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**NAICS 425120 – WHOLESALE TRADE AGENTS AND BROKERS**

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INDUSTRY SYNOPSIS
NAICS 425120 – WHOLESALE TRADE AGENTS AND BROKERS

1. SCOPE OF STUDY

A. INDUSTRY DEFINITION

According to the 2002 North American Industry Classification System (NAICS) industry 425120, Wholesale Trade Agents and Brokers constitutes one of two aggregations within the NAICS sub sector 425, Wholesale Electronic Markets and Agents and Brokers. Sub sector 425 is one of three sub sectors within NAICS 42, Wholesale Trade. The other two sub sectors within wholesale trade include NAICS sub-sector 423- Merchant wholesalers-Durable Goods, and sub-sector 424- Merchant Wholesalers-Non-Durable Goods.

The Wholesale Trade sector comprises establishments engaged in wholesaling merchandise, generally without transformation, and rendering services incidental to the sale of merchandise.

The wholesaling process is an intermediate step in the distribution of merchandise. Wholesalers are organized to sell or arrange the purchase or sale of (a) goods for resale (i.e., goods sold to other wholesalers or retailers), (b) capital or durable non-consumer goods, and (c) raw and intermediate materials and supplies used in production.

Agents and Brokers, also known as independent sales representatives are formalized sales organizations of one or more individuals which contract with suppliers to sell their products, systems or services, usually within a defined sales assignment, such as geography and market. (In this paper, the term “rep” may be used for the full descriptive term independent sales representative.) Lines of different suppliers represented must be complementary and not competing. Agents and Brokers do not take title to the goods being sold but rather receive a commission or fee for their service. Agents and brokers for all durable and nondurable goods are included in this industry. Although agents and brokers can conduct business electronically, they do not operate exchanges. Agents and brokers primarily receive revenue via a sales force and in general are paid by manufacturers. Agents and brokers generally have a contract with the manufacturers and actively seek only buyers.

Brokers and agents are alternative names for independent sales representatives. However in a legal sense, an agent can bind their suppliers to a contract while an independent sales representative (broker) cannot. In practice the two terms are synonymous.
Ownership is the key determinant in the classification of establishments. Ownership is particularly important in classifying agents and brokers (NAICS 425120), distinguishing them from manufacturer’s sales offices and branches (NAICS 423000 and NAICS 424000). An establishment should be classified as NAICS 425120, Wholesale Trade Agents and Brokers, only if they are not owned by a specific manufacturer.

***Important Note Regarding Classification of Wholesale Trade Industries***

Classification of sample units for wholesale trade industries will be based on plurality of margin/commission dollars for wholesale activity and sales dollars for all other activity according to the four six-digit NAICS that will be published by the PPI. The six-digit NAICS that will be published are 423000 – Merchant Wholesalers, Durable Goods, 424000 – Merchant Wholesalers, Nondurable Goods, 425110 – Business to Business Electronic Markets, and 425120 – Wholesale Trade Agents and Brokers.

Exclusions

1. Wholesale establishments that operate an Internet market site instead of a sales force and receive revenue from both the buyers and the sellers are classified in Industry 425110, Business to Business Electronic Markets. B2Bs generally require a tax identification number (which exempts businesses from sales taxes) for a company to participate on their exchange. Business to Business exchanges actively seek buyers and sellers to participate in the exchange and usually charge membership fees to both.

2. Manufactures’ sales and branch offices are classified in the Wholesale Merchant wholesaling Industries. Durable goods manufacturers’ sales and branch offices are in NAICS 423000. Non-Durable goods manufacturers’ sales and branch offices are in NAICS 424000.

3. When agents or brokers offer engineering services and these fees make up the majority of revenues the establishment will be classified in NAICS 541330, engineering services.

B. PRIMARY OUTPUT AND UNIT OF MEASURE

Wholesale Trade Agent and Broker output can be defined as the efficient transference of goods from the manufacturer to another party. They act as channel intermediaries by arranging for the purchase or sale of goods owned by others. Sample units that produce this output have two primary functions 1/ a channeling function and 2/ the creation of utility (or efficiency). A unit of output is measured by the commission dollars received by the agent or broker.
Output will be measured based on the service produced by the agency, and not the service provided by a specific agent. Therefore the sample unit is the agency.

The utility function has several parts to it including time utility, information utility, and providing details about the products they sell. The above definition also includes a channeling component, which is not as easy to describe. Traditional wholesalers perform many of these functions because they physically take possession of the goods. Agents and brokers may perform some of these channeling functions, as described below.

1. **Selling and promoting** - This is the main channeling function performed by agents and brokers. It occurs when wholesalers’ sales force help manufacturers reach small customers at a low cost. In this channeling function, the wholesaler has more contacts and is more often trusted by the buyer than the distant manufacturer.

2. **Transportation** - wholesalers can provide quicker delivery to buyers because of their contacts with the producers, or could arrange for the transportation of the goods. Revenues received for providing transportation or arranging for transportation are generally separable and are considered an other receipt.

