

## **Part XIV--Proposed New Industry Structure for Retail Trade and Wholesale Trade**

### *Section A--NAICS Structure*

(NAICS)

Agreement Number 25

This Document represents the proposed agreement on the boundaries of the North American Industry Classification System (NAICS) for the following sectors:

Retail Trade  
Wholesale Trade

A brief description of the boundaries for Retail Trade and Wholesale Trade is attached. Each country agrees to release a copy of the proposed NAICS boundaries to interested data users. Comments received will be shared among the countries and additional discussions will be held before a final decision on the boundaries is made. The structure and detailed definitions of the industries within the boundaries will be determined by each country's national requirements. The NAICS boundaries for these sectors were presented and provisionally accepted at the NAICS Committee meeting held on November 8 and November 9, 1995 in Washington D.C.

| Accepted      | Signature            | Date    |
|---------------|----------------------|---------|
| Canada        | /S/ Jacob Ryten      | 11/9/95 |
| Mexico        | /S/ Enrique Ordaz    | 11/9/95 |
| United States | /S/ Jack E. Triplett | 11/9/95 |

## **ATTACHMENT 1--NAICS STRUCTURE**

### **Attachment 2--North American Industry Classification System**

Draft Classification For:  
Retail Trade  
Wholesale Trade

#### *Summary*

In most sectors of the North American Industry Classification System (NAICS), the statistical agencies of Canada, Mexico, and the United States have agreed to a detailed structure that includes subsectors, industry groups, and detailed industry definitions. However, in the cases of the Retail Trade sector and the Wholesale Trade sector, the three

statistical agencies have agreed that only the boundaries of the sectors will be made comparable internationally at the present

time. The structure and detailed definitions of the industries within the boundaries will be determined by national requirements.

For the Retail Trade and Wholesale Trade sectors, determining internationally comparable boundaries was vital. Internationally comparable boundaries make it possible to compare the relative size of the Retail Trade and Wholesale Trade sectors in the economies of the three countries. Moreover, achieving international comparability on the boundaries of the Retail Trade and Wholesale Trade sectors was necessary to obtain internationally comparable data for the other sectors of NAICS. For example, previously the three countries had different and inconsistent boundaries between retail trade and manufacturing for some activities, between retail trade and services for others, and between retail trade and wholesale trade for still others.

Because resources and time for constructing NAICS were limited, the three countries decided to place priority on determining internationally comparable boundaries for the Retail Trade and Wholesale Trade sectors. This agreement does not preclude further work toward internationally comparable retail trade and wholesale trade industries in the future.

### *General Outline*

The NAICS definitions of Retail Trade and Wholesale Trade differ from the previous definitions in all three countries. The new definitions of Retail Trade and Wholesale Trade follow. They result from a new criterion to separate these sectors.

Retail establishments are primarily engaged in selling merchandise, generally without transformation, for end use. These establishments attract customers using methods such as advertising, point-of-sale location, and display of merchandise for ease of selection.

Two types of retailers are distinguished:

(1) Store retailers attempt to attract a high volume of walk-in customers through site location and/or advertising. In general, retail stores have extensive merchandise displays to promote product accessibility and sales. Other store retailers include catalog sales showrooms, gasoline service stations, and mobile home dealers.

(2) Non-store retailers -- those selling by other means -- include:

Mail order houses

Vending machine operators

Telemarketing sales

Home delivery (e.g., milk, newspapers)

Door-to-door sales

Party plans

Electronic shopping

Sales through temporary stands or stalls

Sales of capital or durable nonconsumer goods used in the production of goods and services, such as farm machinery, medium and heavy duty trucks, and industrial machinery, as well as the sale of raw materials used in production, are included in wholesale trade. These goods are virtually never sold through the methods outlined above.

Wholesale establishments are primarily engaged in selling or arranging the purchase or sale of a) goods for resale, b) capital or durable nonconsumer goods, and c) raw and intermediate materials and supplies used in production. Wholesale establishments have most or all of the

following characteristics:

Wholesalers normally operate from a warehouse or office. These warehouses and offices are characterized by having little or no display of merchandise. In addition, neither the design nor the location of the premises is intended to solicit walk-in traffic. Wholesalers do not normally use advertising directed to the general public. Customers are generally reached initially via telephone, in-person marketing, or by specialized advertising that may include internet and other electronic means.

While sales are normally in large volumes, durable nonconsumer goods may be sold in single units.

Sales of capital or durable nonconsumer goods used in the production of goods and services, such as farm machinery, medium and heavy duty trucks, and industrial machinery, as well as the sale of raw materials used in production, are always included in wholesale trade.

Two types of wholesalers may be distinguished:

(1) Establishments selling goods, generally without transformation, on their own account are known as “merchant wholesalers” or “distributors.” Sales of products may include integral services such as sorting, packaging and labeling, and marketing. Merchant wholesalers typically maintain their own warehouses. Merchant wholesalers also include drop shippers and import/export merchants.

(2) Establishments arranging for the purchase or sale of goods owned by others or purchasing on a commission basis are known as “agents and brokers.” Agents and brokers operate from offices and rarely own and handle goods. Commission merchants, auction agents, import/export agents, and manufacturers’ representatives are included in agents and brokers.

The redefinition of the criterion to separate retail trade and wholesale trade is a change for all three countries. In the past, the criterion was based on the class of customer (though specific exceptions were listed). That is, if the business was primarily engaged in selling merchandise for personal or household consumption, the establishment was classified in Retail Trade. If the establishment was primarily selling to business or farm customers for business use, the establishment was included in Wholesale Trade. This led to anomalies, for example, the classification into wholesale trade of businesses perceived to be retail trade, the classification of similar businesses to different sectors, and contrary interpretations of the rule by the various statistical agencies.

The new wholesale-retail definition emphasizes what the establishment does, rather than to whom it sells. A store retailer, for example, has the attributes of a store: A selling place open to the public, merchandise on display or available through sales clerks, facilities for making cash or credit card transactions, and services provided to retail customers. The store provides a place to purchase commodities and is a location where customers may go to obtain information about commodities that are available in retail markets. The new rule is an implementation of the production-oriented criterion for classification adopted for NAICS. But it also agrees with common sense and the normal usage of the word “retailing” among the public and by business within the sector itself. The old class of customer rule did not correspond to the usual meaning of the word “retailing.”

*Relationship to ISIC*

The International Standard Industrial Classification of all Economic Activities (ISIC, Revision 3) does not include separate aggregates for Retail Trade and Wholesale Trade. Rather, it combines these activities into three ISIC divisions as follows: Division 50, Sale, Maintenance and Repair of Motor Vehicles and Motorcycles; Retail Sale of Automotive Fuel; Division 51, Wholesale Trade and Commission Trade, Except of Motor Vehicles and Motorcycles; and Division 52, Retail Trade, Except of Motor Vehicles and Motorcycles; Repair of Personal and Household Goods. The Retail Trade and Wholesale Trade sectors proposed for NAICS are equivalent to those ISIC divisions minus class 5020, Maintenance and Repair of Motor Vehicles; class 5260, Repair of Personal and Household Goods; and part of class 5040, Sale, Maintenance and Repair of Motorcycles and Related Parts and Accessories.

### *Some Changes To The National Classifications*

For Canada, the agreement on new definitions for retail trade and wholesale trade results in the transfer of a number of establishments from wholesale trade to retail trade, manufacturing, and services, and from retail trade to manufacturing and services. The most important of these changes are outlined below.

Although the main criterion to distinguish Retail Trade establishments from Wholesale Trade in the 1980 Standard Industrial Classification (SIC) is the class of customer, particular types of trade establishments are assigned to wholesale trade irrespective of their main class of customer. The most important of these are building materials dealers, computer and software stores, office supplies stores and home fuel dealers. NAICS assigns many of these establishments in Retail Trade, that is, those establishments that meet the conditions specified in the Retail Trade definition. Establishments that supply these products to retailers will remain in Wholesale Trade.

The Wholesale Trade division currently includes some activities that are moved to the NAICS manufacturing sector. These activities are tire retreading, the rebuilding on a factory basis of some automotive parts and the converting of fabric (piece goods converters). Piece goods converters are establishments primarily engaged in purchasing fabric in the grey and arranging to have a separate establishment dye the fabric on a contract basis. As well, establishments primarily engaged in the repair of various types of machinery and equipment are transferred from Wholesale Trade to a newly created Repair and Maintenance subsector. These changes affect a relatively small number of establishments currently found in sixteen wholesale industries.

A number of activities currently in Retail Trade in the Canadian classification are assigned to other sectors in NAICS, including establishments engaged in the transformation and sale of products on the premises. Therefore, retail bakeries and candy shops that produce most of their products on the premises and tailor shops that produce custom garments are being moved to manufacturing. Also, the repair and maintenance of automobiles, home appliances, consumer electronics, furniture, recreational vehicles, bicycles, musical instruments and watches and jewelry is transferred from Retail Trade to the newly created Repair and Maintenance subsector. This change implies the relocation of entire industries, CSIC 6213, Furniture Refinishing and Repair Shops; CSIC 6223, Appliance, Television, Radio and Stereo Repair Shops; CSIC 635, Motor Vehicle Repair Shops; most of CSIC 639, Other Motor

Vehicle Services; CSIC 6562, Watch and Jewelry Repair Shops; and parts of CSIC 6323, Motorcycle and Snowmobile Dealers; CSIC 6542, Bicycle Shops; and CSIC, 6551, Musical Instrument Stores.

For Mexico, the change from class of customer to production characteristics changes a number of industries. These include such things as office supplies, farm supplies, building materials, paint, and hardware that existed only in wholesale in CMAP. In NAICS these activities, are in both Wholesale Trade and Retail Trade . The biggest change in this area is including the sales of computers and office furniture in Retail Trade. CMAP does not include classifications in Retail Trade for these activities.

There are a number of activities that will be included in Retail Trade and Wholesale Trade for NAICS that are included in other areas of CMAP. These include vending operations and establishments selling on a commission basis. The vending machine operators are included in CMAP 931011, Restaurants and Eateries. Commissionaires are included in CMAP 97500, Business Intermediation.

The sales of lottery tickets that is included in CMAP 623089, Retail Trade in Lottery Tickets, Etc., will be excluded from Retail Trade in NAICS.

For the United States, restaurants and bars, formerly included in retail trade in the U.S., have been moved and combined with hotels and other accommodations (See Agreement No. 3). This affects all of 1987 SIC Major Group 58 and part of the retail food industry, including such establishments as doughnut shops, cookie shops, pretzel shops, etc. that are primarily engaged in the preparation of food and drink for immediate consumption. These establishments were previously classified in 1987 SIC 5461, Retail Bakeries, and 1987 SIC 5499, Miscellaneous Food Stores. It also includes mobile food services that were previously included in 1987 SIC 5963, Direct Selling Establishments.

The handling of the combination of sales and service is also a change. In the past, establishments that were primarily engaged in service activities were included in Services. This resulted in many businesses that engaged in both sales and service changing classification from year to year based on the condition of the market for the sales of the product. This was particularly evident in the area of bicycle sales and service. In NAICS, establishments that are selling and providing services for the products sold will be included in retail trade even if more of their revenue is in service receipts. An establishment that only has incidental sales or that provides services for products they do not sell such as automobile repair by an independent repair shop are still classified in NAICS as a service establishment.

Another example of change is the print and frame shop. Establishments that frame pictures usually also sell prints and framing materials to their customers. Such an establishment was classified either in Services or Retail based on the share of revenue derived from the framing activity versus the sales activity. NAICS specifies that these establishments are to be classified in Retail Trade.

There is also a change in the classification of some activities involving making and selling goods to the public at the same location. Establishments engaged in producing candy, baked goods, custom clothing, furniture, cabinets, and crafts are included in the Manufacturing sector of NAICS. These activities are included in Division G, Retail Trade, of the 1987 SIC.

The change from class of customer to production characteristics will affect establishments in industries such as computer stores, office furniture dealers, and office suppliers which will move from wholesale to retail.

Another change to Wholesale Trade is the treatment of piece goods converters. In the past, these piece goods converters have been included in Wholesale Trade. But in NAICS, converters will be included in Manufacturing.



### *Achievement of Objectives*

The classification meets the objectives for the North American Industrial Classification System (NAICS). It groups establishments with similar production processes, that is, it applies production-oriented economic concepts. It achieves comparability for the three participating countries. Based on the existing data, all three countries expect to be able to publish data regularly at the total level for Retail and Wholesale trade sectors.

Other objectives of the NAICS project were not as relevant in this area of the classification as in others. These objectives are the delineation of new and emerging industries, expansion of the service industries, and industries engaged in the production of advanced technologies. Therefore, the emphasis was on the objectives listed above.

### *Section B--Annex: United States National Industry Detail*

The U.S. national detail industries will be shown in the next **Federal Register** notice.