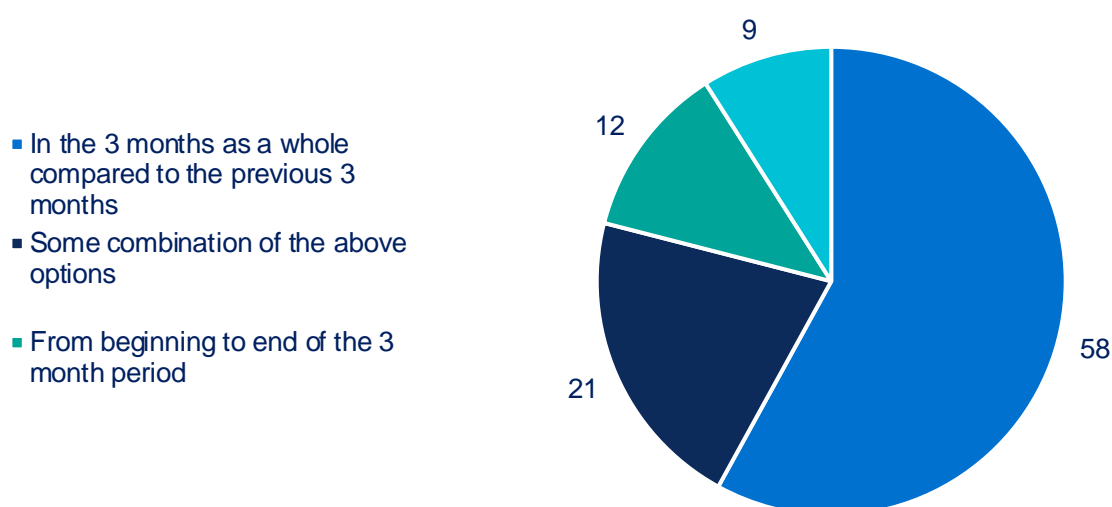
How do you answer Q1? (optimism compared to three months ago)



Trends

Questions 3 to 6 in the Service Sector Survey all refer to the 'trend' over the last three months—in either the value and volume of business, charges, costs, profitability, employment and training. **Many respondents stated that they answer by comparing the past 3 months to the previous 3 months (58%), which is largely as expected and marks an improvement from previous APSs.** Although, less than ideally, the second most popular answer related to some combination of three options: 3 months compared with the previous 3 months, the beginning to end of the 3 month period, and the past 3 months compared with the same 3 months of the previous year (21%). However, the number of respondents choosing this open has declined compared with 2012 (31%) and 2007 (30%).

How do you answer in terms of change for the following?: Value and volume of business/ charges, costs and profitability/ employment and training (%)

