R37 Introduction to Industry and Company Analysis

Version 1.0

1. Introduction

In this reading, we will focus on:

- which factors to consider when analyzing an industry.
- what advantages are enjoyed by companies in strategically well-positioned industries.
- how to analyze the competitiveness of an industry.
- an introduction to company analysis.

2. Uses of Industry Analysis

Industry analysis is primarily used in fundamental analysis. Its uses include:

Understanding a company's business and business environment:
Industry analysis is used in stock selection and valuation as it helps an analyst understand the health of the industry, the issuer's growth opportunities, and business risks. For a credit analyst, industry analysis provides insights into how much debt companies use, whether the industry is well-positioned for the companies to service this debt, and if a company is over-leveraged relative to its peers.

Identifying active equity investment opportunities:
Investors use a *top-down approach* to analyze the macroeconomic factors (which country offers better growth prospects); then classify industries based on positive, neutral, and negative outlook; and, finally, shortlist stocks within those industries. Investors then overweight, market weight or underweight industries. Or they also attempt to outperform the benchmark by *industry or sector rotation*. A **sector rotation strategy** involves timing investments in industries by analyzing fundamentals to take advantage of the business-cycle conditions. For example, when interest rates go down stocks in the financial and housing sectors tend to do well.

Portfolio performance attribution:
This is used to determine how a fund manager's performance relative to a benchmark can be attributed to different sources such as asset class selection (stock/bond mix), industry/sector allocation, and stock selection.

3. Approaches to Identifying Similar Companies

The three main methods for classifying companies are:

3.1 Products and/or services offered:

For example, firms that produce healthcare related products or provide healthcare related services will constitute the healthcare industry.

3.2 Business-cycle sensitivities:

Depending on the sensitivity to the business cycle, companies can be classified as:

- <u>Cyclical</u>: Earnings are highly dependent on the stage of the business cycle. They produce goods or services that are often expensive and/or represent purchases that can be delayed. Examples of cyclical industries are autos, housing, basic materials, industrials, and technology.

- Non-cyclical: Earnings are relatively stable over the business cycle. They produce goods or services for which is not affected much by the business cycle. Examples of non-cyclical industries are food and beverage, household and personal care products, health care, and utilities.

Companies that grows rapidly on a long-term basis but face above-average fluctuation in their revenues and profits over the course of a business cycle are known as "**growth cyclical**".

Non-cyclical industries can be further divided into:

- Defensive: Industries that are least affected by the stage of the business cycle, for example, utilities and consumer staples.
- Growth: Industries that have a very strong demand due to which they are largely unaffected by the stage of the business cycle.

Limitations of business-cycle sensitivities classification:

- Cyclical/non-cyclical is a continuous spectrum. Recession usually affects all parts of the economy; a non-cyclical sector should be seen as a relative term. For instance, to say that a household spends the same amount on groceries during a recession may not be accurate. Households often tend to curtail expenses when jobs are at risk and incomes are relatively low.
- Growth/defensive labels may be misleading. Even defensive industries may grow when the economy is doing well, and might perform poorly when the economy is sluggish.
- Different regions of the world might be at different stages of the business cycle. This is a challenge when evaluating multinational companies.

3.3 Statistical similarities:

Firms that historically have had highly correlated returns are grouped together.

Limitations of statistical similarities classification:

- The classification is not intuitive and may change over time.
- May falsely indicate a relationship where none exists. For example, grouping together tobacco and aerospace.
- May falsely exclude a significant relationship.

4. Industry Classification Systems

A well-designed classification system is a useful starting point for industry analysis. Such systems allow analysts to compare industry trends and relative valuation among similar companies.

Classification systems are provided by both commercial entities and government agencies. However, commercial classification systems are commonly used in the investment industry because they are more frequently updated as compared to government classification systems. In this reading we will focus on commercial classification systems.

4.1 Commercial Industry Classification Systems

Major index providers classify companies in their equity indexes into industry groupings. These classification systems contain multiple levels: starting at the broadest level – a general sector grouping, that is then subdivided into more narrowly defined sub-industry groups.

The two main commercial industry classification systems are:

- Global industry classification standard.
- Industry classification benchmark.