Through providing additional services, agents and brokers can be more efficient and provide a utility function. The following services can be bundled in the commission or flat fee, but are generally separable and should be captured as an other receipt.

1. **Warehousing** - In some cases, commission rates are adjusted to compensate the agent for warehousing services. In others, specific fee schedules are established for warehousing.

2. **Engineering** - When technical products are involved, some agents now provide an engineering and specification service. Some have been compensated for their service by increased commission rates, while others have charged for their services on an hourly consulting basis. An example of this service would be agents that specialize in high tech items offering computer aided design to customers for integrating several pieces of technical equipment from different manufacturers.

3. **Market Research** - A good agent will provide, without cost, the marketing intelligence he or she picks up during the course of normal day-to-day activities. But, if the customer expects special research activity, it is generally paid for by a negotiated fee above commissions.

4. **Order Processing** - In most cases, orders for products sold by agents are placed directly with the manufacturer. However, now that agencies are expanding and using sophisticated computers for day-to-day operations, some are actually accepting customer orders and then placing them with their principals. This service often includes follow-up as well. Order processing is often paid for by an additional fee, although many agents who perform the service will negotiate a larger commission rate in lieu of the fee.
5. **Management Services** – This could include a number of services such as running their own trade shows, making sophisticated direct mailings, conducting educational seminars about products, and training employees.

6. **Other services** - Sometimes there are fees and or modified commission structures given for installation, computer services, and other miscellaneous services.

If these additional services are not included in the commission fee or flat fee for sales of a product, they will be “unbundled” and not included in the primary services and categorized as other receipts.

The main difference between agents and merchant wholesalers is that merchant wholesalers absorb risk by taking title and bearing the cost of theft, damage, spoilage, and obsolescence.

**Unit of Measure**

The unit of measure may vary greatly depending on the item wholesaled. Although there are so many different items within this NAICS, it is believed that the most common unit of measure will be per item. Within the per item unit of measure designation, it is possible that any item that a wholesaler distributes could replace the term “item”. For example, the unit of measure that is provided by a computer distributor could be a commission price per individual computer, per bundle of computers, per shipment, or any other quantity designation.

A major issue with the unit of measure for NAICS 425120 is that many agents and brokers sell items that are not transacted on a regular basis. This situation often occurs with high tech items such as computers. Agents selling items that are not transacted on a regular basis becomes a problem when they sell “whatever’s hot”, and the transaction is not repeated for a significant amount of time. This situation results in a lack of repriceable products and/or services. When dealing with this situation, section 2.4 of the Data Collection Manual should be referenced. The selected products must have been wholesaled in the reference period, or are close substitutes in order to be considered an acceptable item. If this criteria is not met, the sample unit should be considered out of scope and given SU status code 44. Sample units that sell high tech items such as computers and computer parts must sell products that are “comparable” over time in order to be collected. An example of this would be if an agent sold both low end and high end computers. In this situation, a high end computer would not be considered a comparable item for a low end computer.

The average commission dollars for all sales of a single item provides the best operationally feasible method of measuring output in NAICS 425120 because commission based sales reflect a fee for service. The commission price is usually a percentage of the selling price of an item or bundle of items. Commission dollars are calculated by multiplying the commission percentage by the selling price. The selling
price is the price that the customer pays for the product. A flat fee can also be charged by the agent for an individual product or bundle of products (see Type of Price section).

C. CONTEXTUAL OVERVIEW

In order for a sample unit to be included in NAICS 425120, establishments must simply engage in wholesaling goods without taking possession of the goods. The actual good wholesaled is not specific to any durable or nondurable goods industry.

The current state of the wholesale trade agents and brokers industry is fair. It has decreased some recently due to increased technology and the rapidly growing business to business electronic commerce (B2B) market. Although it can not be said with accuracy the percent of the market that was lost to B2B, it is reasonable to say it has been significant. Despite the rapid growth of the B2B industry, business for many agent and broker establishments remains steady and is even growing. Agents and brokers often have a specific niche within a market for specific products. Their in depth knowledge of these markets is what makes them profitable and stable. The fact that many establishments are very small and deal with the same manufacturers adds to their profitability. Although the B2B market has grown, it is considered a volatile industry with high company turnover and many anti-trust and litigation issues. These factors explain why agents and brokers continue to have steady sales.

There are several barriers to entry that exist within NAICS 425120, wholesale agents and brokers, including fortified market barriers, industry relations, and localized expertise. Fortified market barriers represent the degree of pull that current industry players have in discouraging “outside” firms from entering the industry. For most of the industry, their influence is modest and a new firm can enter and leave a wholesale market as they please.

Industry relations can cause barriers to entry because many large manufacturers have an established relationship with the agents they hire. Also, the buyers can establish buyer-seller relationships with the agents and manufacturers. This makes it hard for new companies to enter the market as agents unless they can offer additional services.

