



THE BUSINESS
SERVICES SECTOR:

Calculating the
Market size

Author: Rhys Herbert/Carl Paraskevas
Date: Summer 2012

CONTENTS

FOREWORD	3
AT A GLANCE	3
SIZE OF THE UK MARKET	4
ESTIMATING GLOBAL BUSINESS SERVICES MARKET: METHOD 1 USING MARKET DATA	5
ESTIMATING GLOBAL BUSINESS SERVICES MARKET: METHOD 2 USING MACRO DATA	6
THE BUSINESS SERVICES OPPORTUNITY	8
DATA APPENDIX.....	10



FOREWORD

The contribution that Business Services* makes to the UK economy can often be over-looked, with a lack of insight on market size and potential growth. Lloyds Bank Wholesale Banking & Markets have therefore produced this report to explore opportunities for further growth, both within the UK as well as in exporting experience overseas where the Business Services sectors are less mature.

This thematic report attempts to measure the size of the global Business Services market. It uses both official published data and data on listed Business Services companies to produce an estimate.

Companies outsourcing activity that was previously done inhouse to Business Services companies has become an increasingly common phenomena. However, statistics on either the size of the Business Services market or its growth rate are still quite rare.

In this report, we estimate the size of the Business Services sector using two methods. First we use the turnover of quoted companies in the Business Services sector. Second we use detailed government data for 40 countries. Both of these methods have their drawbacks. The first method only includes information for listed Business Services companies so is likely to underestimate total activity. While the second method is likely to be an overestimate, as it will probably include some activity that is not usually regarded as Business Services. However, given the current limited data sources in this area we think that these methods are the only practical approaches to estimating market size.

AT A GLANCE

- Using Business Services companies to outsource services has become an important business tool and a sizeable opportunity. However, because of limited data there is as yet no consensus on the size of it, particularly its global footprint.
- Different methodologies for estimating its size give different results, but what is clear is that the market is both large and growing rapidly.
- Using data from listed companies we estimate the size of the global market to be about \$1.2trn. This is almost certainly an underestimate as it ignores the market share of unlisted companies. An alternative methodology using economic data puts the size of the global market at about \$5trn. This is almost certainly an overestimate but is most likely closer to the truth than the listed company based approach.
- The uncertainties surrounding the overall figure suggests that the focus should instead be on relative market size.
- In particular we suggest that European markets are well served; that the US market may still be underexploited and emerging markets are likely to offer growing opportunities over time.

*Definition of Business Services.

The Business Service sector is an increasingly important group of industries central to the UK's future economic success. Business services cover a diverse range of activities - from engineering to professional services, to computing and industrial cleaning. These industry sub sectors are very different but they also share common features - they service businesses rather than end consumers, hence primarily intermediate rather than final consumption. Demand is continuing for these types of services, and some are becoming increasingly global in their delivery and production.

