

Cost of Doing Business

Appendix B: Developing Business Cost Profiles

Introduction

- It is vital to understand which cost areas are most important for businesses, as the focus of competitive advantage and disadvantage will mostly come down to those areas which represent the biggest costs to businesses.
- There is no accepted methodology for doing this. Two different approaches used in the previous NI study (ERINI 2005) and the ongoing ROI study (Forfás 2012) are shown on the next slide. Both of these have their strengths and weaknesses.
- This study has used a range of different approaches to try and estimate which costs are most important for businesses. These are:
 - A **survey** of over 1,000 businesses in Northern Ireland and the Republic of Ireland through the InterTradeIreland Quarterly Business Monitor;
 - Reviewing firm-level **ABI data**;
 - **Consultations** with large employers; and
 - Analysing the **Fame database** which holds company financial information.
- Comparisons for each cost areas from each of these approaches are shown in the following slides.

Other approaches to developing cost profiles

ERINI (2005)		Forfás (2012)
<ul style="list-style-type: none">• Used NISRA Annual Business Inquiry (ABI) data where variables were available.• Supplemented with a postal survey which gained 90 respondents.• Looks at cost as % of turnover.	Approach	<ul style="list-style-type: none">• Taken from KPMG's Competitive Alternatives Report.• Used a single case study across 19 different sectors in nine different countries (not Ireland)• Looks at cost as % of total costs.
<ul style="list-style-type: none">• Uses actual NI data.• ABI information is based on official statistical returns.• Picks up how important costs are for the company.	Pros	<ul style="list-style-type: none">• Wide range of sectoral breakdowns.• Looks at taxes as well as costs.• Focused on location-sensitive costs that are most likely to influence company decisions.
<ul style="list-style-type: none">• ABI only provides data on some cost variables.• Lack of postal survey returns to provide robust estimates across the missing ABI variables.• No sector breakdowns.	Cons	<ul style="list-style-type: none">• Profiles aren't based on ROI firms.• Unlikely to be representative of the wider business base.• Doesn't show how important costs are for the company as a whole.

Overview of approaches used in this study

Method	Pros	Cons
InterTradeIreland survey	<ul style="list-style-type: none">• Large sample• Representative results• Bespoke questionnaire so gathers all information needed	<ul style="list-style-type: none">• Telephone survey so not based on actual financial returns• Companies answer within a range rather than give a figure
ABI data	<ul style="list-style-type: none">• Based on actual returns• Representative results• Strong coverage across most of the private sector• Includes other company information outside of costs	<ul style="list-style-type: none">• Only covers some cost areas• Difficult to fully match ABI data to some cost areas - judgement call is required• Results are very different if significant outliers are included
Consultations	<ul style="list-style-type: none">• Gathered directly from company• Fully coverage of all cost areas in line with survey• Ability to explore in more depth	<ul style="list-style-type: none">• Not representative• Small sample• Some inconsistent returns
Fame database	<ul style="list-style-type: none">• Based on actual company returns from their financial accounts	<ul style="list-style-type: none">• Only covers one cost area• Not representative as data only available for larger companies

Cost overlap between approaches

Cost area	Survey & Consultations	ABI	Fame
Labour	All costs	Employment costs	-
Energy	All costs	Electricity, gas, LPG, heating oil, solid fuels and other fuels	-
Environmental	All costs	Water and sewerage	-
Property	All costs (split into rates and other)	Rates	-
Transport	All costs	Motor fuels, VED and import & export freight costs	-
Telecoms	All costs	-	-
Finance	All costs	-	Interest payments
Insurance	All costs	-	-
Compliance	All costs	-	-
Professional fees	All fees	-	-

Comparisons for labour costs

as % of turnover	Survey	ABI	Consultations	Fame
Labour	20.0	19.0	28.7	-

- Very similar findings across the business survey and ABI. Reasonable to assume labour is equivalent to around 20% of turnover on average.
- Consistently shown to be the largest cost area for businesses.