Localized expertise can also be considered as a low-level barrier for agents wanting to enter a market. Products that require industry specific information or have a unique seasonal pattern provide the local distributor at least some protection from competition. While the local distributor cannot entirely eliminate all competition, local knowledge of buyers and industry specific knowledge can sometimes limit the number of competitors in their domain.

There is competition for wholesale agents and brokers that exists outside the wholesale industry and it comes from two sources, namely retailers and/or final customers that have access to the Internet, and direct manufacturer to retailer arrangements, usually made under strategic alliances with major retail chain stores or warehouse clubs. The first
mode of competition, namely the Internet, enables sellers (the suppliers) and the buyers (either the retailer or final customer) to bypass the middleman and interface directly with each other. Some distributors may be superseded by this new communication and commerce medium. The second mode of industry competition, namely direct manufacturer-retailer relationships, is estimated to have captured up to 25 percent of all merchandise handled by wholesalers. In fact, increased mail order catalog sales have contributed to business that has by-passed the wholesaler.

2. INDUSTRY OVERVIEW

A. NUMBER OF ESTABLISHMENTS AND COMPANIES

The number of establishments by kind of business according to the 1997 census is shown in the table below. Note: The 1997 NAICS classification does not break out business to business electronic commerce from agents and brokers and is included in the table below. 2002 census data is not presently available. Note: Manufacturers’ agents are considered separate from manufacturers’ sales offices and are included in 425120.

<table>
<thead>
<tr>
<th>Kind of Business</th>
<th># of Establishments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brokers</td>
<td>8,607</td>
</tr>
<tr>
<td>Commission Agents</td>
<td>6,784</td>
</tr>
<tr>
<td>Manufacturers’ Agents</td>
<td>29,249</td>
</tr>
</tbody>
</table>

Source: 1997 Census Table 1

B. STABILITY OF INDUSTRY

Industry trends will change the composition and nature of wholesale trade employment. B2B marketplaces, electronic commerce, consolidation of the industry into larger firms, and the spread of new technology should slow the growth in some occupations within the wholesale trade industry. However, many new jobs will be created in other wholesale trade fields as firms provide a growing array of support services.

The emergence of increased business to business wholesale trade through electronic media has slowed the growth of wholesale agents and brokers. However, employment for wholesale agents should increase due to increased services provided by the agent. Traditional agents seem willing to expand the services they offer to manufacturers to offset the loss of business to electronic commerce. Since the industry is largely made up of small efficient companies with specialized market information, the agents and brokers
industry seems unlikely to be drastically altered because of increased wholesale B2B activity.

Wholesale agents will lose some business because of increased e-commerce. E-commerce allows people and companies to instantly obtain price quotes and product information, make and process transactions, track product delivery, and share market information. The growth of e-commerce over the last ten years is partially responsible for agents changing the way they do business by concentrating on specific market niches and adding more services.

As technology increases, fixed cost wholesalers are faced with decreases, which results in fewer administrative jobs. The increase in technology has allowed agents to offer more specialized services for manufacturers such as market research and engineering. This has replaced the administrative jobs of the past with information technology jobs.

Consolidation does not affect agents and brokers the way it has with traditional wholesalers. It is expected to increase some due to globalization. International competition is expected to heat up as domestic firms expand sales to other countries and as foreign firms export more to the United States, adding to the cost pressures on manufacturers. This trend should continue to force distributors to merge with other firms, or to acquire smaller firms. However, agents have very few costs due to the nature of the industry. This is the predominate factor in the large number of small establishments within the industry.

3. SERVICE INFORMATION

A. SERVICE DELIVERY PROCESS

The service delivery process of wholesale trade agents and brokers is very different from that of traditional wholesalers. Traditional merchant wholesalers normally service two parties, the supplier and the buyer. Agents and brokers provide services primarily for the supplier, or manufacturer. They do provide a service to the buyer in the sense that they facilitate the transfer of goods from the supplier to the buyer. They also can provide informational services to the buyer by offering detailed descriptions of the products being sold. However, agents do not directly provide service to the buyer because the manufacturer retains the title of the goods until the transaction is complete. Therefore, the manufacturer (not the actual buyer of the product) pays the commission directly to the agent or broker. Any physical services rendered to the products are usually done by the manufacturer.

Wholesale agents sales representatives concentrate on finding buyers for the manufacturers goods. The representatives must be very knowledgeable about the product operation, prices, and product capabilities. They sometimes make presentations to buyers and management. They must also be familiar with the buyer’s needs and business goals.
Some larger establishments have sales persons who are responsible for maintaining sales records and keeping the buyer well stocked of goods. Most of the industry is comprised of small firms in which the owners and top executives participate in the sales activity.

Transportation is usually handled by the manufacturer. In some rare instances, agents will be responsible for the transportation of a product from the manufacturer to the buyer.

