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THE 1992 ECONOMIC IMPACT OF THE UPJOHN COMPANY
ON KALAMAZOO COUNTY

by

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At the close of 1992, the Upjohn Company employed 6,700 individuals in Kalamazoo County. The company's employment level in the county declined 9.3 percent from last year due to attrition. Still, the Upjohn Company remains the county's largest employer and directly accounts for 5.1 percent of Kalamazoo County's total employment.¹ Moreover, the company employs 23.6 percent of all employees involved in manufacturing in the county or nearly one out of every four manufacturing workers in the county.

The company paid \$385.1 million in wages and salaries to its county's workers in 1992. In addition, county residents that own stock in the company earned \$9.0 million in dividends in 1992. Combining the company's payroll and paid dividends, the company provided 8.9 percent of the county's estimated total personal income in 1992.²

The 1992 direct economic impact of the Upjohn Company on Kalamazoo County is much larger than its yearly county payroll and the earned dividends of its county stockholders. In 1992, the company paid \$23.1 million in taxes to local governments in the county (excluding the state's Single Business

¹ Includes all wage and salary, self-employed and agricultural workers in the county.

² All dollar amounts presented in this report are in nominal (current) dollars.

Tax), an 8.5 percent increase over 1991. In addition, the company spent nearly \$200 million in capital expenditures in the county, an increase of 14.1 percent from last year's levels, and purchased \$160.1 million worth of goods and services from county suppliers. Finally, in 1992, the Upjohn Company and the Upjohn Company Foundation contributed \$5.1 million to community organizations in the county.

As shown in Table 1, the company's total direct economic impact on Kalamazoo County reached \$872.1 million in 1992.

TABLE 1
THE DIRECT ECONOMIC IMPACT OF THE
UPJOHN COMPANY ON KALAMAZOO COUNTY

	1992	1991	% Chg
(Millions of Dollars)			
Wages and Salaries.....	\$385.1	357.3	7.8
Benefits (including Health & Company Retirement).....	90.1	82.2	9.6
Taxes (local).....	23.1	21.3	8.5
Dividends.....	9.0	8.0	12.5
Capital Expenditures.....	199.6	175.0	14.1
Goods and Services ³	160.1	156.2	2.5
Contributions and Association Support...	5.1	4.9	4.1
Total direct economic impact.....	\$872.1	\$804.9	8.3

³ Includes auto rentals, hotels, air travel, and airport fuel flowage fees.

Upjohn Company's total economic impact on Kalamazoo County is much larger than its employment level, the size of its payroll, or the amount it purchases from suppliers in the county. In addition to the above direct economic impacts, the company generates an even larger indirect economic impact which includes workers employed by its suppliers located in Kalamazoo County and individuals employed in firms which depend upon the consumption expenditures by Upjohn employees. Moreover, the company's indirect impact includes the third, fourth, and higher order employment and income effects, such as, individuals employed in firms which are dependent upon the consumer expenditures of those employed in producing goods or services for the Upjohn Company or its workforce. This indirect impact, which also includes the earnings of these workers, can be measured both in employment and personal income.

The Upjohn Institute's econometric model of Kalamazoo County is especially designed to measure the total economic impact of changes in economic activity in the county. The model captures all the employment and income impacts discussed above.

We estimated that the total employment impact of the Upjohn Company on Kalamazoo County, direct and indirect, was 19,890 in 1992. In Table 2, the company's total employment impact on the county is broken down into both its direct effect (6,700 Upjohn Company employees) and the indirect effect (13,190 jobs created outside the company). Similarly, the total impact of the Upjohn Company on the county's total personal income was \$618 million, which is the sum of the \$394.1 million of direct income to Upjohn employees and county

stockholders, plus the \$223.9 million of non-company income created in the county as a result of the Upjohn Company.

