INDUSTRY ANALYSIS ASSIGNMENT

The purpose of this assignment is to provide a framework for you to apply what you have learned in ECG 507 to a particular industry. You also will learn how to find and analyze economic data pertaining to that industry. Your analysis should examine various determinants of the industry’s economic performance; some discussion about why some firms have done better than others is also worthwhile if there are adequate data.

I suggest you follow these steps:

1. Select an industry. The definition of your industry must confirm to the definition used in Standard and Poors, Hoover's, or some other well-established data source. Examples of industries: automobile manufacturing, restaurants, pharmaceuticals.

2. Financial performance: How does the profitability of the industry as a whole compare to overall profitability of the economy? How does the profitability of the leading firms compare? You should use measures of profitability over the last 5 to 10 years in your analysis, instead of profits for the latest quarter.

3. Demand analysis: What has happened to output over the last 10 years? Is this a growing, shrinking, or mature industry? Are prices rising more or less than prices for other industries? What are the key forces determining the trends you observe in output and prices? Do any substitute products impose a significant constraint on the ability of firms in these industries to raise prices? You may want to think about the following variables in your discussion: demographic changes, income trends, consumer preferences, prices of substitutes and complements, introduction of new substitutes or complements.

4. Cost analysis: What are the major determinants of cost in this industry (labor, materials, overhead, energy, etc.)? Have costs been rising more or less than in other sectors? What percentage of costs are fixed versus variable? Are there economies of scale or scope in the industry? What role has been played by technological change?

5. Industry structure: How can the structure of the industry best be characterized: perfect competition, monopolistic competition, oligopoly, or monopoly? How many firms are in the industry and what is their relative size? Which firms have been gaining/losing market share?

6. Barriers to entry: In many industries a new entrant is at a disadvantage to established firms. Is this the case in your industry? Are the entry barriers unavoidable because of the technology and cost structure or were they created by firm strategy? You may want to think about the following factors in this part of your analysis: economies of scale, learning curve, control of scarce inputs, brand name or reputation, legal barriers to entry, barriers to exit because of asset specificity.
7. Nature of competition: How actively do firms in this industry compete with each other? What is the main mode of competition – price, product differentiation, product promotion, technological enhancements?

8. Buyer and supplier power: How competitive are the industries of key buyers/suppliers? What are the costs of switching suppliers or distribution channels? Are there opportunities to use vertical integration to undercut the bargaining power of buyers or suppliers?

9. Role of government policies: What important policy and regulatory issues face the industry? (Examples: FDA for pharmaceuticals, EPA for certain industries). Are there any antitrust concerns? How sensitive is the industry to open markets abroad or competition against imports at home?

10. Outlook for the future: What do you expect to happen in coming years to the industry in terms of growth and profitability? Would this be a good industry to enter?

11. Synthesis: Can you come up with a logical explanation of the industry’s financial performance relative to other industries? Why is it more or less profitable than the average industry? Can you explain why some companies in the industry are more profitable than others?

Your analysis need not address all of these issues. In most industries, there will not be anything significant to say about certain matters.

The text of your paper should be 10 to 15 pages in length, be double-spaced and have a conventional font size. You may attach as many tables, figures, and graphs as you like. Be sure to acknowledge the source of all information from outside sources either in footnotes or in the text (e.g., “According to Wards’ Automotive News, GM has a …”). Also be sure to have a list of references at the end of your paper.

Use of information from outside sources that is not attributed will be considered plagiarism. The consequences of academic dishonesty are discussed in the course syllabus.

DATA SOURCES
(with the help of Susan Neilsen, reference librarian at DH Hill for management and economics)

Bureau of Economic Analysis, US Department of Commerce:
Downloadable file with data on industry output, compensation, and price deflators:
http://www.bea.doc.gov/bea/dn2/gpo.htm

Move one screen down and then click on “Gross Domestic Product by Industry and the Components of Gross Domestic Income.” You will be asked to download a program called gpo4700.exe. Focus on the Excel spreadsheet GPO87SIC Key variables on the file are as follows:
COMP       Compensation of Employees in millions of dollars
FTE        Full-Time Equivalent Employees in thousands
GPR       Real Gross Domestic Product by Industry, millions of chained (1996) dollars (not available prior to 1987)
GPIPD    Implicit Price Deflator for Gross Domestic Product by Industry,(1996=100)

The ratio of COMP to FTE will tell you average compensation per employee, which is a good indicator of labor costs. GPR is adjusted for inflation. GPIPD indicates how much prices have risen in the industry.

