

**PURCHASED SERVICES DATA:
Plans for 2002**

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1. Introduction

Collection of purchased services data continues to present numerous challenges for the U.S. Bureau of the Census. While the availability of such data is recognized as critical to the measurement and understanding of the U.S. economy, the collection remains difficult and problematic. Purchased services and operating expense data needed for the national accounts are not always readily available from the unit at which output data are collected leading to a disconnect between input and output data. Inability of businesses to readily access these data in their records make requests for purchased services data burdensome for the companies to report. And finally, because of these just mentioned factors, collection of the data by the Census Bureau is costly and resource intensive, leading to calls for its elimination whenever budget issues arise.

All of these factors have led the Census Bureau to a complete review of its collection practices for these data. This paper presents the findings of the team put in place to review and revise the program and outlines preliminary recommendations on the direction of the program for the 2002 Economic Census. It also raises some issues related to purchased services data, particularly purchased labor services.

2. The Business Operating Expense Team

In the fall of 1999, the Economic Directorate of the Census Bureau established a number of teams to review and plan for the 2002 Economic Census. One of those teams was the Business Operating Expense Team (BOET).

After five censuses of collecting demand for services data, it was determined that a complete overhaul of the program was in order. The BOET was established to conduct a comprehensive review of existing practices and was charged with making recommendations for a better, more integrated program.

2.a. Current Practices

As explained in past Voorburg Group papers, data on purchased services are collected every five years for the years ending in two and seven on a number of different survey vehicles. In prior census years, data on purchased services were collected on the census forms from mining, construction, and manufacturing establishments; data from auxiliaries were collected on a separate auxiliary form. Purchased services data were collected from retailers, merchant wholesalers, and selected service firms on a separate survey form, the Business Expenditures Survey (BES). This survey was mailed to annual survey respondents (generally a consolidated business unit, not the establishment).

The industries from which purchased services data are collected have not changed since 1977. These include mining and construction firms, manufacturers, retailers, merchant

wholesalers, and business and professional services firms. Important industries from which these data are not available include transportation and warehousing, communications (some expense data were collected on the annual survey, but budget considerations have resulted in these data being dropped from the survey), finance and insurance, utilities, real estate, and non-merchant wholesalers. Because the excluded industries were not part of the annual services program in 1977 and in most cases are still not canvassed annually (communications being the exception), they were never added to the quinquennial collection of these data.

Although not completely consistent across all collection vehicles, following is a list of data items related to purchased services and operating expenses collected in 1997:

- Advertising services
- Legal services
- Accounting, auditing, and bookkeeping services
- Data processing and other computer related services
- Communications services
- Repair and maintenance
 - To buildings, structures, offices, and their integral parts
 - To machinery, equipment, and other items
- Lease and rental payments
 - For land, buildings, structures, store space, and office
 - For machinery, equipment, and other items
- Purchased utilities
 - Electricity
 - Fuel for heat and/or power
 - Water, sewer, refuse removal, and other

Other important expense items captured in the Economic Census, either on the traditional establishment forms or on a separate business expenditure form include the following:

- Labor costs
 - Payroll costs (all sectors)
 - Fringe benefits (total collected on manufacturing and mining forms)
 - ✓ Legally required programs (construction establishment form and services business expenditures forms)
 - ✓ Not required by law (construction establishment form and services business expenditures forms)
 - Contract labor (collected for merchant wholesalers, retailers and selected service firms only and defined as follows: contract employees are persons who are not on your payroll but are supplied through a contract with another company to perform specific jobs, e.g., temporary help, leased employees, etc; your company provides day-to-day supervision. Thus security and janitorial personnel may not apply if supervised by the supplying firm)
- Depreciation charges (all sectors)

- For buildings, structures, and their integral parts (elevators) (services business expenditures forms only)
- For machinery, equipment, and other tangible assets (services business expenditures forms only)
- ❑ Interest expense (services only)
- ❑ Purchases (wholesale)
- ❑ Office supplies (services only)
- ❑ Cost of on highway gasoline and diesel fuel (construction)
- ❑ Cost of off highway gasoline and diesel fuel (construction)
- ❑ Detailed fuels used in mining
- ❑ Cost of materials, parts, containers, etc. (manufacturing and mining)

