

SECONDARY SERVICES

What Are They And How Do You Measure Them

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## SECONDARY SERVICES

### What Are They and How Do You Measure Them?

The economic phenomenon known as "services" has been increasing at a fairly rapid pace. As more and more people realize the surging importance of the service sector, interest in "service" data continues to increase. The purpose for identifying service-related activities is to measure the total "service" industry activity. Ideally, one would like to have the ability to aggregate data for services as a primary activity, plus data for secondary service activity, to arrive at an "industry total".

Data for establishments whose primary activity is "services" are fairly clean and are not the subject of this paper. Rather, this paper addresses the issue of service-related activity of establishments, regardless of the industry in which the establishments are classified.

"Services", as broadly defined, can be very subjective--according to the views of the individual. The most liberal definition includes all non-goods producing activity, while a more conservative approach excludes retail, wholesale, and government sectors from the liberal interpretation. For purposes of this paper, secondary services are confined to the latter. The conservative definition is described below.

PRIMARY CLASSIFICATION

"Services", as defined by the Standard Industrial Classification (SIC) System -- an establishment-level classification system based on primary activity (measured by sales, receipts, shipments, etc.) -- refers to those industries commonly thought of as business, personal, medical, and professional services (Division I of the SIC). The SIC system forms the basis for government (as well as private) data collection and dissemination efforts, and allows comparability between the various data users and contributors. Thus, a plant whose majority of receipts are derived from data processing services is classified in SIC 7374, while one whose receipts are mostly from legal services is classified in SIC 8111, and one whose principal activity is baking bread (a manufacturing activity) is classified in SIC 2051.

The establishment-based coding system classifies each establishment once. Thus, the entire economic activity of the operating unit is classified into the industry of the primary activity, at the expense of clouding over detailed data on secondary and support activities. Since the Census Bureau's Economic programs are tied to the establishment-based concept, much of these secondary and support data are not separately identified.

### SECONDARY ACTIVITY

Secondary activity can be thought of as contributory activities, which may or may not be related to the main activity of the enterprise. Thus, taking the previous examples one step further, the data processing plant could employ people who perform legal services; the law office may well employ people who specialize in performing data processing; and the bread baking plant may have its own fleet of delivery trucks, and may also bake cookies (which is an activity associated with SIC 2052).

### SECONDARY SERVICE ACTIVITY

Secondary service activity can be described as the service subset of secondary activity. Again, building on the previous examples, legal activity within the data processing plant, the data processing activity of the legal office, and the trucking activity of the bakery are examples. When considering the bread baking plant, the cookie baking activity is a secondary manufacturing (not service) activity.

### DESCRIPTORS OF SECONDARY SERVICE ACTIVITY

Secondary service activity can be described using certain criteria. The term "described" is used, not "defined". Attempts to create unique, non-overlapping definitions have thus far proved fruitless. The activity can at best be described, not defined. The following descriptors are not meant to be exhaustive, but can be expanded (based on the individual's

viewpoint). With this in mind, two categories of secondary services, "secondary" and "support", can be loosely described as:

1. Secondary activities -- activities that are provided for unaffiliated establishments or clients for a fee. These include maintenance, repair, transportation, training, etc., where a specific fee is received in addition (or unrelated) to the primary product or service sold.
2. Support activities -- activities that are provided primarily for affiliated establishments. These activities could also include maintenance, repair, transportation, training, etc., and could be purchased from unaffiliated establishments, but the establishment finds it more advantageous to provide these services for themselves.

The following descriptors for "secondary" are followed by the corollary for "support":

<u>Secondary</u>	<u>Support</u>
Related to primary SIC;	Not related to primary SIC
Revenue generating;	Not revenue generating
Output item;	Input item
Diversification of product line;	Vertical integration
For sale to outsiders;	For use within own company
Selling price stated separately;	Selling price bundled with product or service price

Attempting to use the above descriptor types, one quickly realizes that an activity (delivery activity of a gravel mining company which delivers to customer as part of selling price) might be considered secondary in one category, and support in another. Such ambiguity indicates that much more work is needed if an irrefutable definition of secondary service activity can be developed.

In attempting to quantify support activity (an in-house data processing unit), assigning a value to the service provided presents a problem. While a firm may (or may not) be able to identify costs (expenses and employment) associated with the activity, there are no receipts per se that would allow a value to be assigned to the activity. This makes it extremely difficult to collect data which would allow data users to get a fix on the complete data processing activity.

Sometimes an in-house support activity becomes so profitable that it evolves into a primary activity and is marketed to other firms. The airlines industry reservation system provides such an example. Originally designed as a support service to the affiliated airline company, it is now used by airlines and travel agencies, and earns receipts on its own merits.