USING DATA FROM LISTED
COMPANIES WE ESTIMATE THE
SIZE OF THE GLOBAL MARKET
TO BE ABOUT **\$1.2TRN.**

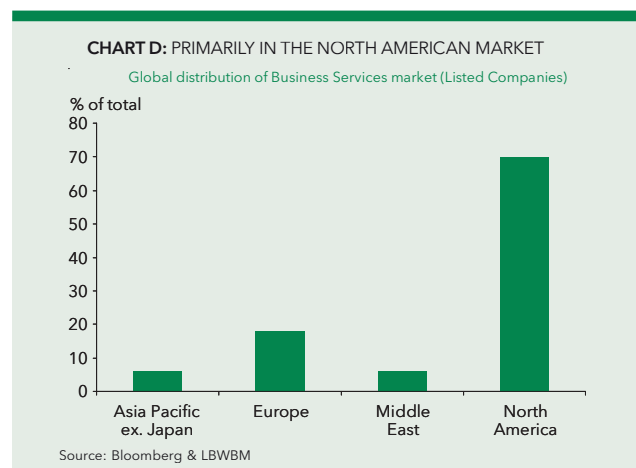
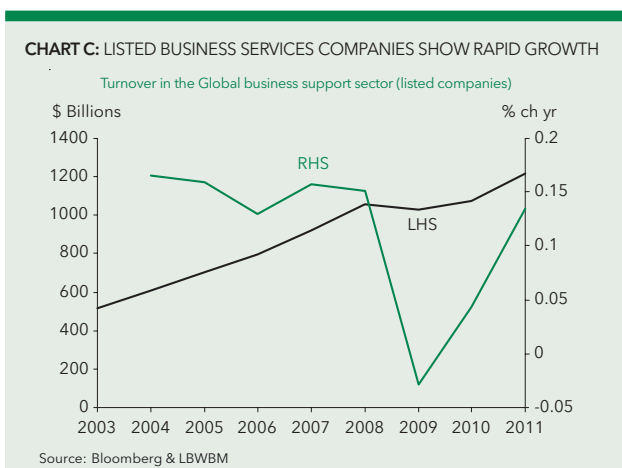
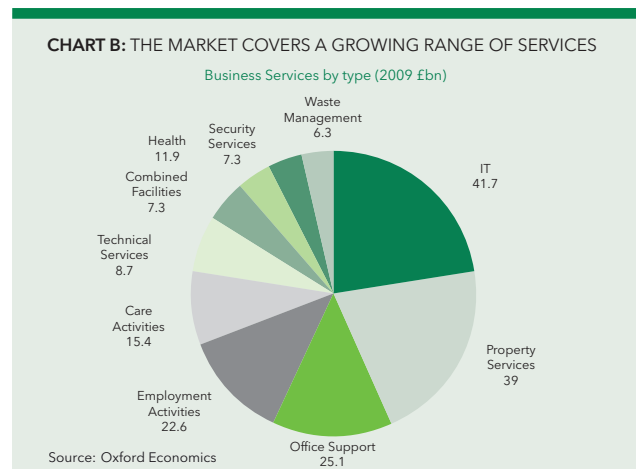
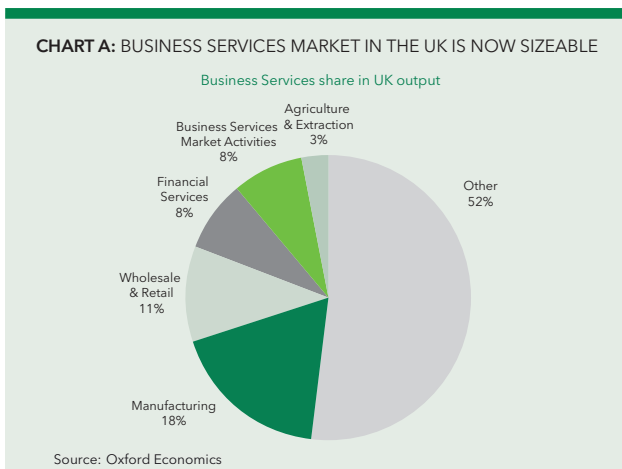
SIZE OF THE UK MARKET

To date limited work has been done to calculate the size of the UK Business Services market. The best estimate that we can find was conducted last year by the UK economics consultancy Oxford Economics (OE) for the Business Services Association (BSA). This work combined estimates from UK government economic data with survey information of BSA member companies.

The OE work suggests that in 2009, the total size of the UK Business Services market was about £207bn or about 8% of total UK output (see Charts A and B). The Business Services market covers a range of activities with the largest being IT and data related services, followed by property services, administrative support services and employment agencies (Chart B). About 60% of this business is provided for the private sector with the remaining 40% for the public sector.

While this work does provide detailed estimates unfortunately these are only for the UK and for one year. So it tells us nothing about the size of the total global market or of growth. To establish these we have undertaken our own calculations, using two methodologies.

ABOUT **60%** OF THIS BUSINESS IS PROVIDED FOR THE PRIVATE SECTOR WITH THE REMAINING **40%** FOR THE PUBLIC SECTOR.