As noted earlier, these data items are included on various collection vehicles every five years. Manufacturing, mining, and construction establishments are asked to provide these data on their respective establishment census forms. Retailers, wholesalers, and selected service firms report their purchased service data on the Business Expenditure Survey. That survey is mailed to the annual survey panels covering each of these sectors. For multi-establishment companies, the business unit surveyed is generally a unit established by the Census Bureau with the cooperation of the companies and represents the activity of that company in a six-digit NAICS industry code.

2.b The Proposals – Collecting the Data

Option 1 The first proposed option represents a status quo. We would continue to collect purchased services data on the manufacturing, construction, minerals, and auxiliary establishment forms and from a more aggregated reporting unit for retailers, merchant wholesalers, and selected service establishments via the Business Expenditure Survey. Industry coverage would remain the same as the annual surveys coverage. We would, however, modify the data items collected on all forms to be more consistent. The proposed data items are discussed in Section 2c.

Option 2 We are currently studying an alternative to the status quo. That alternative would eliminate the BES survey. Instead a sample of establishments/reporting units in the non-goods producing sector would be selected to receive a Census long form or supplement that would include the expense questions. This would allow us to expand coverage of the survey to survey important industries such as finance and insurance that are not currently part of the annual programs and thus not part of the BES. Such a supplemental survey also would ensure a direct link between output and input data. Drawbacks of this option include burden issues and the possibility that these detailed expense items are not available at the establishment or reporting unit level of the Economic Census.

2.c. The Proposal – Data Items to be Collected.

One of the problems associated with past collection of purchased services data is the inconsistent treatment of these data across industry sectors. While steps were taken in

1997 to standardize the questions, there were still inconsistencies in the questions asked and gaps in the data collected and produced. For 2002 we propose to remedy that situation by collecting a standard set of data items in a standard format. The standard items are shown in bold below with the non bolded items to be collected at the discretion of the individual programs, e.g., manufacturing, mining, construction, retail, wholesale, and all other services.

The categories shown below represent a revision of data items collected in the past by the Census Bureau and represent a rearrangement and combination of categories currently collected by the U.S., Canada, and some European countries. We feel that this list of purchased services would provide the data needed for the national accounts, minimize burden on reporting companies, and provide more comparable data with other countries collecting these type of data. A link between these categories and the CPC is shown in Attachment 1.

PURCHASED SERVICE EXPENSES:
Purchased transportation, warehousing, and distribution services
Purchased communications services
Purchased data processing and computer related services
Purchased professional and business services: Advertising and sales promotion Legal services Accounting, auditing, and bookkeeping services Engineering, architectural, survey, and research and testing services Management consulting and public relations All other professional and business services
Purchased human resources related services* Contract labor* All other purchased human resources related services
Repair and maintenance services To machinery and equipment To buildings, structures, offices, and their integral parts
Rental and leasing expenses Machinery, equipment, and other items Land, buildings, structures, store space, and office
Purchased utilities Electricity Fuel for heat and/or power Water, sewer, refuse removal and other
Taxes and license fees
Depreciation charges
All other operating expenses (excluding interest expense)

Most of the data items proposed for collection are not difficult to define or understand. Data for these categories should be available at some reporting unit level within the company – the issue is, what is that level. We are concerned that these data may not be

available at the establishment level from which data are normally collected in the Economic Census, but we are continuing to research that issue before a final decision is made on the data collection instrument.

We are, however, having particular difficulties with contract labor, its definition, and the different forms it is taking within the United States. Tax laws have made it very appealing to contract out the hiring and management of entire segments of the work force, including the production workers in manufacturing plants. A further discussion of that issue and its affect on data collected on contract labor is outlined below.