#### DATA AVAILABILITY

Data on secondary service activity are collected and published by various programs in the Census Bureau. For example, pertinent occupation data are collected from a subset of households from the Decennial Census (as opposed to the business entity approach used for Economic data collection). The data are published in the Subject Reports, Occupation by Industry, PC80-2-7C, and include number of people in the household, by occupation (e.g., metallurgical engineers, pharmacists, lawyers, statistical clerks, and carpet installers) by detailed industry (e.g., Coal mining, Petroleum refining, Department stores, Hotels, and Accounting services). See attachment 1 for example.

The economic data collection includes the 5-year census, as well as annual and monthly surveys, and cover virtually the entire economic area. Stressing the input/output descriptor differentiation, the secondary service data that are available include very limited examples of both input and output items.

#### INPUTS--

Since certain significant input items are used by most businesses, data for these items are available for most of the economic area. They are measured in terms of expenses, and include lease and rental payments, as well as expenses for purchased communications, advertising, and repair services. Attachment 2 provides a matrix of available data by economic area, and selected examples of published data.

#### OUTPUTS--

The output items are as diverse as the primary activity, and therefore are not systematically covered, but vary by SIC. Some examples: 1) repair, maintenance, and labor receipts of Lumber dealers, Paint and wallpaper stores, and Hardware stores; 2) delivery charges of Department Stores and Furniture stores; 3) computer software services of Computer manufacturers; 4) customwork, machine work, and agricultural services by Farm operators; 5) engineering and architectural services by Construction firms; 6) photofinishing receipts of Drug stores; 7) tax preparation services of Accounting firms; and 8) machine rental of Construction firms and Machinery and equipment dealers. Attachment 3 contains representative tables from the various economic programs.

Although there are various published tables containing data on secondary service activity, they are by no means thought to be exhaustive. For every specific activity which can be significant, there are many more which, although insignificant at the reporting unit level, may well aggregate to meaningful data at the company or national level.

In order to measure accounting activity in a non-accounting business, an inquiry would have to be added to all economic report forms requesting the accounting activity. For some reporting units (depending on SIC, company structure, and size of operation) the data would be available and reportable; while for others, the data would be unavailable and insignificant.

Odds are an automobile manufacturing plant has employees who work full-time providing accounting services; whereas a small retailer may have one employee who performs some accounting services, as well as ordering, stocking, selling, managing, etc. For the small businesses, the data are meaningless, and subjecting these companies to such inquiries would prove excessively costly in terms of economic data gathered.

#### DATA REPORTING ENTITY

Although the establishment represents the primary reporting unit, for multiestablishment companies, data for some programs are collected at the subsidiary and company levels. First-hand knowledge of reporting practices, coupled with results of previous record keeping practices, highlight the fact that much secondary data are not available at the establishment level.

#### FUTURE TRENDS

It is felt that some of the growth in services showing up in economic statistics, is due to the shift towards contracting out for services previously performed in-house. Assume a company has



an in-house staff performing a secondary activity (i.e., the accounting activity of a legal firm). This activity would be combined with other input activity, and no separate receipts data would be available. As time progresses, the company may opt to purchase the service on a contract basis (rather than keep employees on their payroll). Then the firm, which has been awarded the contract, would include the activity with its own receipts and payroll, which would appear as an increase in service activity. The contracting firm's payroll, would decrease, its other operating expenses ("purchased services") would increase, and there would be no change in receipts.

This distorts aggregate statistics for the industry, since NO actual change in activity took place. It would be interesting to know the impact of the growth due to contracting out for services. Unfortunately, the Bureau has no conclusive data.

#### FUTURE CONSIDERATIONS

Although the various economic censuses are conducted concurrently, and "basic" data items (establishment, receipts/sales, payroll, and employment) are consistent between each, any other data items collected are peculiar to the industry. In the past, data on secondary service activity have not been collected consistently across the various economic censuses. Now with the increased interest in service data, there is interest in trying to collect consistent data on secondary activities.

For the 1987 censuses, questions on secondary output activity have been added for industries where the activity is significant.

#### ITEMS FOR DISCUSSION

- 1) Is there really a need for such secondary data?
- 2) Is there one definition of secondary service activity which can (or should) be used?
- 3) Is "secondary" more critical than "support"?
- 4) At what geographic level are these data needed?
- 5) At what SIC level are these data needed? Many companies perform (and/or could report) secondary services only at a subsidiary or company level -- not at the operating establishment.
- 6) How frequently should the data be collected and published?
- 7) Should the Bureau attempt to collect more data on secondary in-house activity? How should the activity be measured?
- 8) What is the best vehicle to collect these data (e.g., economic censuses, annual surveys, etc.)? (This relates to several of above questions)
- 9) Should the Bureau create a separate report containing secondary service activity? Tables would be culled from the various census reports, and not provide data not previously published.

#### ATTACHMENTS