**B. TYPES OF SERVICES AND VALUE OF RECEIPTS**

The major service lines and value of receipts by commission dollars is shown in the table below according to the 1997 Census, Table 6. Note: The 1997 Census does not separate business to business electronic commerce from wholesale agents and brokers. Missing from the value below is revenue from other receipts. It is estimated that the industry value would increase by 10 percent. Most of this is from margin transactions done by the agents and brokers.

<table>
<thead>
<tr>
<th>NAICS</th>
<th>NAICS Name</th>
<th>Commission Dollars ($1,000)</th>
<th>% of 425120</th>
</tr>
</thead>
<tbody>
<tr>
<td>425120</td>
<td>Wholesale trade agents and brokers</td>
<td>19,760,034</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: 1997 Census, Table 6

The recent trend in the NAICS 425120 industry is for agents to offer a wider range of additional services provided for the manufacturer. These services include engineering, market research, order processing, special promotions, conducting educational seminars, consulting, and providing Computer Aided Design (CAD) layout drawings for integrating several pieces of equipment from different manufacturers. Installation, warranty, and repair work are normally handled by the manufacturer. All of these services are considered “unbundled” and if selected during disaggregation should be collected as other receipts.

**C. PRICE DETERMINING CHARACTERISTICS**

There are a variety of price-determining components that are applicable to NAICS 425120 and they include:

**Product Information** - The type of product purchased is one of the largest price determining components. Products differ by cost, size, model, as well as many other category differences. Products also differ by demand, which can be a large price determining component when similar products are sold. Products also might differ by the amount of additional services that are added by the agent. Types of services that affect the actual product are rare for agents because they do not physically possess the goods. If any do occur, they are generally considered incidental to the wholesaling operation and do not change the function of the product. If any of these services do exist, they should be noted as incidental services included and described in the comments section of the checklist.
Buyer Sales Information - This price-determining component is also important in that sales by agents and brokers to the next level buyer are frequently based on volume. Consequently it is important to identify the sales volume where these price breaks occur.

D. CUSTOM SERVICES

Custom services that are offered in this industry do not physically change the goods being transacted, as is the case with other wholesalers and retailers. The custom services that are offered such as billing, invoicing, and maintaining stock remove the manufacturer’s burden of selling goods to buyers, as well as record keeping. If the fee for these types of services is not included in the commission price, it should be classified as an other receipt.

E. SEASONALITY

Some products are only sold during certain times of the year. Such products as heating equipment and air conditioners might only be wholesaled seasonally. There may be products that are only sold once to a particular customer per year but are available for a number of months. Collect the commission dollars for these items during the months when they are sold. This is expected to happen only with a limited number of establishments.

F. SERVICE SUBSTITUTION

Service substitution in NAICS 425120 is not expected to be a large problem. If a product is discontinued, it will be dealt with on a case by case basis. If the reporter verifies that the new product is similar to the former item, they will be directly compared. Substitutes should be comparable products, marketed in a similar fashion, targeting the same customers, and with the same functionality. If the reporter deems products to be not comparable, a link to show no change will be used.

G. QUALITY ADJUSTMENT

Quality Adjustment Changes

Changes in the number or type of incidental services offered by brokers/agents - The job of agents has changed over the last several years. The commission increases often come with additional service requirements. Along with the higher rates come the expectations from the manufacturer that the agent successfully perform any number of additional services. A broker/agent may increase their services without any increase in their commission. If bundled, these services should be reported as incidental services. Among those services reported by respondents were engineering, billing, “missionary” work, installation, invoicing, computer services and conducting educational seminars. When the fee for these services is not included in the total dollar value of commissions and is a separate charge, it will be classified as other receipts.
4. MARKET AND TRANSACTION INFORMATION

A. INTRA-FIRM TRANSFERS AND INTRA-INDUSTRY SALES

Intra-firm transfers do not occur in this industry since agents do not purchase the goods being transacted. Intra-industry sales do occur on a limited basis when agents sell goods to other wholesalers.

B. PRICE BEHAVIOR

Price behavior within the industry tends to reflect trends in profit margins of major retailers. Since agents and brokers have very few fixed costs, the selling price of the product, and therefore the commission dollars received by the agent or broker, drives wholesaler revenue. Commission price behavior on a per item basis tends to remain fairly stable.

C. TYPES OF PRICES

Dollar value of commission based on a percentage of sales is the most prevalent type of price, followed by a flat fee. The customer class of the next buyer is an important component of the price because part of the commission dollars is largely determined by how much of a product is sold.

Commission Price
The most common type of price that will be collected in the Wholesale Trade Agents and Brokers industry is a dollar value of commissions. The dollar value of commissions is a percentage of the product sales based on a per unit price and is set by the manufacturer. It is important to note that the price collected will be the price received by the agency for services performed and not the commission for a specific broker or agent.

Specific types of price (in order of preference) that will be collected for agents that do business based on commission are outlined below.

1. Average dollar value of commissions per unit for a particular customer class for all of the sales of a particular product.