ESTIMATING GLOBAL BUSINESS SERVICES MARKET: METHOD 1 USING MARKET DATA

This method uses data on listed companies in the Business Services sector (summarised in Charts C and D). Global turnover in the listed business services sector in 2011 was about \$1.2 trn, which represents a more than doubling in the global market since 2003. Chart C shows both the level of global output and growth rates over the last 10 years. Output in this sector has grown more quickly than GDP over this period reflecting the trend of outsourcing becoming an increasingly prevalent business model. Nevertheless these numbers almost certainly underestimate the total size of the Business Services market. This is because the data is only for listed companies and it seems highly likely that much of these Business Services are provided by non-listed companies.

Chart D provides an indication that the figure underestimates the total global market by potentially quite a significant margin. The chart shows the regional dispersion of the global market. Based upon these figures it would seem that around 70% of the global market is located in North America. To put this figure into perspective the US accounts for about a third of global GDP. So its share of the Business Services market would be more than twice as large as its share of global GDP. This seems highly unlikely. The US is almost certainly the biggest single Business Services market but it is unlikely to dominate to that extent. Indeed some observers argue that Business Services in the US is less prevalent than in other markets. It is more likely that the figures merely show that Business Services activities in North America are primarily conducted by listed companies while non-listed companies have a greater market share in other countries.

SOME OBSERVERS ARGUE THAT
BUSINESS SERVICES IN THE US IS LESS
PREVALENT THAN IN OTHER MARKETS.

ESTIMATING GLOBAL BUSINESS SERVICES MARKET: METHOD 2 USING MACRO DATA

To address the issue detailed in method 1, we have also used an alternative method. This is to replicate the methodology used for the UK by Oxford Economics across a wider range of economies. The calculations have been made for 40 economies which together represent a very high proportion of global GDP. We have to some extent been constrained in our choice of countries by whether they publish the highly detailed economic data tables that are required for our calculation. This means that we have had to leave out some quite large emerging markets. Nevertheless we think that the data is still sufficient to draw some inferences about the global market. The data, even for the countries that we have used, is still strictly speaking not detailed enough to fully meet our requirements. OE managed this by supplementing their work with a survey of BSA members. We have obviously not been able to repeat this for the other 39 countries although we have made use of the OE/BSA survey where applicable. As a result of this we are probably to some extent classifying other activity as Business Services and so our figures are very likely an overestimate of the global market. However, we feel that they are still revealing.

Using this methodology we calculate that the global Business Services market in 2009 was about \$5trn. This is obviously much larger than the alternative estimate that we calculated using market data and probably overestimates the size of the total market although it does not look to be particularly out of line with OE's estimate of the size of the UK market of £207bn (\$329bn). However, given the uncertainties over the overall figure it may be better to use the figures as an indicator of relative market size. Chart E shows a breakdown of markets by country. The US under this methodology is still by far the largest market but in this case it is only 33% of the total. Following that, a number of European markets, along with China and Japan are of similar size.

