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A Survey of Business Uses of the Data

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PURPOSE AND METHOD OF THE SURVEY

The survey was sponsored by the American Accounting Association's Committee on National Income. The committee felt that it needed more information as to how the government statistics were actually used in business. The data would provide a background for proposing further improvements in the accounts.¹

The questionnaire was drawn up with the assistance of the Bureau of Business and Economic Research of the University of California at Los Angeles. The findings were checked by an extensive series of personal interviews.

A wide variety of possible uses of national income statistics were listed. The respondents were asked to check those which applied to their own practice on either a regular or occasional basis. Also to describe their methods of using the data. Questions as to the publication which supplied the data to the firm, how the data were prepared and transmitted to management, and how they might be improved, were also included.

Questionnaires were sent to 527 companies in November-January 1954-1955. The mailing list consisted of three types of firms: (1) companies which employed economists and which preliminary analysis suggested were users of national income statistics; (2) other very large corporations (names taken from lists of "nation's largest," with some omissions to balance industry representation); (3) California companies with assets of over \$3 million or over 500 employees in the Los Angeles area.

By March 1, 1955, when a cut-off point was established, 306 replies were received. As the following shows, a majority of the very large corporations apparently are users. Only about one-fifth of the smaller and more local California companies reported some use of the data:

¹ The survey did not attempt to cover the way in which the government uses national income statistics. It was found, however, that business users of the data were very much interested in this question. The probable reaction of government departments and Congress is an important consideration in business forecasts.

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	Question- naires Sent	Question- naires Returned	Number Reporting Use of Data
Companies with economists	94	68	67
Other large companies	86	64	47
California companies	347	174	65

Few firms were willing to furnish details (beyond the questionnaire) showing specifically how national income statistics were used by them for such purposes as forecasting or analysis. Moreover, even those firms which did disclose their methods requested that neither these facts nor their company names be published.

There is an aura of secrecy about the business use of national income statistics. It is difficult to estimate how extensively firms utilize the data in planning sales and production programs, although there is abundant evidence of growing interest on the part of many businessmen. The avoidance of publicity is true both of individual users and of groups of business analysts, who meet to discuss and compare forecasts. These groups will not even disclose the names of their members.

A number of factors appear to account for this shyness. Often the individual who uses national income data is enthusiastic, such as a company economist. But his superiors in the firm may not understand the data, and his position may be too insecure to risk much publicity. Groups seek privacy to insure free and frank discussion, and to avoid press criticism of so-called "errors" in forecasting. (Forecasts are rarely precisely accurate.) It is possible that the caution of business economists will diminish with a wider acceptance and understanding of national income concepts.

SOURCES OF INFORMATION

Businessmen are so strongly interested in business trends that a barometer which purports to show general business conditions is almost sure to receive some attention. Editors attempt to satisfy the demand by quoting national income data, but this does not necessarily prove that readers really understand the figures.

A surprisingly large number and wide variety of publications quote national income statistics. The respondents in the survey listed twenty-two different business and general publications and twenty trade journals, in addition to the *Survey of Current Business*, as sources of information. Table I shows the *Survey of Current Business* was received by a majority of the surveyed companies employing national income data; it leads all other publications by a wide margin in this respect.

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NATIONAL INCOME DATA AS BACKGROUND INFORMATION

The most widespread use of national income data in business is for background information. The statistics are one of the many items which the executive considers in arriving at his personal answer to the perennial question, "How's business?" Though the data are not too well understood, the totals, especially of gross national product, are

TABLE 1
Source of National Income Data Used by Business Firms

SOURCE	COMPANIES REPORTING		
	of 67 with Economists	of 47 Large	of 65 California
<i>Survey of Current Business</i> , Dept. of Commerce	55	35	33
Other magazines	16	17	34
Newspapers	22	17	31
Other company economists	10	7	8
University economists	5	3	3
Professional economic services	19	32	28
Other	18	5	16

taken to indicate the general business trend.

Table 2 shows the two most frequent uses of the data are "as background for executive decisions," and in the speeches of executives on general business conditions. The two items are closely related, for most of the speeches made by executives were delivered to other businessmen at conventions, trade association gatherings, and other business meetings.

Table 2 also suggests that the speeches of executives are important for transmitting national income statistics, and possibly other economic information, to businesses that do not employ economists. A distinctly higher proportion of the firms employing economists, than of the other two groups in the survey, used the data in the speeches of executives. This contrast between the companies with economists, and the other firms, applies also to the other uses of the data found in the survey.

Even in the very large firms the data are rarely reported directly to the highest executives. When this does occur, the data are usually shown, along with many other items, to a management accustomed to studying detailed figures.

More often the economist is expected to draw his own conclusions from the statistics. He presents his ideas to management in terms of the specific effects to be expected on company sales, prices, etc. Quite often

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even this presentation is not formalized, but is given orally as part of a committee discussion of company budgets or sales forecasts.

