Economic Classification Policy Committee (ECPC) Recommendation for Classification of Distribution Centers in North American Industry Classification System (NAICS) Revisions for 2012

Summary

In the January 7, 2009 *Federal Register* notice the Economic Classification Policy Committee (ECPC) solicited comments on the classification of units that serve as distribution centers for regional or national retail chains. These units are not described in NAICS United States, 2007 and classification of these units in NAICS is currently open to interpretation.
(http://www.census.gov/eos/www/naics/federal_register_notices/notices/fr07ja09.pdf)

The ECPC recommends that units that collect, store, and distribute goods to affiliated retail locations should be classified to NAICS Subsector 493, Warehousing and Storage and to the appropriate industries based on the production process of the individual units being classified. This classification guidance will avoid using the term "distribution center" but more specifically identify the types of establishments and their activities in the sector descriptions for wholesale trade or retail trade and/or the subsector description for warehousing and storage.

Background

The classification of units that collect and distribute goods to affiliated retail stores are not clearly classified in NAICS United States, 2007. These units are often referred to as "distribution centers". There are other terms such as warehouse or cross-docking facility that also describe these units. The term "distribution center" is applied to a wide variety of establishments performing very different activities. In some cases, the term is applied to merchant wholesalers. In other cases, providers of social services such as food pantries use the term "distribution center". "Distribution center" has also been associated with central collections of data or information. For this reason, the ECPC recommends against adding specific index items or narrative classification guidance using the term "distribution center".

During the initial development of NAICS in 1997, the Administrative Subcommittee of the Economic Classification Policy Committee discussed the classification of "distribution centers" that serve affiliated retailers as part of the discussion related to classification of auxiliary establishments in the new NAICS system. The Administrative Subcommittee was not able to reach agreement on a strict classification rule for these units because they appeared to perform some of the activities traditionally associated with wholesale trade (in particular representing an intermediate step in the trade distribution of goods, breaking bulk, and similar functions) but often did not take title to goods at the establishment level and thus were acting more like warehouses. The Administrative Subcommittee took the position that these units would be classified based on their primary activity.

Over time, the growth of these specialized "distribution centers", their significance in terms of local and regional employment, and variations in classification of these units across statistical programs resulted in additional requests for clarification and more concrete classification guidance in NAICS. The ECPC took the opportunity of the scheduled 2012 NAICS revision to solicit for public comments on the most appropriate classification for these units.

In response to that solicitation, the ECPC received three comments regarding the classification of distribution centers. Dockets 12-0032 and 12-0036 suggested classification of these distribution centers in the subsector for warehousing and storage. Docket 12-0042 commented that there were no specific options provided or enough information provided in the *Federal Register* notice on which to base a position.

The ECPC considered these comments and in consultation with classification representatives from Canada and Mexico, discussed these "distribution centers". All three countries have identified units that are providing distribution services to affiliated retailers. None of the three countries provided specific guidance on the classification of them in their national versions of NAICS.

At a trilateral steering committee meeting held in Aguascalientes, Mexico in July 2009, the three countries discussed the classification of "distribution centers" at length and reached tentative agreement that they should be classified to warehousing and storage. This tentative agreement was affirmed at a subsequent trilateral steering committee meeting held in Ottawa, Canada in November 2009.

This agreement was reached based on several factors. First, the establishments involved are primarily acting as warehouses. Second, the units rarely take ownership of the goods at the establishment level. The services provided are not margin services as would be the case for merchant wholesalers or agency services provided on a commission or fee basis as would be the case for agents and brokers. Lastly, there was an agreement made under previous classifications, these units would have been classified as auxiliary storage facilities to the retailers and based on the NAICS treatment of auxiliaries in the United States, should be classified based on what they do.

The ECPC therefore recommends units distributing goods to affiliated retail locations should be classified to warehousing and storage in NAICS United States 2012. The ECPC will include text in the sector description for retail trade, wholesale trade and/or the subsector description for warehousing and storage to describe the classification of these units. The ECPC recommends not using the term "distribution center" because general usage of that term describes establishments classified to numerous industries in NAICS.