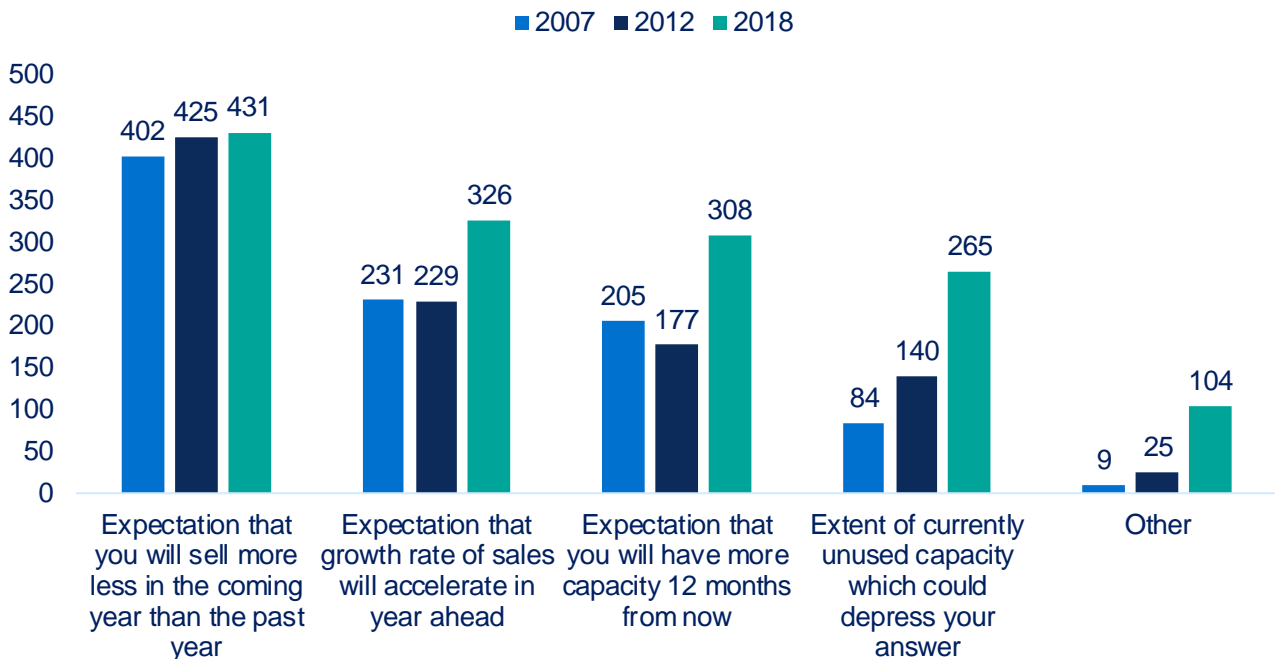


About three quarters of respondents reported that they answer 'up' or 'down' when the variable concerned has or is expected to rise/fall, which is how we expected respondents to answer. The remaining quarter answered 'up' or 'down' when the variable concerned has or is expected to rise/fall more quickly than it has been rising/falling, which would imply that they are answering in terms of changes in growth rates, rather than changes in levels.

Business expansion

The quarterly Service Sector Survey asks whether firms expect to expand their business more in the year ahead relative to the past year - a useful gauge of business plans and predictions for the coming twelve months. **Firms place the highest importance on the level of sales in the year ahead relative to the previous one.** This is followed by an anticipated acceleration in the rate of sales growth. These results align with previous results from 2012 and 2007. However, they are more evenly distributed between the options, relative to previous years. Additionally, respondents rank the expectation that businesses will have more capacity in the year ahead and the extent of currently unused capacity as more important than they did in 2012 and 2007.

Regarding business expansion in the year ahead, which factors do you consider most relevant? (Overall score)



Investment

The proportion of total planned capital spending in a typical year appeared to be fairly distributed over the three options given in the Service Sector Survey: IT, land and buildings and vehicles, plant & machinery. However, spending on information technology (34%) accounted for the highest percentage, followed by vehicles, plant and machinery (29%), and land and buildings (27%). Other was selected for 10% of participants, but no further comments were provided for clarity.