3. Outstanding Issues – Contracted Employees

3.a. The Problem

You will note an asterisk on the data item listed above, purchased human resources related services and contract labor. This is not a category on which we have consistently collected data, but one that is becoming increasingly important and complex. There are three components of purchased human resources services listed in the paper prepared by Statistics Denmark and Statistics Sweden for last year's Voorburg Group: training and educational services; health and medical services; and labor recruitment and provision of personnel. It is the latter that is becoming increasingly important and difficult to measure in the United States and on which we are now engaged in extensive discussions on how to handle. We have identified four types of employment arrangements. Each is defined below along with the problem and possible solutions.

- Traditional (or paid employees) – For lack of a better term, these are identified as traditional arrangements. In this arrangement, a company hires and manages its own employees. This is the type of arrangement with which we are most familiar and on which there are few if any data collection problems. This arrangement will not be discussed further.
- Co-employment – In this arrangement, a firm outsources its human resource functions (recruiting, payroll processing, benefits, training, etc.) to an independent company known in the United States as a Professional Employer Organization (PEO). The PEO operates in a co-employment relationship with client businesses or organizations, that is, the PEO and the client enter into a contractual agreement whereby the rights and responsibilities of the employees are shared or allocated. The co-employed person is hired and employed simultaneously by the PEO and the client organization. PEO establishments provide a range of human resource and personnel management duties including payment of employee wages; maintenance of pay records; provision and administration of workers' compensation; provision or administration of benefits such as health, retirement, life, dental, supplementary health, and disability; and human resource functions such as counseling, personnel document preparation, employee assessment, training, regulatory compliance, and risk management. The PEO exercises varying degrees of decision making related to their human resource or personnel management role, but do not have direct supervisory responsibility for the employee –

that is the responsibility of the client businesses. The client pays a fee to the PEO that covers wages, benefits, overhead, and a profit margin for the PEO. We believe that the payroll portion of this fee can be separately identified.

The Problem: Traditionally, statistics published by the Census Bureau have emphasized the “core data” items of employment/payroll as defined on the Employer’s Quarterly Federal Tax Return and sales/receipts. Only establishments with paid employees are included in the Economic Census and maintained on the Bureau’s business register. Data for non-employers (establishments with no paid employees) are derived and published using administrative tax records. These data while representing large numbers of establishments generally account for a very small portion of any industries’ total employment and output because they are generally small businesses. For example, in retail trade in 1992, there were 2.6 million retailers in the United States of which 1.1 million were non-employers (42 percent). However, those non-employers accounted for only \$54 billion in sales out of a total of \$2.7 trillion (2 percent).

In recent years, the growth of contracted human resources personnel has distorted the traditional relationships of sales/receipts to employment/payroll for industries. These changing employment patterns also have blurred the distinction between employers and non-employers.

For example, it is not uncommon in the United States for a large manufacturer to contract with a PEO to manage its human resources activities. That means that the manufacturer’s production workers, etc. are no longer considered employees of the manufacturer for purposes of Federal Income Tax reporting. Therefore, this large manufacturer will now report no employees on its economic census form, distorting the employment figures for that industry. In addition, because the manufacturer has no payroll costs it becomes a non-employer for tax purposes and thus is now reported in the non-employer data published by the Census Bureau. The employees that are actually working as production workers in a manufacturing plant will now be reported as employees of the PEO industry. All sorts of economic measures, including productivity analysis, will be affected by this trend of contracting out human resources functions.

The solution: We believe that these workers should be counted in the industry in which they are working. Therefore, we propose to include an instruction on each census form asking the respondent to include contract employees working in the establishment in a co-employment arrangement with a PEO in both the employment and payroll costs data. We also are considering a separate question asking if any of the employees reported are actually working in a co-employment arrangement. If so, the companies will then be asked how many, payroll costs for those employees, fringe benefits paid out for those employees, and the margin paid above the payroll and fringe benefits costs by the client firm to the PEO. Since these co-employees also will be reported by the PEO, the extra questions will provide information on the extent of duplication in the employment numbers and also provide a dollar number on the cost of these purchased employees.