2. Average dollar value of commission per unit for all customers for a particular product.

3. Dollar value of commission for a single specific product transaction.

The preferred price to collect is the average dollar value of commissions per unit for all sales of a particular product to a specific customer class for all agents/brokers included in the sample unit.
Also, if the agency sold the product or product line to a number of buyers and if they did not ALL receive the same commission percentage, a weighted average of the total commission dollars will need to be calculated.

**Flat Fee Price**

Although most companies in this industry do business based on commission basis, there are some that charge a flat fee for service performed. The transaction set up by the broker/agent between the manufacturer and buyer may involve various heterogeneous products. As a result the broker/agent may charge a flat fee. The ideal situation is to price the full transaction at the flat fee which represents a fixed group of products and/or services. However, in many cases, the components of the entire transaction are likely to change monthly and would not result in the pricing of a reoccurring transaction. Also, it could create an unreasonable burden for the respondent to keep track and update the terms of the transaction each month. An estimated price of the entire transaction is acceptable if the respondent can provide it. The respondent would provide an estimate which is based on real knowledge of what the transaction is and its estimated current price. However, the respondent may not be willing to give an estimate. Therefore, a fallback procedure has been developed to price a reoccurring flat fee transaction.

The preferred fallback is the one that measures the largest part of the total service rendered. Specific products and/or services included in the overall transaction should be chosen, which would represent the overall transaction. Collect the products and/or services that represent the largest cost component of the transaction and use its price as a proxy for the entire transaction price. The flat fee received by the agent for the wholesaling of the chosen products and/or services that represent the largest cost component of the entire transaction serves as the price to collect. Collect as much information for the item description for the entire transaction as possible. The entire transaction should be described in the item description even though a specific service or product is priced each month.

An example of a flat fee fallback is when a company charges a flat fee to furnish hotel rooms and the products and services within the contract are very heterogeneous (example: mattresses, telephones, ash trays, wall decorations, etc.). Respondents will typically assign a fee for each product provided. Since products and services within the contract may change and respondent burden may be an issue, the fallback would be to choose a single product that will represent the entire transaction (example: mattresses). Typically, this product or service should represent the largest cost component of the transaction, which in this case is the mattresses.

In both types of price, whether commission or flat fee, reps are not paid until either the product is shipped or until the supplier’s invoice is paid (this depends on the industry standards for payment). As a result, the manufacturer is not impacted by selling expense until the sales are actually taken. It also means that cash flow is deferred until well after the desired event (getting the order) is achieved – at least compared to a direct sales force. Commission payments from the manufacturer to the agent are usually made in
cash. The price that should be collected is the price at the time of the shipment, regardless of whether or not the agent receives payment at that time or a later date.

D. TYPES OF BUYERS

The types of buyer within the wholesale trade industry are typically industrial users, retail establishments, business users that consume the product, exporters, or other wholesalers. The whole premise of the industry is to move products from the manufacturer to the next step on the distribution chain.

E. DISCOUNTS

While discounts in this industry are rare, several types do exist. The most common type of discount is a quota discount given by the manufacturer to the agent or broker. This discount is usually an added commission because a specified quota was exceeded.

Discounts from the wholesale agents and brokers to the buyer of the product rarely if ever take place. These types of discounts usually do not affect the agents and pass through directly to the manufacturer.

F. ADDITIONAL CHARGES

Freight - The agents do not usually set up transportation of goods and when they do it is almost always separated from the commission. If the agent/broker receives revenue for arranging for the transportation and it is separable, it should be given a separate chance of collection as an other receipt.

G. SIZE OF PURCHASE

There is no one set size of purchase within the wholesale agents and brokers industry. Agents may offer only a few items for sale, perhaps all made by one manufacturer, or they may offer thousands of items produced by hundreds of different manufacturers. Agents may only sell a narrow range of goods, such as specialized machine tools, or a broad range of goods, such as all the supplies necessary to open a new store, including shelving, signs, cash registers, accounting ledgers, and some merchandise for resale. Some products may be sold in single units.

H. CONTRACTS

Contracts in the industry tie in relationships between manufacturer, agent or broker, as well as the next level buyer. The contract spells out how much is to be purchased by the buyer, what inventory levels must be kept, what price that the buyer must sell his product, as well as the terms in which the legal agreements can be terminated. In the case of a retailer making a purchase, contracts might also dictate how displays should be shown in a retailer’s store.
I. OTHER VARIABLES INFLUENCING PRICE

Estimated Prices – One problem in developing a wholesale trade index for agents and brokers is that there might not be a regular monthly transaction that can isolate the size of shipment, type of commodity wholesaled, as well as other price determining components. In other situations, the reporter might be able to isolate certain transactions but those transactions might not be representative of the business that they do. In these situations, the flat fee methodology will likely be required and is discussed in the Type of Price section.

5. INDUSTRY INFORMATION AND RELATIONS

A. INDUSTRY RELATIONS

The following is a list of associations and agencies involved in wholesale trade agents and brokers.