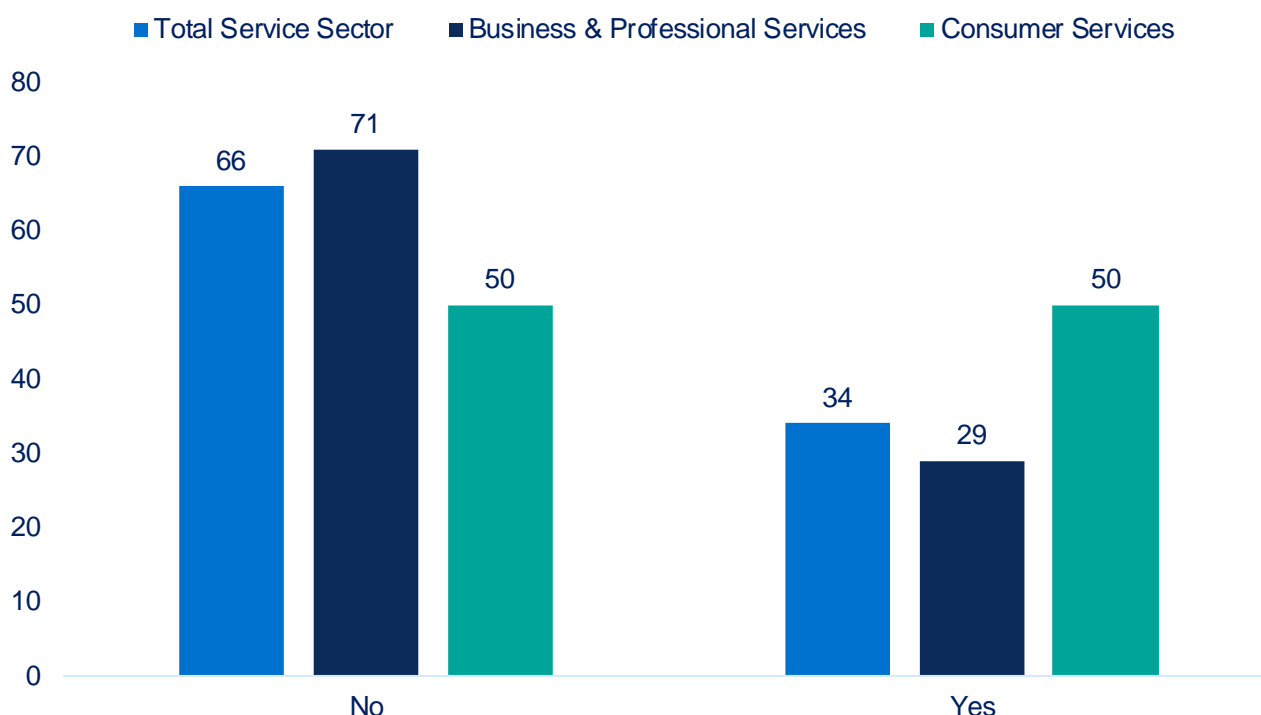
Seasonality

Seasonal variations are also questioned. 80% of respondents reported that they exclude seasonal variations when answering the survey, which is like the 2012 findings (82%) and up from the 2012 findings (68%). Many participants do so 'subjectively', rather than using a quantitative procedure. This suggests seasonable differences is greatly understood within business trends. However, 21% said that they are unable to exclude seasonal variations when answering the survey. This may be because they do not judge seasonality as significant, rather than not being able to do so.

Prices

A high number of respondents said that they do not revise their price lists at the same time every year (66%), slightly lower from 2012 (76%) but higher than 2007 (59%). However, the breakdown was somewhat different between sub-sectors. Interestingly, 50% of consumer services firms reported that they do not change their price list at the same time per year. Meanwhile, just over two thirds of business and professional services firms (71%) stated that they do not change their prices at the same time of the year. This percentage may also be capturing firms that change their prices more than once a year.

Do you revise your services price lists at the same time every year? (%)



Those who answered that they do revise their services price lists at the same time every year were then questioned when this occurred. **A majority (37%) said that they revise price lists at the beginning of the year, in January. A smaller percentage (14%) said they altered their prices at the beginning of the tax year (April).** A quarter of respondents answered 'other' (24%)¹. Three companies commented that they change their prices at the beginning of their financial year. A couple said they change prices on a regular basis considering any changes in the business environment, while another said they amend prices on contract anniversary dates. **Those that stated that they revise their price lists at different times of the year mainly cited that they adjust their prices depending upon how much the market or customer will bear.** Results were similar to 2012, where it appears ad-hoc strategies are applied to adjusting prices, such as using price behaviour to reflect cost changes or periodically adjusting them without a set date. This suggests an absence of seasonal variation in price data.

Bank of England Questions

In the Service Sector Survey, the CBI has included three questions on price and wage inflation on behalf of the Bank of England since July 2008². The BoE then use this data to inform their view of businesses' medium-term inflation expectations. These questions place greater emphasis on time periods, asking for the past year and year ahead.

For questions 8 and 9 that asks about trends in the general selling prices and the firm's own selling prices respectively, respondents placed greater weight on the trend over past 12 months which is as we would expect. In terms of the other factors (such as amending prices based on recent costs or developments, actions of direct competitors, an economic assessment of what the market will bear and general expectations for inflation), all scored quite highly and were relatively broadly distributed. Therefore, it is clear, companies look at several factors before answering this question.

For the price questions, 57% respondents found it reasonable to evaluate price changes within the 1 percentage point ranges that are currently in the questionnaire. However, of the 43% that found it difficult to assess within 1%, participants were then asked what percentage change respondents would

¹ The remaining 25% answered N/A.

² CBI surveys also receive considerable support from the European Commission through a competitive tender process.

prefer. The mean response was 7.2%. We investigated whether specific respondents (with a large weighting in the survey) were skewing the results to the upside as 7% is a fairly large range, but this didn't seem to be the case with some respondents stating that a 10% range of percentage change is appropriate. **As a result, wider percentage bands for price questions may be suitable.** This has increased from the 2012 results, where respondents felt that approximate price changes could be assessed within the range of 3-5%.