TABLE 2

DIRECT, INDIRECT AND TOTAL ECONOMIC IMPACTS
OF THE UPJOHN COMPANY ON KALAMAZOO COUNTY

	DIRECT	INDIRECT	TOTAL
Jobs.....	6,700	13,190	19,890
	(millions)		
Income*.....	\$394.1	\$223.9	\$618.0

*Includes wages, salaries, and dividends paid to local residents.

In total, an estimated 15.1 percent of the county's total employment was directly or indirectly dependent on the Upjohn Company in 1992. Furthermore, 14.0 percent of the county's total personal income was generated, directly or indirectly, by the presence of the Upjohn Company.

Employment dependent upon the Upjohn Company is distributed across all the major economic sectors of the county, as shown in Table 3. Over 25 percent of the county's manufacturing workers is dependent upon the Upjohn Company, directly or indirectly. An estimated 12.8 percent of the county's retail workers and 12.6 percent of the county's finance, insurance and real estate workforce depend on the company's payroll or direct orders.

TABLE 3

EMPLOYMENT IMPACT OF THE UPJOHN COMPANY
BY INDUSTRY

Industry	Number of Workers	Percentage of Industry's County Employment
Manufacturing (Including Upjohn)	7,235	25.4
Retail	2,940	12.8
Finance	1,287	12.6
Services	4,089	10.7
Other	4,339	13.4

Often the total impact of a company on its surrounding community is stated in ratios with respect to their corresponding direct impacts and called employment or income multipliers. The Upjohn Company's employment multiplier was 2.97 (19,890/6,700) in 1992, meaning that each job at the company created 1.97 other jobs locally. The employment multiplier in 1992 is slightly lower than 1991's multiplier of 3.24. In 1992, the company's income multiplier was 1.51 (\$618.0 million/\$394.1 million), meaning that every dollar of income earned through Upjohn added another 56 cents of income locally. In 1991, for every dollar earned another 87 cents of income was earned locally. The reduction in the size of the multipliers reflects 1) changing shopping patterns of area residents and structured changes in the area economy.

In 1992, the total economic impact of the Upjohn Company on Kalamazoo County was \$1.20 billion. The total economic impact of the company is the total value of all goods and services produced in the county due to the Upjohn

Company only, minus the cost of all raw and intermediate materials used in the county to produce these goods and services. In economic terms, it is the portion of the county's total value added or gross regional product which is generated by the Upjohn Company. The total economic impact of the Upjohn Company in 1992 was 4.8 percent lower than its 1991 estimate of \$1.26 billion.

Methodological Notes

Upjohn Company's total economic impact on Kalamazoo County was calculated by estimating the total value of all goods and services produced in the county due to the presence of the company in 1992. The value of the goods and services purchased by the Upjohn Company, that are produced outside the county, are subtracted from the Upjohn countywide impact. In addition, the value of all out-of-county-produced raw and intermediate materials and services purchased by retailers for sale to Upjohn employees or by Upjohn county suppliers were subtracted from their estimated sales, as well. For example, in the sale of a television to an Upjohn Company employee, the cost to the dealer of the set is subtracted from the value of the sale, leaving only the retail service provided by the county dealer.

In determining the company's total economic impact, its direct economic impact of \$872.1 million was not used because it unavoidably overstates the company's net impact on the county. This figure is a company cost figure (outlays for wages, benefits, capital expenditures, etc.) and includes the purchases of goods and services produced outside of the county. These out-of-county produced goods and services do not contribute to the economic activity

of the county directly and, hence, should be excluded from the company's direct impact. Since it is not possible to exclude the portion of the company's capital expenditures that do not contribute to county's regional product, the inclusion of the company's total outlays of \$199.6 million for capital equipment overstates the company's direct impact. For this reason we relied upon our model's estimate of the company's direct economic impact on the county in determining its total economic impact.

As last year, the economic impact of the Upjohn Company on Kalamazoo County was generated using a 463 industrial-sector input/output model conjoined with a 53 industrial sector simulation and forecasting model.