- Temporary employees - The second type of arrangement features the use of temporary employees. A firm contracts with a Temporary Help Services company to provide temporary employees, generally for a short period of time. The contracted employees are the exclusive employees of the temporary help firm, but supervision and direction of work activities are the responsibility of the client firm. These employees are sometimes referred to as leased employees
- Independent contractors – Independent contract employees are those employees with which a firm may contract directly to perform a specific function. No PEO or employment agency is involved in the transaction. The independent contractor is paid directly by the client firm and is supervised directly by the client firm.

Temporary employees and independent contractors - The problem: Temporary employees and independent contractors will be discussed together. Both temporary employees and independent contractors are contract employees under the direct supervision of the client firm. The client firm is not, however, in either case responsible for direct payment of salaries and benefits and does not list these employees on its Employer's Quarterly Federal Tax Return. Both types of employees are generally under contract for a specific time frame and that contract may or may not be renewed. Most are hired to either fill a temporary void in qualified workers or to perform a specific function for a specified amount of time. The only real difference in the two types of arrangements is that in the case of temporary employees, the contract is with a temporary help agency while the independent contractor is either working for him- or herself or is the employee of a company that contracts directly with the client.

The cost of this contract labor is not adequately accounted for in all census programs. The BES does include a category for contract labor, but that category also includes the co-employment arrangements discussed above. The census of mineral, construction, and manufacturing forms do not account for these contracted employees or their cost at all.

Temporary employees and independent contractors - The solution: A fully defined cost of contract labor question should be added to each economic census or BES form. The item would be defined to include the cost of contracting for both temporary employees and independent contractors. These data would be collected under the general heading of contract labor (or purchased human resources related services).

- Purchased service employees – In this arrangement, a company contracts directly with another firm to provide specific services (e.g., guard services, cafeteria services, hotel management, building cleaning, etc.). The supplying firm is responsible for the activities involved in providing the service, including the management, operation, and supervision of the contracted work. These arrangements are generally characterized by the entire function being contracted out. As with the co-employment arrangements, the client firm pays a fee for these

services that covers the employees wages and benefits, and a profit margin for the contractor.

Purchased service employees – the problem: This final type of employment arrangement is the more traditional type of purchased services contract that is prevalent throughout the United States. It is almost commonplace for firms to contract out functions such as guard services, building maintenance, cafeteria operation, etc. Other important contracted out services include professional services such as legal advice, engineering services, and health services.

Purchased service employees – the solution These should, as in the past, be reported in the proper purchased services category, i.e., purchased legal services, purchased engineering services, etc. The challenge is to ensure that we have detailed out those important contracted services to ensure complete measurement of the phenomenon.

1. Conclusion

Collecting all purchased services data continues to be one of the more difficult data collection activities undertaken by the Census Bureau. We continue to seek a better and more efficient means to collect and provide this critical information to economic and policy analysts within the United States without imposing an unreasonable reporting burden on companies.

Addressing the issue of contracted labor services is a particular challenge for 2002. We considered including a special inquiry on the Economic Census form for PEO's that would ask the industry in which their employees are working. After careful consideration, however, we determined that these data would be difficult and burdensome for the PEO's to report. It was deemed essential, however, to ask the client company to report the number and payroll for these employees to ensure they were counted in the industry in which they were actually employed. It also is essential to provide more and better information on the evolving trend in the United States to contract out human resources related activities and thus the proposed addition of the data items for 2002.

ATTACHMENT 1 - LINK TO CPC

Purchase Service/Operating Expense	CPC Link
Purchased transportation, warehousing, and distribution services	6412 Railway transport services of freight 6413 Railway pushing or towing services 6423 Road transport services of freight 6424 Miscellaneous local delivery services 6425 Rental services of trucks with operators 643 Transport services via pipeline 6512 Coastal and transoceanic water transport services of freight 6513 Rental services of vessels for coastal and transoceanic water transport with operator 6514 Towing and pushing services on coastal and transoceanic waters 6522 Inland water transport services of freight 6523 Rental services of inland water vessels with operator 6524 Towing and pushing services on inland waters 662 Air transport services of freight 663 Transport services via space 664 Rental services of aircraft with operator 672 Storage and warehousing services 681 Postal and courier services
Purchased communications services	841 Telecommunications services 842 On-line access services 843 On-line information provision services
Purchased data processing and computer related services	61 Wholesale trade of expensed computer software 62 Retail trade of expensed computer software 8314 Computer consultancy services 8315 Computer facilities management services 8316 Systems maintenance services 8596 Data processing services
Purchased professional and business services: Advertising and sales promotion Legal services Accounting, auditing, and bookkeeping services Engineering, architectural, and other	836 Advertising services 821 Legal services 822 Accounting, financial auditing and bookkeeping services 823 Advisory services related to taxation 824 Insolvency and receivership services 81 Research and development services