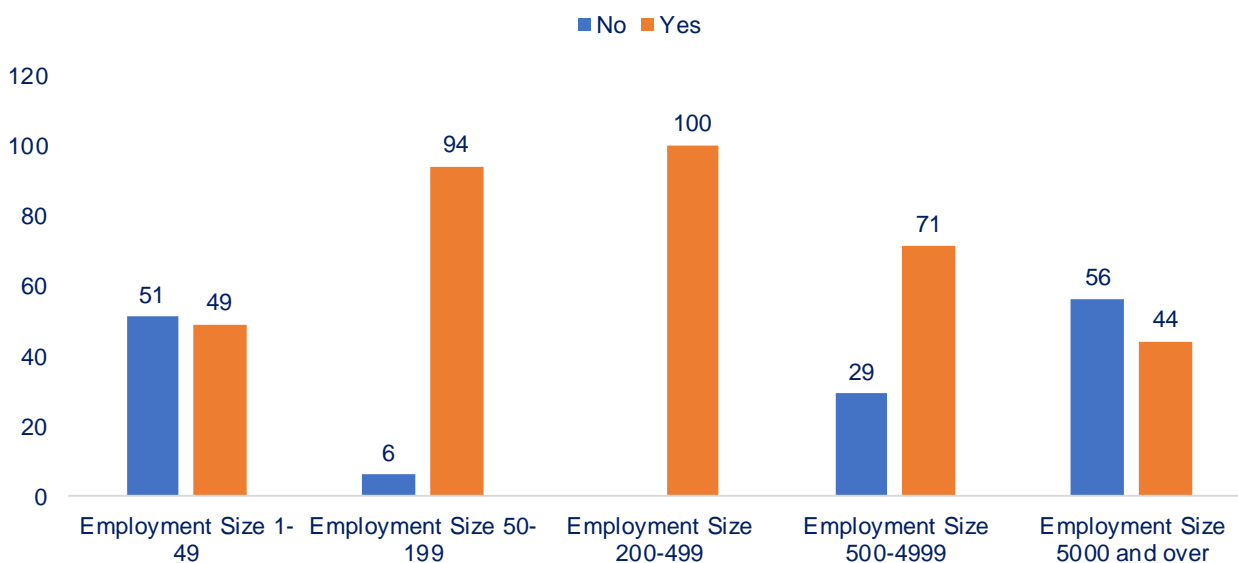
In contrast, 83% of respondents were easily able to assess changes in wages/salaries within 1%. This could be because wage growth is currently weak and therefore the 1% band may be easy enough to judge. This contrasts with the answer respondents gave when assessing the percentage change in prices, where they requested bigger bands. This may be because on average, respondents increase prices by more percentage points than they increase wages.

When asking about what firms look at when changing selling prices, commissions, fees and charges for the last twelve months the results seemed split between the two choices. **Just over half of participants estimated price changes based upon their company's main service/activity (55%).** Meanwhile, 44% said that they estimate price changes based upon their company's various services/activities, with a combined average that factors in the most important. **Respondents cited that the trend over the past 12 months is the most important factor to consider when answering questions relating to wage/salary costs.** All other ranking options were relatively equally dispersed, including actions of competitors, recent or foreseen development, general inflation expectation or a broader economic assessment.

Capacity

As well as our Bank of England questions, we also receive considerable support from the European Commission (EC). The CBI collects data on key indicators of activity and sentiment for the EC, which then publishes harmonised versions of the results. Since July 2011, the CBI has included questions on capacity on the SSS questionnaire. In the monthly SSS, one question asks if volume of activity could be increased with present resources, in the event of an expansion in demand. **Most companies solely consider their own resources of space, equipment and staff (62%) in assessing whether they can increase their volume of activity.** This is similar to 2012's findings (57%). However, 22% also consider a combination of their own/bought-in/sub-contracted resources when answering (like in 2012, which was 29%). **Most respondents factor in financial considerations when assessing capacity (64%).** However, finance appears to be more important in assessing capacity for companies with 50 – 499 employees. Smaller firms (1-49) and larger firms (5000+) appear to be split.

If demand expanded, would you take financial considerations into account for increasing current volume of activity?

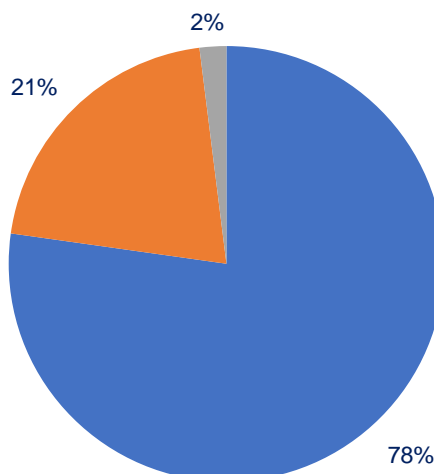


The second part of Q11 asks for a percentage by which activity could be increased with present resources. **As we would presume, most respondents specify the percentage increase relative to the difference between present level of activity and 100% full capacity (78%). This has increased from 2012 (68%).**

When you specify a possible percentage increase in your level of activity, is this percentage:

■ The difference between your present level of activity and 100% full capacity (i.e. if you were currently working at 80% of capacity you would answer 20%)

■ The amount you are currently below full capacity expressed as a percentage of your present level of activity (i.e. if you were currently working at 80% of capacity then you are 20% below 100% full capacity and as a percentage of the current activity level



Summary

The SSS APS has provided useful insights into participants' responses to the Service Sector Survey. Results across this APS were very similar to the previous 2012 APS. Broadly, respondents answer most questions as we would expect and being understood in the appropriate manner. However, one issue that has been outlined would be that factors should be considered when participants are assessing business volumes growth relative to values. Respondents also have challenges when measuring changes in selling prices.