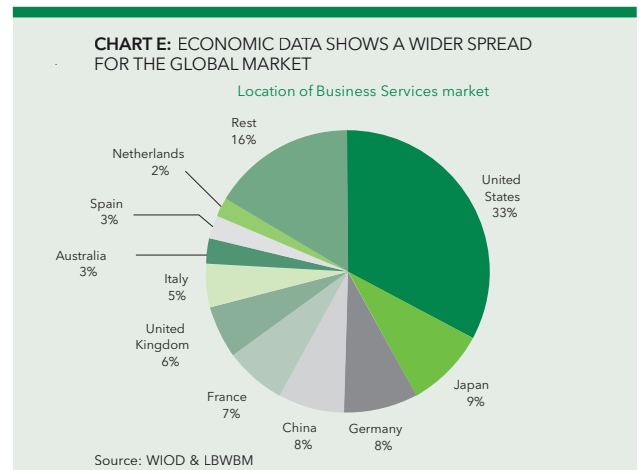


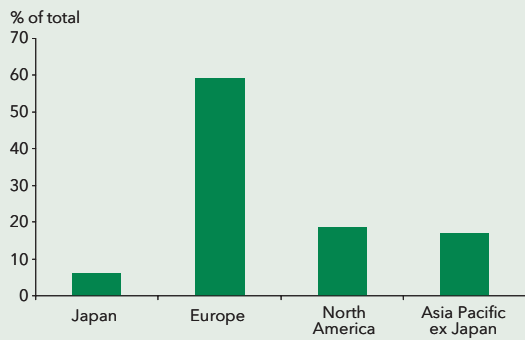
CHART F: MOST DEVELOPED AND LEAST DEVELOPED MARKETS (BUSINESS SERVICES TO GDP RATIOS)

TOP 10	BOTTOM 10
Luxembourg	China
Ireland	Bulgaria
Sweden	Russia
Belgium	Turkey
Finland	Brazil
Netherlands	Greece
Czech Republic	Lithuania
Australia	Mexico
United Kingdom	Indonesia
France	India

Source: WIOD & LBWBM

CHART G: UK COMPANIES ARE VERY FOCUSED ON EUROPEAN MARKETS

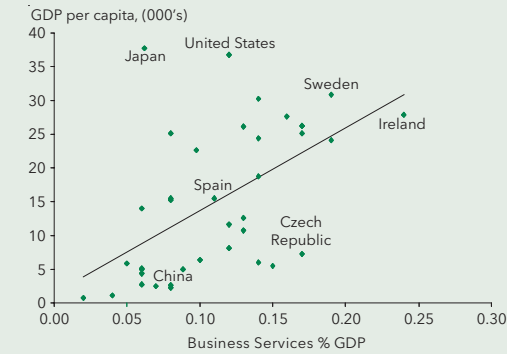
Distribution of international market for UK Business Services companies



Source: Bloomberg

THE **US** UNDER THIS METHODOLOGY IS STILL BY FAR THE **LARGEST MARKET** BUT IN THIS CASE IT IS ONLY **33%** OF THE TOTAL.

CHART H: SCATTER PLOT POINTS TO SOME MARKETS THAT ARE OVER OR UNDERDEVELOPED



Source: Haver & LBWBM





THE BUSINESS SERVICES OPPORTUNITY

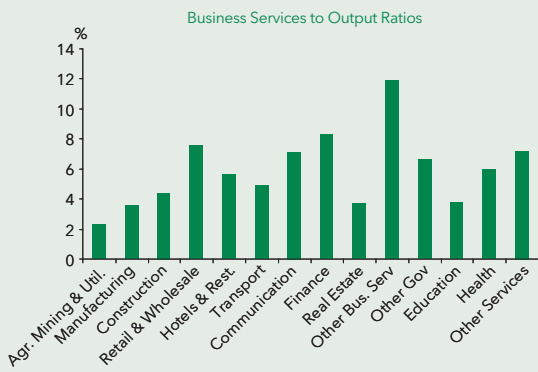
While these numbers are interesting, they don't necessarily highlight potential opportunities when looked at in this way. For that we need some diagnostic indicators of whether Business Services markets are of the right size for their given state of economic development. One such indicator is the ratio of the size of the Business Services market to GDP. Chart F shows the 10 largest and smallest markets using that methodology (a full list is available upon request). This throws up a number of potentially useful insights. Firstly, many Western European markets look to be fairly well served and UK companies already have a substantial presence in these markets. Secondly, many markets in developing economies are still relatively undeveloped. Interestingly this includes China, which despite being one of the largest markets is still currently relatively small compared to its potential size. Thirdly, despite the fact that the US market is the largest in the world it does not look to be over exploited on this criteria and so it may still offer potential opportunities.

As a way of highlighting opportunities we have also plotted the overall level of the Business Services market against GDP per capita. The more developed an economy, the more potential there is for Business Services. A market that is above the line is one that is potentially attractive, while one below the line offers less immediate possibilities. On these criteria the US, Japan and Sweden are most developed, while China looks relatively underdeveloped.

