

## ***Explaining Total Output and Value Added As used in IMPLAN outputs.***

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### **Definitions:**

**Total Output** = total revenues, sales, or the total value of the output.

**Value Added** = Total Revenues – cost of inputs from outside the firm.

Joe's Burgers sells \$1,000 worth of burgers per day. That is his total output, revenues, or sales, which he probably knows daily or even hourly. It is the measure of economic activity businesses use most widely.

The \$1,000 in total output (revenue) is not the value created by Joe and his company. Joe spent \$100 on buns, \$300 on ground beef, \$50 on catsup, \$200 on rent, some electricity...these inputs are all part of the \$1000 worth of hamburgers, but Joe and his company did not create those values, he just purchased them and passed the cost through to buyer via the total output.

Joe's value added = \$1,000 - \$100 - \$300 - 50 - \$200 - ... = \$350. Most of Joe's total output is just the resale of inputs, but he added \$350 by cooking, serving, marketing, etc to make the inputs into an output. (Lousy example: Joe isn't going to make it in the real world; his costs are eating up his revenues.)

How does Joe create the \$350 in value added? He uses labor, capital resources, his management time, and the profits of the business to create the value added.

In other businesses, there is very little cost of inputs from outside the firm, so most of the total output is value added. Attorneys, accountants, medical doctors, and others devote very little of their revenues to the purchase of inputs. Their value added is most of total output, and it goes to internal salaries, profits, capital costs of equipment, etc.

Joe probably never knows his value added. It is not the same as profits, taxable income, or any other measure widely used by businesses. That is why it is an important economic indicator, but not very useful to business managers.

It is, however, the real value created by Joe's Burgers. The value added is the real contribution Joe's Burgers makes to the overall wealth of the economy.