Global Industry Classification Standard (GICS)

- GICS was jointly developed by Standard & Poor's and MSCI.
- It uses a four-tier structure to classify companies based on the company's primary business activity as measured by revenue.
- As of June 2020, this system consisted of 11 sectors, 24 industry groups, 69 industries, and 158 sub-industries.

Industry Classification Benchmark (ICB)

- ICB was jointly developed by Dow Jones and FTSE.
- It uses a four-tier structure to classify companies based on the source from which a company derives the majority of its revenue.
- As of June 2020, this system consisted of 11 industries, 20 supersectors, 45 sectors, and 173 subsectors.

The ICB and GICS are similar in the number of tiers and the method by which companies are assigned to particular groups. But the two systems use significantly different nomenclature. For example, GICS uses the term 'sector' to describe its broadest category, while ICB uses the term 'industry'. Also, the two systems can classify the same company very differently. The following table provides an example.

Company	**GICS**	**ICB**
Paypal	Information Technology > Software & Services > IT Services > Data Processing & Outsourced Services	Industrials > Industrial Goods & Services > Support Services > Financial Administration

4.2 Constructing a Peer Group

A **peer group** is a group of companies engaged in similar business activities whose economics and valuation are influenced by closely related factors. For example, if you are valuating Toyota, it is appropriate to compare Toyota with other auto companies rather than Samsung. Some examples of Toyota's peers include Daimler, Honda, Volkswagen, and General Motors.

Constructing a peer group is a subjective process. Commercial classification systems can be used as a starting point to quickly discover public companies operating in the chosen industry. The analyst can then further investigate these companies using a variety of sources, such as the companies' annual reports, industry trade publications etc. The analyst has to confirm that each comparable company derives a significant percentage of revenue from a business activity similar to the primary business of the subject company.

A company could belong to more than one peer group. For example, Hewlett-Packard (before it separated its business in two parts) could be included in the personal computer industry as well as the information technology services industry.

5. Describing and Analyzing an Industry and Principles of Strategic Analysis

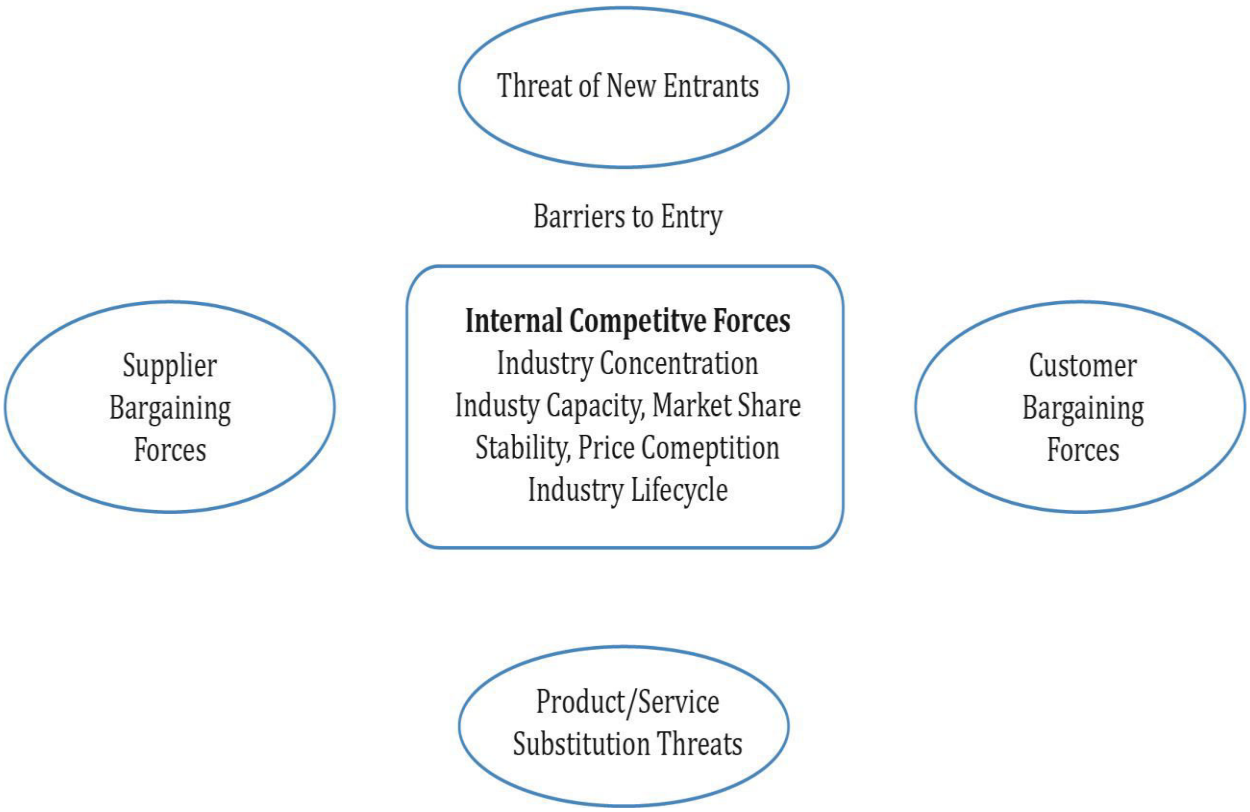
Investment managers and analysts examine industry performance in relation to other industries (cross-sectional analysis) and over time (time-series analysis).

