

# Academic BRASS

---

Published by the  
BRASS Business Reference in Academic Libraries Committee

Vol 11 (2), Fall 2016

Emily L. Mross  
Business and Public Administration Reference Librarian  
Penn State Harrisburg Library  
Penn State University Libraries

Glenn S. McGuigan  
Library Director  
Penn State Harrisburg Library  
Penn State University Libraries

## **The Necessity of NAICS: Industrial Classification as an Indexing Search Tool**

Whether using an online, company database like *Hoover's Online*, or an article index database like *ABI Inform* or *Business Source Premier*, business researchers have experienced the change in recent years from the old industrial classification system, known as the Standard Industrial Classification system (SIC), to the new system, known as the North American Industry Classification System (NAICS). As many business database users may note, the superseded SIC identification is still often included, although it remains an outdated system. With many business resources, both of these systems are used simultaneously. Since NAICS has replaced the SIC system, it is important for those who do business research to be aware of this critical business classification system. The importance of NAICS as an indexing tool for database research cannot be underestimated, as well as the fact that the SIC system is deceased.

In existence since the 1930s, and the first standard classification system for industries in the United States, the SIC system has been used by the federal government, and in turn by commercial entities, to organize and classify industries based upon an ostensibly uniform system. Periodically updated to reflect changes in industry brought about by technology and innovation, the last version of the *SIC Manual* was published in 1987 (Sabroski, 2000, 18). Long criticized for its inflexibility and rigid hierarchical structure that did not reflect the changes in the economy, the SIC system was based upon a manufacturing economic model, focused upon heavy industrial manufacturing, that changed over time. One could think of this older system as measuring a 1950s type of manufacturing economy. Many recent users of the SIC system would often find a newer industry, such as a high-tech or service-based industry, classified as \*NEC – Not Elsewhere Classified, or not classified at all. While the SIC system served U.S business researchers well over the years, it was clear that a new classification structure was needed to better reflect the new economy that emerged within the last twenty years.

Constructed to avoid the deficiencies of the previous system, the NAICS system, developed jointly by the United States, Canada and Mexico, was adopted in 1997 to replace the SIC system (U.S. Census Bureau, 2016). As opposed to the SIC which was not based upon a single, consistent economic model, NAICS is based upon one economic concept: firms that use the same or similar methods to produce goods or services are grouped together. Also unlike SIC, NAICS provides detailed classification for service-based industries. Of the 1,170 industry categories within NAICS in 2007 for example, 565 were service-based industries (U.S. General Services Administration, 2015). Newer industries included in NAICS and not classified in the SIC system include cable networks, satellite communications, HMO medical centers, and diet and weight reduction centers, to name only a few.

A crucial difference between NAICS and the SIC is the structure of the different classification systems. Some of these differences include the following factors:

NAICS	SIC
Twenty industry sectors	Ten industry sectors
Six-digit system	Four-digit system
Compatible with international standards	Not compatible
Example: Passenger Car Leasing--532112	Example: Passenger Car Leasing--7515

As can be noted, while the 1987 *SIC Manual* included only 10 industry sectors, the NAICS taxonomy includes 20 sectors. While the SIC was structured as a 4-digit system, NAICS is a 6-digit system. Additionally, NAICS is compatible with international standards, while SIC is not.

The increasingly specialized market sectors of the current business landscape are better suited to the increased, reorganized sectors that provide more logical grouping and more comprehensive classifications. For example, ride-hailing services like Lyft or Uber, while still not entirely serviced by NAICS, are most accurately classified as Limousine Service, 485320, as a method of “specialty” transportation (U.S. Census Bureau, 2016). Limousine service falls under Local Transportation, Not Elsewhere Classified in SIC categorization, and provides no specific definition for the service (Office of Management and Budget, 1987).

In addition to newer industries created by technological change, there exists the challenge of classifying newer and highly specialized categories within established industries. In 2014, American consumers spent more than half of their food expenditures on dining out (U.S. Department of Agriculture, 2016). These purchases were made at an increasingly wide array of food and beverage establishments, which are categorized in Sector 72 – Accommodation and Food Services of NAICS. The NAICS classifications provide many more descriptive categories for these establishments, with categories that can adequately group together similar businesses without being too broad or too narrow. SIC Major Group 58 – Eating and Drinking Places offers two categories: Eating Places and Drinking Places; mobile food establishments are removed from this category completely, and are instead categorized as Direct Selling Establishments, under Major Group 59 – Miscellaneous Retail. With the rise of niche dining options, it is hard to imagine categorizing Starbucks, Chipotle and Olive Garden together under such a broadly defined category.

Apparently, there was to be a point in the near future in which all industries would be classified only according to NAICS. While some have questioned the relevancy of using industry codes due to the complexity of modern business (Ojala, 2005), it is clear that an updated code like NAICS has important uses in searching indexed databases. Since NAICS has been hailed as a “new classification system for a new economy” (Sabroski, 2000, 18), why are the publishers still holding onto the SIC?

More information can be found at the official NAICS Web site:

[www.census.gov/epcd/www/naics.html](http://www.census.gov/epcd/www/naics.html).

## References

- Boettcher, J. C. (1999). Challenges and opportunities presented by NAICS. *Journal of Business & Finance Librarianship*, 5(2), 3-13.
- Office of Management and Budget. (1987). *Standard Industrial Classification Manual*. Washington, DC: GPO.
- Sabroski, S. (2000). NAICS codes: a new classification system for a new economy. *Searcher*, 8(10), 18-30.
- Ojala, M. (2005). SIC those NAICS on me: Industry classification codes for business research. *Online*, 29(1), 42-44.
- U.S. Census Bureau. (2016). *North American Industry Classification System: An introduction to NAICS*. Retrieved from <http://www.census.gov/eos/www/naics/>
- U.S. Department of Agriculture Electronic Research Service. (2016). *Food prices and spending*. Retrieved from <http://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/food-prices-and-spending.aspx>
- U.S. General Services Administration. (2015). *Small business assistance frequently asked questions*. Retrieved from <http://www.gsa.gov/portal/content/104122>