Note: the industry definitions here are somewhat aggregated. You can get more detail usually in the BLS data on wages and prices.

Bureau of Labor Statistics:
Data on consumer prices, producer prices, employment, and wages
http://www.bls.gov/home.htm

Consumer prices:
From BLS homepage, click on Consumer Price Index. Then click “Get detailed statistics.” Then under Create Customized Tables (one screen), click on Consumer Price Index All Urban Consumers (Current Series). A new window will appear with 4 steps:
1. Select an area (choose U.S. city average)
2. Select one or more items – choose the industry definition that is most appropriate for your study, as well as all items (so you have a benchmark)
3. Select seasonal adjustment – you want seasonally adjusted data
4. Click on “Get data”

Producer prices:
From BLS homepage, click on Producer Price Index. Then click on “Get detailed statistics.” Then under Create Customized Tables (one screen), click on Industry data. A new window will appear where you select an industry in step one, then select one or more products in step two, then you click Get Data.

Wages and salaries:
From BLS homepage, click on Earnings by Industry. Then click on “Get detailed statistics.” Then click on Create Customized Tables (one screen), click on Industry data. A new window will appear where you should select “Average weekly earnings of production workers” in step one, then select “Total private” (to get a benchmark) and one or more industries in step two, then you click Get Data.

Industry reports
There is a wealth of industry information on the web. Here are some from the NC State libraries sources that are particularly valuable
http://www.lib.ncsu.edu/eresources/mbe/er_mbe.html

Standard and Poor’s Net Advantage: Probably the best place to start looking. Click on INDUSTRY on the horizontal bar going across the top of the screen. Then you will see a menu of industry reports in HTML and PDF formats. Each report contains a lot of information (30 to 40 pages worth plus various statistical tables), plus some excellent links to industry-specific sources. You also can get some financial data for each company in your industry by clicking on “Stock Reports” in the vertical bar going down the left side of the screen.
Hoover’s Company Profiles: 10 years of selected financial data.

Disclosure/Global Access database
Put company name in on side search bar to get 10 years of financial data

ABI/Inform
Business Source Elite
Online access to leading business publications with search engine.

Other web resources:
Morningstar.com
Select “Stocks” from top-level navigation. The Stock Quikrank tool provides access to some good data, although the industry definitions are overly broad. You can get returns to stockholders and returns on equity by clicking on the industry you want and then looking in detail at the leading firms (focus on U.S. firms only). The data under “Grades” and “Financials” for each firm should be useful.
www.morningstar.com

Hoovers Online
Use “Companies and Industries” tab, then click on Industry and select either Industry Snapshots or Industry A-Z list. According to Hoover’s, the companies listed are the largest and most influential in the industry.
www.hoovers.com

Multitex Investor
Another good source of financial data, annual income statements for the last 5 years. Requires registration.
www.multexinvestor.com

Corporate Information.com
Another fairly comprehensive source of information on companies and industries, now requires registration.
http://www.corporateinformation.com/

BOOKS
Heaven forbid, DH Hill Library even has books that might be useful:

Leading companies in Industries
  World Market Share Reporter  
  Market Share Reporter  
  Mergent(Moody’s) Industry Review  Leading Companies by several variables, growth, profit, sales

Industry Benchmarks
Tax and Financial Statement Benchmarks (by SIC code) – income statements, balance sheets, ratios

Financial performance
Value Line Investment Survey
Quarterly reports on financial performance for all industries, combining data for the industry as a whole with data on the leading firms in each industry. Data include net profit margin, return on assets and return on equity.