**UK COMPANIES
ALREADY HAVE
A SUBSTANTIAL
PRESENCE IN
THESE MARKETS.**

CHINA WILL BECOME AN INCREASINGLY IMPORTANT BUSINESS SERVICES MARKET OVER TIME.

CHART I: BUSINESS SERVICES VARIES MARKEDLY BY CUSTOMER INDUSTRY

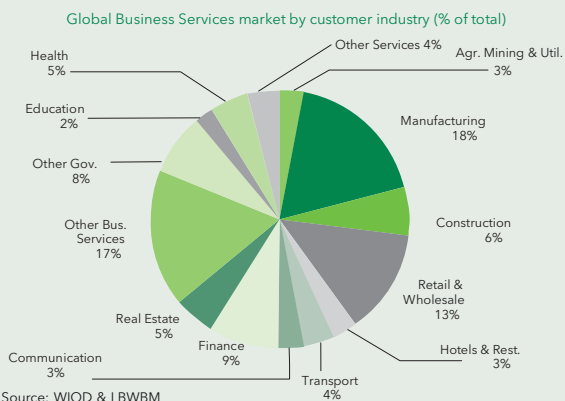


Source: WIOD & LBWBM

However, China will become an increasingly important Business Services market over time providing its rapid economic growth continues.

An alternative way of looking at the Business Services industry is by customer. Chart I shows a breakdown of the global Business Services industry by customer industry. The data is an aggregation of the figures for the 40 countries referred to earlier (data for individual countries is available upon request). It can be seen that Other business services industries, retailing and wholesaling, manufacturing, finance and government have so far all been particularly large markets for Business Services. However, by themselves these figures do not necessarily tell us where there is potential for further growth. To gauge this we have calculated ratios of outsourced Business Services to total output for each industry (Chart J). These show fairly high ratios for some industries particularly Other business services and finance but much lower ratios for many other industries. A more detailed breakdown of this data is contained in tables in the data appendix.

CHART J: SUBSTANTIAL OPPORTUNITIES FOR FURTHER GROWTH EXIST IN A NUMBER OF INDUSTRIES.



Source: WIOD & LBWBM

It should be emphasised that data used here is subject to a high level of uncertainties and so the exact numbers should not be taken too literally. However, what they do highlight is that while the Business Services market has grown rapidly in recent years it is still open to further expansion. Moreover, it is possible to highlight some markets even in the developed world that are still at least relatively underexploited.

DATA APPENDIX

Table A: Size of the Business Services Market by Country

	\$ Billions
United States	1724.2
Japan	485.9
Germany	429.9
China	393.5
United Kingdom	329.0
Italy	273.0
France	374.6
Australia	157.4
Spain	151.7
Netherlands	121.0
Canada	95.6
Brazil	85.1
Belgium	81.2
Russia	68.4
Sweden	67.9
Korea	61.1
Ireland	48.1
Mexico	46.0
Austria	45.9
Poland	37.4
Denmark	37.3
Finland	35.7
Turkey	34.2
Taiwan	32.9
Czech Republic	28.9
Portugal	25.4
India	24.7
Indonesia	22.8
Greece	17.2
Hungary	16.7
Romania	12.1
Luxembourg	11.6
Slovak Republic	9.6
Slovenia	5.7
Bulgaria	2.8
Estonia	2.3
Latvia	2.1
Lithuania	1.9
Cyprus	1.8
Malta	0.9