Manufacturers & Agents National Educational Foundation/Manufacturers’ Agents National Association (MANA)
23016 Mill Creek Drive, P.O. Box 3467
Laguna Hills, CA 92654
(949) 859-4040
www.MANAonline.org

MANA is the primary association for wholesale trade agents. The following trade associations also represent independent sales reps.

Agricultural & Industrial Manufacturers Representatives Association (AIMRA)
5800 Foxridge Drive Ste. 115
Mission, KS 66202
(913) 262-0317
www.aimrareps.org

Association of Independent Manufacturers Representatives (AIM/R)
222 Merchandise Mart Plaza, #1360
Chicago, IL 60654
(312) 464-0092
www.asa.net

Broker Management Council
P.O. Box 150229
Arlington, TX 76015
(817) 561-7272
assnhqtrs@aol.com
B. CURRENTLY AVAILABLE PRICE DATA

There is currently no index that measures commission prices of agents and brokers. There are some private organizations that do compute price and revenue data for certain markets in the manufacturer’s agents industry but they fail to capture the entire industry.

C. LITIGATION AND OTHER COOPERATION PROBLEMS

There may be some difficulty with cooperation in collecting this industry. There are a number of small agents/brokers in this industry. Lack of time could result in cooperation problems as companies often have only one or two representatives who are responsible for all the companies’ activities.

D. SERVICE IDENTIFICATION PROBLEMS

Service identification problems with this industry should be minimal.

E. CHECKLIST CLARIFICATIONS

Product Checklist

1. Group 01 – Product Identification-This section should be completed in every situation.

2. Group 03 – Buyer Sales Information- If possible, disaggregation should be done to a specific class of customer (e.g. large retailer). Class of customer can be defined in terms of sales volume (line 001) or by the volume of product shipped (line 002) or even by a specific named customer class (line 003). This can be an important price determinant during repricing. Changes in this information could indicate when quality adjustment is necessary.

3. Group 05 – Commission Sales Calculation - Group 05 and Group 06 will never be completed on the same checklist. If the sample unit does not have records based on commission dollars (i.e. they only keep records according to sales dollars), collect the sales price per unit and multiply it by the commission percentage to arrive at the total dollar value of commission per unit. In addition, the commission percentage that will be
collected will not be an individual salesperson’s commission but will be the average commission rate for the sample unit for the particular product. The dollar value of commission per unit can be a weekly average, two-week moving average, or daily. Any lagged averages occurring before the first of the current month are not considered acceptable.

4. **Group 06 - Flat fee Transaction Information** – Collect the flat fee price when commission based fees do not exist. Be sure to list the products within the entire transaction that are being priced (see Type of Price section). Other features should be used to record any product or transaction information that Group 02 will not accommodate.

**F. INDUSTRY SPECIFIC QUESTIONS AND PROCEDURES**

1. **Sample Refinement/ Sample unit Identification**

Sample refinement was conducted to locate the physical address of the records center for the clustered sample units. In cases where no phone contact was made, the physical location of the largest cluster member is entered as the record center address. An attempt was made to specifically verify that the sample unit was in scope of this wholesale trade industry. There were 16 sample units that were identified as NAICS 423000 units (noted in SU Comments). These units should be initiated and misclassified if necessary.

Clusters members were suppressed for all sample units with greater than 30 cluster members.

Remember to include all subsidiaries that are wholesale trade operations for which the reporting unit has records. This means that the subsidiary name can be different than the SU name. “Newly purchased” establishments should be included in the RU, and those “sold off” are excluded. There is no technical out of business in this industry. There should be no field created sample units.

2. **Classification within wholesale trade**

Classification of revenues (commission or margin dollars) for wholesale activities is determined according to the NAICS industry that the PPI is publishing. The following 6-digit wholesaling industry codes will be used for classification purposes:

<table>
<thead>
<tr>
<th>2002 NAICS industry code</th>
<th>Industry/subsector description</th>
</tr>
</thead>
<tbody>
<tr>
<td>423000</td>
<td>Merchant Wholesalers, Durable Goods</td>
</tr>
<tr>
<td>424000</td>
<td>Merchant Wholesalers, Nondurable Goods</td>
</tr>
<tr>
<td>425110</td>
<td>Business to Business Electronic Markets</td>
</tr>
<tr>
<td>425120</td>
<td>Wholesale Trade Agents and Brokers</td>
</tr>
</tbody>
</table>
Notice that publication for merchant wholesale (including manufacturer’s sales branches and offices) will be at the subsector (3-digit NAICS) level. Classification decisions should be made at this level also. For example:

<table>
<thead>
<tr>
<th>SU #1</th>
<th>2002 NAICS</th>
<th>PPI INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Margin dollar revenue breakdown:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10% wholesaling of electric light fixtures</td>
<td>423610</td>
<td>423000</td>
</tr>
<tr>
<td>20% wholesaling of Televisions</td>
<td>423620</td>
<td>423000</td>
</tr>
<tr>
<td>30% wholesaling of books</td>
<td>424920</td>
<td>424000</td>
</tr>
<tr>
<td>Commission revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40% acting as an agent in selling TVs</td>
<td>425120</td>
<td>425120</td>
</tr>
<tr>
<td>(does not take title to the goods sold)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Sample Unit above is classified in 425120. However, if in the above example wholesaling of electric light fixtures accounted for 20 percent and acting as an agent accounted for 30 percent, the SU would be classified as a merchant wholesaler, durable goods because 40 percent (i.e. the plurality) of their revenue is earned in that subsector.