The objective of industry analysis is to identify industries that offer the highest potential risk-adjusted returns, i.e., industries that generate high return on invested capital relative to the weighted average cost of capital. In this context, it is important to recognize that not all industries perform well at any point in an economic cycle. Economic fundamentals and, hence, economic profits can vary substantially across industries.

5.1 Principles of Strategic Analysis

Strategic analysis refers to the process of researching a company's competitive environment to formulate a corporate strategy.

A commonly used framework for strategic analysis is Michael Porter's 'five forces' framework; shown below:



The table below summarizes what each of these five forces means:

Porter's Five Forces	
Force	**Description**
Threat of substitute products	If substitutes to a company's products are easily available, then the threat is high and demand for the company's products will decrease. Customers may switch to alternative products if switching costs are low. Ex: Low-priced brands are close substitutes to premium brands; low-cost mobiles from China are substitutes to Samsung or iPhone; If coffee prices increase substantially, coffee drinkers may switch to tea; or during a recession, movie goers may prefer to watch movies at home, using substitute forms instead of going to the cinema. If this force is strong, it will weaken the pricing power of the market players.
Bargaining power of customers	Customers enjoy bargaining power in industries with large volumes and smaller number of buyers. The price competition and profitability is low as customers demand low prices. Ex: Airlines ordering numerous aircrafts from Boeing or Airbus. Since airlines typically order a large number of aircrafts, they have high bargaining power.

Bargaining power of suppliers	Suppliers enjoy pricing power in industries where suppliers are small and the supply of key inputs to a company is scarce. Ex: Consumer products companies have limited control over price.
Threat of new entrants	If barriers to entry are high, then the threat of new entrants is low. Conversely, if barriers to entry are low, then the threat of new entrants is high. Ex: The threat of new entrants is high in the mobile handset market.
Intensity of rivalry among existing competitors	Industries with high fixed costs, high exit barriers, little differentiation in products, and similar size experience intense rivalry. Ex: Boeing and Airbus.

5.2 Barriers to Entry

Barriers to entry refers to the ease with which new competitors can entry the industry and challenge existing players.

- *Example of high barriers to entry:* Global credit card networks such as Visa and MasterCard.
- *Example of low barriers to entry:* Starting a restaurant as it requires a modest amount of capital and culinary skills.

If the barriers to entry are low then the industry is likely to be highly competitive and pricing power will be low. Conversely, if the barriers to entry are high, then it discourages new entrants from entering the industry. The industry is likely to be less competitive and the pricing power will be high.

Do not confuse barriers to entry with barriers to success. Entering some industries may be easy but becoming successful enough to threaten existing players may be quite difficult.

Also, high barriers to entry does not automatically lead to good pricing power. For example, auto manufacturing, commercial aircraft manufacturing, and oil refining industries have significant barriers to entry. But these industries are still very competitive with limited pricing power.

5.3 Industry Concentration

- In concentrated industries, each player generally has high pricing power because the fortunes of the company are tied with the industry and they have more to gain by keeping prices high even though cutting prices might increase market share.
- In segmented industries, each player generally has low pricing power because companies gain more by undercutting competition in an effort to increase market share.
- However, there are exceptions to this rule. