

Federal Trade Commission

STATISTICAL REPORT:

Annual Line of Business Report 1977

Report of the
Bureau of Economics

Annual Line of Business Report

1977



Statistical Report of the Bureau of Economics
to the Federal Trade Commission

April 1985

FEDERAL TRADE COMMISSION

JAMES C. MILLER, III, Chairman
PATRICIA P. BAILEY, Commissioner
GEORGE W. DOUGLAS, Commissioner
TERRY CALVANI, Commissioner
MARY L. AZCUENAGA, Commissioner

BUREAU OF ECONOMICS

WENDY L. GRAMM, Director
JOHN L. PETERMAN, Associate Director for Special Projects
RONALD S. BOND, Deputy Director for Operations and Research
RICHARD S. HIGGINS, Deputy Director for Consumer Protection
and Regulatory Analysis
DAVID T. SCHEFFMAN, Deputy Director for Competition Analysis
and Antitrust
KEITH B. ANDERSON, Assistant Director for Special Projects
ROBERT T. BROGAN, Assistant Director for Competition Analysis
PAULINE M. IPPOLITO, Assistant Director for Industry Analysis
PAUL A. PAUTLER, Assistant Director for Antitrust
PAUL H. RUBIN, Assistant Director for Consumer Protection

The Manager of the Line of Business Program has certified that he has reviewed and approved the disclosure avoidance procedures used by the staff of the Line of Business Program to insure that the data included in this report do not identify individual company line of business data.

This report has been prepared by staff of the FTC's Bureau of Economics. It has not been adopted by the Federal Trade Commission, or any individual Commissioner, in whole or in part.

ACKNOWLEDGMENTS

This is a statistical report of the Bureau of Economics, Wendy Lee Gramm, Director. The report was produced under the direction of William F. Long, Manager of the Line of Business Program. Many people assisted in the production of the report. Individual company reports were gathered and audited by several staff accountants under the supervision of Edward C. McReady, former Chief of Accounting Review. Carol Kukich and Gloria Reyes coordinated and controlled the flow of documents during the audit. William F. Long and staff economist George A. Pascoe Jr. performed the programming and data processing work that generated the industry data aggregates and financial ratios displayed in the report. Staff economist Joseph Cholka ably assisted in this task. David F. Lean, Deputy Manager, directed text preparation tasks, receiving capable support from Curtis L. Wagner, Amie Ingber, Ernest Cowan and Johnathan Broadnax. The draft was capably typed by Betsy Zichterman in the Bureau's Word Processing Center under the supervision of Peggy Holland. Susan (Peg) Panek provided considerable secretarial assistance throughout the effort. Special acknowledgment is rendered staff of the Office of General Counsel, particularly Howard E. Shapiro, former Deputy General Counsel, and Joanne Levine, attorney, who gave invaluable legal assistance to the Program throughout the entire data collection and report production effort.

TABLE OF CONTENTS

<u>Chapter</u>	<u>Page</u>
1. Introduction	1
I. Description of the 1977 Survey Form	4
II. Publication of Data Suppressed in Earlier Years	7
III. Corrections of Previously Published Data ..	8
2. Comparisons of 1977 Industry Performance	10
I. Profitability	10
II. Advertising	14
III. Research and Development	20
IV. Ratio of Total Assets to Sales	23
3. Industry Financial and Statistical Data for 1977	42
I. Confidentiality and Disclosure Avoidance ..	42
II. Secondary Product Contamination	44
A. Specialization Ratios	45
B. Coverage Ratios	46
III. Effects of Segmental Accounting Procedures	48
IV. Representativeness of the Data: Participation Ratios	61
V. Master Table: Aggregate Financial and Statistical Data	102
VI. Footnotes to the Master Table	253
 Appendix	
A. Aggregate Financial and Statistical Data Suppressed in Earlier Year	259
B. FTC Line of Business Form, 1977	270
C. General Instructions	284
D. Glossary of Terms Used	305
E. Industry Category List for FTC Form LB, 1977 ..	309
F. Supporting Statement, FTC Form LB, 1977	321
G. Confidentiality Rules and Procedures for the 1977 Reporting Year	328
H. Line of Business Company List, 1977	335

TABLE OF CONTENTS--Contents

<u>Chapter</u>	<u>Page</u>
I. Line of Business Program Reports, Research Papers, and Research in Process, March 1985	346

List of Tables

<u>Table</u>		<u>Page</u>
2-1	Operating Income as a Percentage of Total Assets	12
2-2	Operating Income as a Percentage of Sales	13
2-3	Media Advertising Expenses as a Percentage of Sales for the 10 Industry Categories with the Highest Values	17
2-4	Total Selling Expenses as a Percentage of Sales	18
2-5	Firm-financed Research and Development as a Percentage of Sales for the 10 Industry Categories with the Highest Values	21
2-6	Total Assets as a Percentage of Sales	24
2-7	Selected Operating Ratios	26
3-1	Specialization Ratio: Distribution of Manufacturing Industry Categories	47
3-2	Coverage Ratio: Distribution of Manufacturing Industry Categories	49
3-3	Transfers to Other LB's of the LB Reporting Section as a Percentage of Total Sales and Transfers: Distribution of Manufacturing Industry Categories	51
3-4	Transfers to the Foreign Section as a Percentage of Total Sales and Transfers: Distribution of Manufacturing Industry Categories	53
3-5	The Percentage of Transfers Valued According to Three Methods: Distribution of Manufacturing Industry Categories	54
3-6	Number of Firms Valuing Transfers at Market Price, Cost Plus Markup, and Cost	56
3-7	The Percentage of Firm Transfers Valued According to Three Methods: Distribution of LB Sample Firms	57

List of Tables (continued)

<u>Table</u>		<u>Page</u>
3-8	The Ratio of Nontraceable to the Sum of Traceable and Nontraceable, Selected Expense Items: Distribution of Manufacturing Industry Categories	59
3-9	The Ratio of Nontraceable to the Sum of Traceable and Nontraceable, Selected Asset Items: Distribution of Manufacturing Industry Categories	60
3-10	The Ratio of Nontraceable to the Sum of Traceable and Nontraceable, Selected Expense Items: Distribution of LB Sample Firms With More Than One Line of Business	62
3-11	Ratio of Nontraceable to the Sum of Traceable and Nontraceable, Selected Asset Items: Distribution of LB Sample Firms With More Than One Line of Business	63
3-12	Participation Ratio: Distribution of Manufacturing Industry Categories	65
3-13	Participation, Specialization, and Coverage Ratios, 1974-1977	71
Master Table	Aggregate Financial and Statistical Data	102
 <u>Appendix</u>		
A.	Aggregate Financial and Statistical Data Suppressed in Earlier Years	258

CHAPTER 1
INTRODUCTION

This is the last in a series of five Annual Line of Business Reports (ALBRs) to be published by the Commission for the years 1973-1977. The reports for the years 1974 through 1977 contain industry aggregates and financial ratios for line of business (LB) data submitted by the full sample of reporting companies for those years. Data for the full sample years 1974 through 1977 are comparably based for research and analytical purposes. The 1973 report data are based only upon a sample of companies required to report data for that year and are not analytically comparable with data for subsequent years.

In 1974, the Commission began to collect 1973 line of business data for large diversified manufacturers. The form for the 1973 reporting year was then revised for the 1974 reporting year, and remained essentially unchanged through 1977. In granting approval to conduct the 1977 survey, the General Accounting Office (GAO), which had forms approval authority over the FTC at that time, recommended in 1979 that a plan be developed to evaluate the costs and benefits of the LB data collection effort. The Commission adopted this recommendation, a plan was drafted, and staff undertook a study in May 1981. The Commission then decided to suspend collection of LB data for 1978 and subsequent report years, pending completion of such review. This review was completed on April 12, 1984, at which time the Commission concluded that the costs of the program outweighed its

benefits and decided not to resume data collection. It voted, however, to continue research with the data already collected.¹ Such research has been and remains ongoing and a list of papers, publications, and research in process is presented at the end of this report in Appendix I. The research with the disaggregative line of business data by staff and consultant researchers has focused on industrial organization as well as strategic management and planning questions.

Research with the line of business data has used lines of business, companies, industries, or some combination as observa-

¹ The review process included input from staff of the Line of Business Program, the director of the Bureau of Economics, other segments of the Commission, reporting companies and other members of the business community, other government agencies, members of the antitrust legal profession, and academicians. The benefit--cost evaluation is documented in the following reports: (1) FTC, Bureau of Economics, Evaluation of the Benefits of the Federal Trade Commission's Line of Business Program, February 1984; and (2) six documents that represented the initial material placed before the Commission for review in September 1982. This set includes: (1) William F. Long, David F. Lean, David J. Ravenscraft, and Curtis L. Wagner III, Executive Summary of the staff report on the Benefits and Costs of the Federal Trade Commission's Line of Business Program, September 1982; (b) William F. Long, David F. Lean, David J. Ravenscraft, Curtis L. Wagner III, Benefits and Costs of the Federal Trade Commission's Line of Business Program, Volume II: Public Comments on the Benefits and Costs of the LB Program Received in Response to Federal Register Notice Requests of February 26, 1982, and April 12, 1982; (d) Benefits and Costs of the Federal Trade Commission's Line of Business Program, Volume III: Comments of Consultant Reviewers to Preliminary Drafts of Volume I: Staff Analysis; (e) Line of Business Data Collection: Recommendations of William F. Long, Manager, Line of Business Program, January 20, 1983; and (f) Benefits and Costs of the FTC's Line of Business Program: Recommendations of Robert D. Tollison Richard S. Higgins, and William F. Shughart II, January 20, 1983.

tions. The figures below show the size of these categories over the period 1974-1977. In reading the line items, a line of business observation is a single company reporting its activities to a given FTC industry category. An industry category observation is the summation of data for all companies reporting activities in the same industry category.

Line of Business Data Sample: 1974-1977

Item	Number of Observations			
	1974	1975	1976	1977
Industry Categories				
Manufacturing	259	260	259	259
Non-manufacturing	14	14	14	14
Companies	437	471	466	456
Lines of Business	3992	4198	4243	4337

The Program's resources include other data files both public and nonpublic that can be linked with line of business data for research purposes. These files include, for example, data on mergers and acquisitions, industry concentration, firm market shares, company-level financial data from Standard and Poor's Compustat file, and Census input-output data.

Research is conducted under the statutory provisions and confidentiality rules that govern the operations of the Line of Business Program. These provisions and rules require that only employees of the Program may have access to the individual company information. To this end, outside scholars wishing to conduct research with the disaggregative data must be appointed as special employees of the Program. The data must not be used for law enforcement purposes and no individual company information may be disclosed. Persons interested in conducting research with the line of business data must submit a research proposal for approval by an internal committee and the Director of the Bureau of Economics. Public release of research output requires compliance with disclosure avoidance criteria and the approval of the Commission. Further information about research access may be obtained from the Program.

I. DESCRIPTION OF THE 1977 SURVEY FORM

As noted, the LB Program began with the 1973 reporting year. Aggregate data for that year were published in March 1979, in the Annual Line of Business Report 1973 (ALBR 73).¹ Historical background for the program up to that point is covered in the ALBR 73 publication and in references cited therein.

¹ Federal Trade Commission (Washington, 1979)

Using the substantial amount of information and experience gained from the 1973 survey, the staff developed a revised form for use in the 1974 survey.¹ This form was submitted to the General Accounting Office (GAO) for its approval as required by the Federal Reports Act as amended (44 U.S.C. 3512). In August 1975, GAO responded to the Federal Trade Commission (FTC), advising it that the data to be collected for 1974 were not already available in the Government and that the data collection plan imposed the minimum burden consistent with the FTC's needs.

The 1974 LB form was then mailed to 450 manufacturing firms. A series of administrative and judicial challenges to the LB Program followed issuance of the 1974 Orders. These culminated in early 1976 with more than 150 companies filing suits to enjoin implementation of the survey. The Court ruled in the FTC's favor,² and all 437 companies filed LB forms for 1974 by December 1978.

Once the forms had been filed, they were subjected to a thorough desk audit by the LB Program's staff accountants. The data were aggregated by industry category. They were checked to

¹ Authority for the survey derives from Section 6 of the Federal Trade Commission Act, 15 U.S.C. 46.

² Line of Business Litigation is reported at In Re FTC Corporate Patterns Report Litigation, 432 F. Supp. 291 (D.D.C. 1977), aff'd sub nom., Appeal of FTC Line of Business Report Litigation. 193 U.S. App. D.C. 300, 595 F.2d 85, cert. denied, 439 U.S. 958 (1978).

ensure that no individual company data would be disclosed by release of the aggregates, with the result that some data were combined or suppressed. The aggregates were published in September 1981, in the Annual Line of Business Report 1974.

The 1974 LB Form was also used for collecting data for subsequent years, including 1977. The reporting methods were essentially the same.¹ Several minor layout changes were made, but there were no changes of substance. Two items were dropped from schedule III (percent of sales that included and excluded freight charges). A copy of the 1977 form and related materials are attached as appendices B-E. The June 12, 1979 Order to File 1977 LB data was directed and sent to the 464 firms listed in Appendix H. The forms were audited by LB staff accountants, aggregated by industry category, and screened for potential

¹ See ALBR 74, pp. 44-47.

disclosure of individual company data. The aggregates are given in the Master Table of this report at the end of Chapter 3.¹

II. PUBLICATION OF DATA SUPPRESSED IN EARLIER YEARS

An important supplement contained in this report is a table of data suppressed from publication in earlier years. Aggregate financial and statistical data for certain industries were temporarily suppressed in the 1974, 1975, and 1976 ALBRs pending final disposition of complaints brought by two companies. The complaints were settled in 1984, enabling the Commission to publish previously redacted data, subject to the application of confidentiality provisions that guard against disclosure of individual company data. Accordingly, data for the following

¹ The Commission actually issued 464 Orders to File the 1977 LB Forms. However, one affiliated group was surveyed as two separate firms, and a second affiliated group was surveyed as three separate firms. In addition, one company was excused from filing because it no longer met the selection criteria, three companies were excused from filing due to bankruptcy or dissolution, and data for one company that was acquired by another LB company was included with the parent report. For these reasons the actual number of companies that filed 1977 LB Forms was 456.