The collection system entries should also correspond to what the PPI publishes. The actual 6-digit NAICS industry codes should not be used if the PPI will not be publishing them. Using the first example above, the correct collection system entries would be:

<table>
<thead>
<tr>
<th>Product/Service</th>
<th>NAIC</th>
<th>S&amp;R</th>
<th>Rank</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchant Wholesalers, Durable Goods</td>
<td>423000</td>
<td></td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Merchant Wholesalers, Nondurable Goods</td>
<td>424000</td>
<td></td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Wholesale Trade Agents and Brokers</td>
<td>425120</td>
<td></td>
<td>40</td>
<td></td>
</tr>
</tbody>
</table>

Collected NAIC: 425120

3. Classification when revenues are earned outside the wholesale industry

Publication and classification of wholesale industries at the subsector level has implications for classification across the entire PPI. Because the UI file was used as the frame source for wholesale trade and it is typically used for most industries in the PPI, sample units can be misclassified into or out of wholesale trade. Recall from the DCM (Doc 1.8), there are a number of criteria that a sample unit must meet in order to be
classified as a manufacturer. Previously, if all criteria were not met, the SU was given a status code of 44 – Out of Scope - not measurable. Now that wholesale trade is in scope of the PPI, there is a possibility that a unit sampled in a manufacturing industry would now be collected in wholesale trade. In general, jobbers, as described in the DCM (Doc 1.8) that do not own the key material inputs used to fabricate the final product and/or do not design or prototype the product (or are not licensed to manufacture the proprietary good) should be collected as a wholesale trade sample unit.

A sample unit’s revenues should always be classified according to the industry that will be published in the PPI regardless of whether revenues fall within mining, manufacturing, services, or wholesale trade. (The exception to this rule is retail trade where industry classification is by usual trade designation and all retail revenues are grouped together and assigned the sample unit designated 6-digit NAICS.)

Note: By definition, any sales to final users (e.g. households) are considered wholesale trade transactions. Therefore, there are no retail transactions for sample units determined to be properly classified in wholesale.

For wholesale trade industries, the total S & R value is gross margin for trade activity plus sales dollars for all other activity. For those mining and manufacturing industries and other service industries that are not classified as either retail or wholesale trade, continue to collect sales dollars for the total S & R value (not gross margin value) and use sales dollars to complete the ISDWS, while the S&R by NAIC will contain the percentage mix of sales for the manufacturing activity and margin for the wholesale.

For determination of NAICS classification, use sales dollars for manufacturing activity and margin dollars for wholesale or retail activity. If your SU is:

**A WHOLESALE TRADE UNIT:**
Collection system entries for S&R by NAIC: Margin/commission dollars for wholesale activity
Sales dollars for all other activity

Collection system entries for total S & R: Margin dollars for wholesale activity
Sales dollars for all other activity

Collection system entries on ISDWS: No ISDWS

**A MANUFACTURER**
Collection system entries for S&R by NAIC: Sales dollars for manufacturing activity (record as a %)
Margin/commission dollars for wholesale or retail activity (record as a %)
Collection system entries for total S& R:  Sales dollars for all receipts
Collection system entries on ISDWS:  Sales dollars for primary activity
Sales dollars for wholesale or retail activity

4. Disaggregation Path- The first step of disaggregation for this industry will likely start with type of transaction. This would be commission dollar transactions versus non-commission fees for services provided. The next logical steps would be by product sold, type of buyer (e.g., retailer, wholesaler, industrial user, etc.), and by the customer (size) class of the wholesaler’s next buyer. The customer class of the next buyer is an important component of the price because part of the commission is largely determined by how much of a product is sold.

5. Prices

➢ DOLLAR VALUE OF COMMISSION PRICES

a. Average dollar value of commissions per unit for a particular customer class for all of the sales of a particular product. If the dollar value of commissions is not available, use Group 05 to multiply the average commission percentage by the price per unit to get a dollar value of commission. Enter the dollar value of commission as the item price. The dollar value of commission per unit can be a weekly average, two-week moving average, or daily. Any lagged averages occurring before the first of the current month are not considered acceptable.

b. Average dollar value of commission per unit for all customers for a particular product. Enter the dollar value of commission as the item price. If the dollar value of commissions is not available, use Group 05 to multiply the average commission percentage by the price per unit to get a dollar value of commission. Enter the dollar value of commission as the item price.