When more formal presentations are used, their scope, form, and contents vary considerably. Those encountered by the study were, however, neither novel nor startling, but followed either the patterns de-

TABLE 2
Use of National Income Data in Business Firms

DESCRIPTION OF USE	COMPANIES REPORTING		
	of 67 with Economists	of 47 Large	of 65 California
<i>A. Companies Reporting Regular Use</i>			
Background for executive decisions	21	9	11
Presented with short-term forecasts	27	16	14
Presented with long-term ^a forecasts:			
Product lines	7	4	1
Investment in plant and equipment	12	5	4
Plant location	4	3	2
Financing policy	4	2	2
Inventory policy	5	3	5
Forecasting:			
Industry sales	22	13	9
Total company sales	19	18	10
Regional company sales	13	13	5
Company product line sales	6	4	6
Production	4	6	4
Prices	9	4	2
Budget items	10	10	9
Other	2	1	—
Evaluation:			
Industry progress	16	6	11
Company progress	14	6	12
Company versus regional growth	7	4	8
Circulation of media (for advertising allocations)	4	—	3
Regional potentials	4	4	7
Public relations and advertising:			
Speeches of executives:			
General business conditions	23	8	1
Company prospects	14	4	1
News letters to customers and others	8	3	—
Reports to stockholders	5	2	2
Sales promotion ^b	4	1	2
Security investment	11	1	
Allocation of industry quotas in fund-raising	—	—	2
Analysis of prospective foreign markets	7	—	

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TABLE 2 (Continued)

DESCRIPTION OF USE	COMPANIES REPORTING		
	of 67 with Economists	of 47 Large	of 65 California
<i>B. Companies Reporting Occasional Use</i>			
Background for executive decisions	8	12	12
Presented with short-term forecasts	8	7	7
Presented with long-term ^a forecasts:			
Product lines	3	2	5
Investment in plant and equipment	6	8	13
Plant location	2	1	6
Financing policy	3	—	1
Inventory policy	2	1	6
Forecasting:			
Industry sales	10	8	17
Total company sales	7	9	11
Regional company sales	4	3	10
Company product sales	4	7	7
Production	5	5	8
Prices	4	2	5
Budget items	6	11	12
Other	4	—	
Evaluation:			
Industry progress	15	8	8
Company progress	7	4	10
Company versus regional growth	4	9	8
Circulation of media (for advertising allocations)	5	1	1
Regional potentials	5	1	—
Public relations and advertising:			
Speeches of executives:			
General business conditions	16	17	17
Company prospects	12	16	11
News letters to customers and others	8	6	2
Report to stockholders	5	7	6
Sales promotion ^b	—	1	2
Security investment	6	—	4
Allocation of industry quotas in fund-raising	—	1	—
Analysis of prospective foreign markets	—	—	1

^aAt least three years ahead.

^bAs by a newspaper, to show the purchasing power of the community it serves, or by a security house, to show it understands business conditions.

Note: Respondents to the questionnaire checked "regular" or "occasional" use, thus Part B of this table is not duplicated in Part A.

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veloped and publicized by certain companies or those in textbooks on forecasting.

Perspective, a newsletter compiled by Louis Licht for Calvin Bullock (an investment firm), is fairly characteristic of reports used by a number of companies in the survey who asked that their reporting methods be kept secret. *Perspective* forecasts the four major elements of gross national product, by quarters, for more than a year ahead, and it discusses each of the elements in some detail. A report privately circulated to Bullock executives adds information of particular interest to the officers who supervise investment activities, such as price trends in particular fields.

Similar reports in other companies vary primarily in the length of the forecasting period and in the type of ancillary material provided. Almost all give some analysis of the reasoning behind the forecast for various components of GNP. As a rule the pattern of analysis is similar to the Bullock newsletter.

In addition to company prepared reports, a majority of the very large corporations in the survey receive economic reports from one or several business services. In such cases the full report of the service is sometimes circulated to the top executives, but more often it is excerpted by someone in the controller's office, or by the staff economist. In some cases the report is used only within the economist's department.

FORECASTS

National income data are used to estimate future sales for an entire industry, for an entire company, for a particular company product, or for the company in a particular region. The survey returns suggest: (1) that the more general forecasting—of industry and company sales—is more frequent, and (2) that national income data play a greater role in over-all forecasts than in estimates of product and regional sales (see Table 2).

The actual forecasting is carried out by a technician—typically an economist, statistician, or research analyst. Their analyses are not final. As a rule, the analyses are subject to considerable revision by company executives, who usually depend on their personal experience and their intuitive perception of a situation.

The technician himself may utilize rather refined techniques. In one company, for example, most of the major executives have some training in economics. The economist develops company sales by product categories, each as a percentage of gross national product. Where sales are growing and are expected to continue to grow at twice the rate of GNP, the products are classified as "growth products." Where

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sales are growing more slowly than GNP, the products are considered to have a shrinking market. The profits on the various product categories are related to the investments required for each in order to obtain rates of return. Then, these rates are studied in relation to the expected rates of growth. Investment decisions are based on these determinations.