Source: WIOD & LBWBM

Table B: Country's Global Share of the Business Services Market

	% of Global Business Services	% Of Global GDP
United States	31.91%	29.53%
Japan	8.99%	10.27%
Germany	7.96%	6.25%
China	7.28%	10.43%
France	6.93%	5.02%
United Kingdom	6.09%	4.20%
Italy	5.05%	3.99%
Australia	2.91%	1.99%
Spain	2.81%	2.86%
Netherlands	2.24%	1.49%
Canada	1.77%	2.61%
Brazil	1.57%	2.89%
Belgium	1.50%	0.89%
Russia	1.27%	2.26%
Sweden	1.26%	0.74%
Korea	1.13%	1.58%
Ireland	0.89%	0.42%
Mexico	0.85%	1.76%
Austria	0.85%	0.72%
Poland	0.69%	0.81%
Denmark	0.69%	0.56%
Finland	0.66%	0.43%
Turkey	0.63%	1.14%
Taiwan	0.61%	0.75%
Czech Republic	0.53%	0.36%
Portugal	0.47%	0.43%
India	0.46%	2.65%
Indonesia	0.42%	1.17%
Greece	0.32%	0.61%
Hungary	0.31%	0.23%
Romania	0.22%	0.31%
Luxembourg	0.22%	0.10%
Slovak Republic	0.18%	0.17%
Slovenia	0.11%	0.09%
Bulgaria	0.05%	0.08%
Estonia	0.04%	0.03%
Latvia	0.04%	0.05%
Lithuania	0.03%	0.07%
Cyprus	0.03%	0.04%
Malta	0.02%	0.01%

Source: WIOD & LBWBM

Table C: Size of Business Services Markets Relative to GDP

	Business Services/ GVA Ratio
Luxembourg	0.24
Ireland	0.24
Sweden	0.19
Belgium	0.19
Finland	0.17
Netherlands	0.17
Czech Republic	0.17
Australia	0.17
United Kingdom	0.16
France	0.16
Hungary	0.15
Germany	0.14
Italy	0.14
Estionia	0.14
Denmark	0.14
Slovenia	0.13
Austria	0.13
Malta	0.13
Portugal	0.12
United States	0.12
Slovak Republic	0.12
Spain	0.11
Japan	0.10
Poland	0.10
Taiwan	0.09
Latvia	0.09
Cyprus	0.08
Romania	0.08
Korea	0.08
China	0.08
Canada	0.08
Bulgaria	0.07
Russia	0.06
Turkey	0.06
Brazil	0.06
Greece	0.06
Lithuania	0.06
Mexico	0.05
Indonesia	0.04
India	0.02

Source: WIOD & LBWBM

Table D: Business Services by Customer Industry (Global)

	Total (Millions)	% of Total
Agriculture	38930	0.7%
Mining Etc	48331	0.9%
Chemicals	205620	3.8%
Metals, Engineering & Electricals	355145	6.5%
Manufacture of transport equipment	130384	2.4%
Other Manufacturing	370830	6.8%
Utilities	75708	1.4%
Construction	317519	5.8%
Retail & Wholesale	686019	12.6%
Hotels & Restaurants	144866	2.7%
Transport Services	214788	3.9%
Communication	140973	2.6%
Finance	474124	8.7%
Real Estate	245382	4.5%
Other Business Services	989111	18.1%
Other Government	422040	7.7%
Education	82963	1.5%
Health	272025	5.0%
Other Services	235386	4.3%

Source: WIOD & LBWBM

Table E: Business Services by Customer Industry (Global)

	% Of Global Output	% of Business Services to Output ratios
Agriculture	3.0%	1.3%
Mining Etc	1.8%	2.8%
Chemicals	4.4%	4.7%
Metals, Engineering & Electricals	10.4%	3.4%
Manufacture of transport equipment	3.5%	3.8%
Other Manufacturing	11.7%	3.2%
Utilities	2.6%	3.0%
Construction	7.2%	4.4%
Retail & Wholesale	9.2%	7.5%
Hotels & Restaurants	2.6%	5.6%
Transport Services	4.4%	4.9%
Communication	2.0%	7.1%
Finance	5.8%	8.3%
Real Estate	6.6%	3.7%
Other Business Services	8.4%	11.9%
Other Government	6.4%	6.6%
Education	2.2%	3.8%
Health	4.6%	6.0%
Other Services	3.3%	7.2%

Source: WIOD & LBWBM

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