Remember to calculate a weighted average percentage commission (specify the calculation in other features) if commission rates vary for any particular product (for example, commission rates could be different depending on the region where the products are sold)

c. Dollar value of commission for a single specific product transaction. Collect the commission percentage and the price per unit only if the sample unit does not keep records for commission dollars.

➢ COMMISSION PRICES (FLAT FEE)

In the event the sample unit does not receive commissions collect the flat fee for a single specific transaction.
6. Discount information not already included in item price (Including rebates and cash discounts)

There should be few cases that necessitate entering information in the adjustment to price section of the checklist. If it is necessary to enter information, no special procedures are required (unlike procedures in merchant wholesale industries NAICS 423000 and 424000).

Note: Commission rate is provided as an adjustment to price but should only be used as a fallback to entering the commission calculation on the product checklist.

7. Overlaps

There are no traditional PPI overlaps in a cycle A industry. Overlap procedures as described in the merchant wholesale industry synopsis are included below because there were sample units identified in sample refinement that are likely part of NAICS 423000. Sample units classified as agents and brokers are not expected to have an overlap issue.

However, there were 16 sample units that were identified during sample refinement that are likely classified in NAICS 423000 where there are “overlaps”. Therefore, prior to initiation of sample units in this industry, name searches on the PPI Reporter Look Up and IPP Reporter Search should be conducted. The type of information collected may be based on the type of match found.

Two scenarios are provided below for these potential company overlaps:

*The collection location is different than the location in PPI Reporter Look Up or IPP Reporter Search*

No Special Procedures.

*The collection location is the same as the location in PPI Reporter Look Up or IPP Reporter Search*

a. Determine if your respondent is a current reporter. If your respondent is not the current reporter, no special procedures are required, unless requested by your respondent. If requested, the same quotes currently reported can be collected from your respondent.

b. If the current reporter is also going to be supplying the new information for the wholesale trade industries, determine if there will be a separate disaggregation for wholesale trade. If they are willing to disaggregate for wholesale trade, no special procedures are required.

c. If they are unwilling to perform additional disaggregation, collect wholesale trade price information on the same set of products for which they currently report. Ask the reporter
to complete two sets of repricing forms for the same products, supplying different pricing information for each set as described below.

**PPI Mining and Manufacturing Overlaps**

a. Sales/Branch Offices that don’t take title

Ask the respondent to fill out two sets of repricing forms – the current set and a new set based on the commission rate.

b. Sales/Branch Offices that take title

Ask the respondent to fill out two sets of repricing forms – the current set and the new set. The manufacturing company price used as the supply source price for wholesale trade in some instances may be an intra-company transfer price.

**PPI Retail Trade Overlaps**

If the rare case occurs where the reporter is the same as the current reporter, ask the respondent to fill out two sets of repricing forms. The wholesale trade unit would have the incoming manufacturer price as the supply source price and the intra-company transfer price to the retail units would be the sale price.

**IPP Export Overlaps**

Ask the respondent to fill out two sets of repricing forms – the current set and a new set collecting the price from manufacturer to exporter as the supply source price, and the f.a.s. port price as the sale price.

**IPP Import Overlaps**

IPP import overlaps require different price entries as compared to all other overlaps. Unlike the other overlaps, where if the same set of products are collected, and the same price, if appropriate, can be entered in “item price” for both sets of schedules, the price collected for IPP imports cannot be entered as the item price on the PPI schedule. This is because the price collected for IPP is the same as the supply source price in the margin calculation needed for the PPI wholesale trade index. Therefore, if the IPP import overlap respondent is providing price information on the same products, remind them to provide the landed cost price for the IPP program and a margin price for the PPI program. If necessary use the price collected for IPP as the supply source price and what the importer sells the product for as the buyer price to calculate the margin.
The intra-company transfer pricing described above would apply to manufacturer/wholesaler relationships and wholesaler/retailer relationships even if they were not overlaps.

PUBLICATION GOALS

Listed below are the publication goals for NAICS 425120 – Wholesale Trade Agents and Broker
<table>
<thead>
<tr>
<th>PPIR Code</th>
<th>PPI Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>425120</td>
<td>Wholesale trade agents and brokers</td>
</tr>
<tr>
<td>425120P</td>
<td>Primary services</td>
</tr>
<tr>
<td>4251201</td>
<td>Wholesale trade agents and brokers</td>
</tr>
<tr>
<td>425120SM</td>
<td>Other receipts</td>
</tr>
<tr>
<td>425120M</td>
<td>Miscellaneous receipts</td>
</tr>
<tr>
<td>425120MM</td>
<td>Miscellaneous receipts</td>
</tr>
<tr>
<td>425120S</td>
<td>Secondary services</td>
</tr>
<tr>
<td>425120SS</td>
<td>Secondary services</td>
</tr>
</tbody>
</table>