A number of investment companies employ the Department of Commerce figures extensively to evaluate industry, regional, and national trends. In some cases the economics staff is expected to prepare specific directives to the executives in charge of the investment portfolio. These directives recommend that holdings be switched from one industry to another. Timing of the switches and choice of particular companies is in the province of the operating executives, although they also receive information to assist them in these decisions.

STANDARDS OF EVALUATION

Trade associations and business firms constantly endeavor to measure the progress of their firm or industry by comparing its performance with the economy as a whole, or with the achievement of a particular industry, or with the potentials of a particular region. Executives are especially interested in relating the performance of their company to the industry of which it is a part. They tend to interpret the results as measures of their own performance.

However, production or other data drawn directly from industry are more popular for such comparisons than national income statistics. Apparently executives understand these data better—both as to their uses and their limitations—than they do the Department of Commerce figures. Table 2 shows that national income figures are more widely used for forecasting than for interindustry or intercompany comparisons.

Marketing and advertising people are strongly interested in regional income data and consumption expenditures. They use the data to discover and define the market for a product, to determine the size of the advertising appropriation, and to choose a media for advertising.

Virtually all the marketing and advertising men interviewed in the course of the survey said they used national income data. One firm showed the investigator a study in progress. In it the circulation of various magazines, by counties (or by somewhat larger units in some cases), was compared with estimates of the disposable personal incomes in those areas and with the sales of the customer's products. Choice of the media for an advertising campaign was to be based on the data.

Advertising groups use regional data to publicize the advantages of advertising in particular localities. Newspapers, radio stations, and

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publishers quote the data in promoting their media to potential advertisers.

SUGGESTED IMPROVEMENTS

National income data would be used more widely than at present if (1) more detailed and elaborate regional data were included, and (2) if the estimates were made earlier than they are (see Table 3).

TABLE 3
Suggested Improvements in Data

SUGGESTION	COMPANIES REPORTING		
	of 67 with Economists	of 47 Large	of 65 California
Prompter publication of estimates	31	22	16
Greater detail in estimates:			
Regional	20	15	18
Industrial	17	15	18
Fewer revisions in estimates	13	6	3

The need for more detailed, advanced estimates arises from the nature of the forecasting process in business firms. Many companies forecast on a calendar basis. Others forecast for at least four quarters ahead, but revise the forecasts quarterly or semiannually. In any event the forecasting process usually is begun about three months before the onset of the period for which the forecast is made. This time is required so that consultations can take place and agreements be reached on basic assumptions. Since national income data are part of the environmental background, they enter the process of forecasting very early, if not at the beginning. Any time delay in obtaining the data, therefore, is of significance.

Some improvement can be expected in company procedures which require that budgeting and forecasting be started so early. Perhaps the use of new electronic data processing equipment and better mathematical techniques can shorten this advance period. Even in this event, however, more rapid provision of national income figures probably still would be considered highly desirable.

Firms as a rule were less concerned with securing more detailed information than with obtaining the existing data early enough for general forecasts. However, some firms and industries were primarily interested in greater detail. Since their executives think of problems in terms of product lines, they find the general industry classifications of the *Survey of Current Business* too broad for their purpose.

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In other cases, it was felt that the lack of regional breakdowns limited the usefulness of the national income data. Public utility firms, department stores, insurance companies, and others selling directly to consumers sometimes held that national income data were of little or no use to them, because their markets were local and regional rather than national.

CONCLUSION

An attempt was made to determine both the extent to which national income statistics are used in business and the ways in which they are employed. The findings suggest that only the largest corporations use the data to any extent, although it must be kept in mind that the comparison group in the survey were California companies. A sample drawn from other sections of the country might show a somewhat different result. (Note: The emphasis on California companies was due to the desire to measure regional interest.)

Extensive interviews with the companies having economists suggest that the figures in Table 2 are rough rather than precise guides to the frequency of any particular use. Like the interviews, however, they indicate that though the variety of uses of the data is great, the magnitude of any one use is limited—with two exceptions. It would appear that national income statistics serve mainly as indicators of the present state of business, and as bases for general forecasts of economic and business trends.

C O M M E N T

GEORGE JASZI, Department of Commerce

I think V Lewis Bassie has argued effectively that "a gross measure of output, far from being a handicap, has distinct analytical advantages" (page 391) for the uses in short-term economic analysis which he envisages. I am in broad agreement with him on this central point.

His discussion covers two major topics—capital consumption allowances and government services—and on each of these I should like to add a brief note. As to capital consumption allowances, Bassie brings out that many uses of the data which are not served by the present bookkeeping allowances would not be served by revalued measures either, but really call for constant-dollar estimates. I think this simple point is exceedingly well taken. With respect to government services, I take note of his forceful practical argument in favor of the continuation of the present procedure. I regret that he sees more substance than I do in the theoretical argument that inclusion of the "intermediate" services of government in gross national product involves "duplication."

PART VI