Purchase Service/Operating Expense	CPC Link
scientific and technical services Management consulting and public relations All other professional and business service	832 Architectural services and urban planning with landscape architectural services 833 Engineering services 835 Scientific and other technical services 8311 Management consulting services 8312 Business consulting services 8313 Scientific and technical consulting services, n.e.c. 8319 Other management services, except construction project management services 837 Market research and public opinion polling services 834 Specialty design vices 838 Photographic services and photography processing services 839 Other professional, scientific and technical services. n.e.c. 852 Investigation and security services
Purchased human resources related services: Contract labor All other purchased human resources related services	851 Employment agency services and supply of personnel services 92 Education services 931 Human health services
Repair and maintenance services: To machinery and equipment To buildings, structures, offices, and their integral parts	87 Maintenance and repair services 542pt. General construction services of civil engineering works (repair) 5412 General construction services of buildings (repair) 5479 Other building completion and finishing services 853 Cleaning services 9431 Sweeping and snow removal services
Rental and leasing expenses: Machinery, equipment, and other items Land, buildings, structures, store space, and office	73 Leasing or rental services without operator 7211 Renting or leasing services involving own or leased residential property
Purchased utilities:	

Purchase Service/Operating Expense	CPC Link
Electricity	6911 Electricity transmission and distribution services 86221 Electricity transmission and distribution services (on a fee or contract basis)
Fuel for heat and/or power	6912 Wholesale trade services, except on a fee or contract basis 6913 Transport services via pipeline of petroleum and natural gas 6914 Gas distribution services through mains 6915 Steam and hot water distribution services through mains 86222 Gas distribution services through mains (on a fee or contract basis) 86224 Steam and hot water distribution services through mains (on a fee or contract basis)
Water, sewer, refuse removal and other	692 Water distribution services through mains 941 Sewage services 942 Refuse disposal services
Taxes and license fees	91pt. Public administration and other services to the community as a whole; compulsory social security services
Depreciation charges	
All other operating expenses (excluding interest expense)	512 Non-financial intangible assets 631 Lodging services 632 Food serving services 633 Beverage serving services for consumption on the premises 6411 Railway transport services of passengers 6421 Scheduled road transport services of passengers 6422 Non-scheduled road transport services of passengers 6511 Coastal and transoceanic water transport services of passengers 6513 Rental services of vessels for coastal and transoceanic water transport with operator (passenger) 6521 Inland water transport services of passengers 6523 Rental services of inland water vessels with operator (passenger) 661 Air transport services of passengers 664 Rental services of aircraft with operator (passenger) 671 Cargo handling services 673 Navigational aid services 674 Supporting services for railway transport 675 Supporting services for road transport 676 Supporting services for water transport 677 Supporting services for air or space transport 678 Travel agency, tour operator and tourist guide services 71 Financial intermediation, insurance, and auxiliary services 7212 Trade services of buildings and associated land 7213 Trade services of vacant and subdivided land

Purchase Service/Operating Expense	CPC Link
	722 Real estate services on a fee or contract basis 844 News agency services 845 Library and archive services 854 Packaging services 859 Other support services (except 8596 data processing services) 86 Production services on a fee or contract basis (except 8622) 932 Veterinary services 9439 Other sanitation services 949 Other environmental services, n.e.c 961 Audiovisual and related services 962 Performing arts and other entertainment even presentation and promotion services 963 Services of performing and other artists 965 Sports and recreational sports services 966 Services of athletes and related support services 969 Other amusement and recreational services 97 Other services