% of turnover (rank)	Survey	ABI
Business services	24.4 (2)	16.5 (3)
Computing & finance	14.9 (5)	31.8 (1)
Construction	26.3 (1)	8.5 (6)
Hotels & restaurants	24.3 (3)	18.5 (2)
Manufacturing	19.3 (4)	14.2 (4)
Retail	14.7 (7)	8.2 (7)
Wholesale & distribution	14.9 (5)	9.1 (5)

- Survey results are higher across most sectors.
- Biggest differences comes in computing & finance (much higher) and construction (lower).
- Lot of ABI companies in other sectors not shown here which skew the average upwards.

Comparisons for energy costs

as % of turnover	Survey	ABI	Consultations	Fame
Energy	9.1	2.7	2.8	-

- Survey results much larger than ABI and consultation responses. Likely to significantly overstate the relative importance of energy costs.
- Consistently second or third largest cost area across different measures.

% of turnover (rank)	Survey	ABI
Business services	6.3 (4)	2.0 (3)
Computing & finance	5.7 (6)	1.2 (7)
Construction	9.4 (2)	1.3 (5)
Hotels & restaurants	17.2 (1)	4.8 (1)
Manufacturing	8.3 (3)	2.3 (2)
Retail	5.7 (6)	1.5 (4)
Wholesale & distribution	6.3 (4)	1.3 (5)

- Survey results higher across all sectors.
- Hotels & restaurants has the largest energy cost burden, and manufacturing is also high.
- Significant difference in ranking for construction, which is higher in the survey.

Comparisons for transport costs

as % of turnover	Survey	ABI	Consultations	Fame
Transport	4.6	3.3	2.4	-

- Survey results a bit larger than ABI and consultation responses. Likely to overstate the relative importance of transport costs, but not by that much.
- Consistently one of the more important areas for businesses.

% of turnover (rank)	Survey	ABI
Business services	3.7 (4)	1.7 (4)
Computing & finance	2.5 (6)	0.6 (7)
Construction	8.5 (1)	5.8 (1)
Hotels & restaurants	0.7 (7)	1.1 (6)
Manufacturing	5.4 (3)	4.6 (3)
Retail	3.4 (5)	1.3 (5)
Wholesale & distribution	6.1 (2)	5.2 (2)

- Survey results higher across most sectors.
- Very consistent picture in rankings across both measures.
- Construction, wholesale & distribution and manufacturing are top three in both.

Comparisons for property costs (rates only)

as % of turnover	Survey	ABI	Consultations	Fame
Property	3.2	2.2	-	-

- ABI data on property costs is only available for the rates, meaning comparisons of property costs are restricted this for both measures.
- Survey results are higher than the ABI, although both suggest it is one of the more important areas for businesses.

% of turnover (rank)	Survey	ABI
Business services	2.9 (3)	2.3 (3)
Computing & finance	2.1 (4)	0.6 (7)
Construction	2.9 (3)	4.1 (1)
Hotels & restaurants	7.0 (1)	3.2 (2)
Manufacturing	1.9 (5)	0.8 (6)
Retail	3.1 (2)	1.7 (4)
Wholesale & distribution	1.7 (6)	0.9 (5)

- Survey results higher across most sectors.
- Fairly similar rankings across both measures.
- Hotels & restaurants amongst the highest, followed by construction, business services and retail.

Comparisons for environmental costs

as % of turnover	Survey	ABI	Consultations	Fame
Environmental	1.4	0.7	0.3	-

- Survey results larger than ABI and consultation responses. Likely to overstate the relative importance of environmental costs.
- Consistently one of the less important areas for businesses.

% of turnover (rank)	Survey	ABI
Business services	1.3 (3)	0.3 (5)
Computing & finance	0.5 (7)	2.1 (1)
Construction	1.1 (6)	0.5 (4)
Hotels & restaurants	2.0 (1)	1.1 (2)
Manufacturing	1.8 (2)	0.1 (7)
Retail	1.3 (3)	0.2 (6)
Wholesale & distribution	1.2 (5)	1.0 (3)

- Survey results higher across most sectors.
- Hotels & restaurants amongst highest using both measures.
- Big differences in manufacturing (much higher in survey) and computing & finance (much higher in ABI).

Comparisons for finance costs

as % of turnover	Survey	ABI	Consultations	Fame
Finance	0.8	-	1.0	3.3

- Survey results and consultations are very similar. Suggests that Fame is likely to overstate the importance of finance costs.
- Generally one of the less important areas for businesses.

% of turnover (rank)	Survey	Fame
Business services	0.8 (3)	15.5 (1)
Computing & finance	0.8 (7)	1.8 (3)
Construction	0.9 (6)	2.3 (2)
Hotels & restaurants	0.6 (1)	1.0 (5)
Manufacturing	1.4 (2)	1.5 (4)
Retail	0.8 (3)	0.8 (7)
Wholesale & distribution	0.8 (5)	1.0 (5)

- Limited sector data for Fame and not representative.
- Fame generally higher across all sectors.
- Few consistencies by sector, with business services having a much larger value from Fame.

Comparisons for other costs

- Detailed comparisons across the other cost areas – property (all costs), telecoms, insurance, compliance and professional fees – are not possible as detailed information is not available from the ABI or Fame.
- Comparisons between the survey results and consultations are shown below, with survey results consistently higher. However, consultations were only carried out with a small number of large businesses and therefore will not be representative in the same manner that the survey is intended to be.

as % of turnover	Survey	ABI	Consultations	Fame
Property	6.4	-	0.5	-
Insurance	2.9	-	0.5	-
Telecoms	1.6	-	0.2	-
Compliance	1.6	-	0.2	-
Professional fees	1.0	-	0.2	-

Conclusions

- There is no definitive way to put a precise figure on how important each cost area is for businesses. This is not just due to measurement issues, but the fact that there is significant variation by sector and even individual firm depending on circumstances.
- The ABI provides a robust data source to use as a basis, but coverage is limited. This work has attempted to overcome this by carrying out its own business survey and further consultations.
- Estimates from the survey are consistently higher than other approaches, which could be down to the method of survey used (telephone) despite best attempts to ensure respondents could answer as accurately as possible.
- Despite the difference in specific figures between approaches, a consistent picture generally emerges:
 - The most important cost area for businesses is **labour**;
 - Other important cost areas are **energy**, **property** and **transport**;
 - Cost areas that tend to be less important are **insurance**, **environmental**, **telecoms**, **finance**, **compliance** and **professional fees**.

Results: InterTradeIreland business survey

Cost area	As % of turnover	As % of location specific costs
Labour	20.0	40
Energy	9.1	18
Environmental	1.4	3
Property	6.4	13
Transport	4.6	9
Telecoms	1.6	3
Finance	0.8	2
Insurance	2.9	6
Compliance	1.6	3
Professional fees	1.0	2
Total	49.4	100

Results: ABI data analysis

Cost area	As % of turnover	As % of location specific costs
Labour	19.0	-
Energy	2.7	-
Environmental	0.7	-
Property	2.2	-
Transport	3.3	-
Telecoms	-	-
Finance	-	-
Insurance	-	-
Compliance	-	-
Professional fees	-	-
Total	-	-

Results: Consultations

Cost area	As % of turnover	As % of location specific costs
Labour	28.7	76
Energy	2.8	8
Environmental	0.3	1
Property	0.5	2
Transport	2.4	5
Telecoms	0.2	1
Finance	1.0	2
Insurance	0.5	1
Compliance	0.2	1
Professional fees	0.3	2
Total	36.7	100%

Results: Fame database analysis

Cost area	As % of turnover	As % of location specific costs
Labour	-	-
Energy	-	-
Environmental	-	-
Property	-	-
Transport	-	-
Telecoms	-	-
Finance	3.3	-
Insurance	-	-
Compliance	-	-
Professional fees	-	-
Total	-	-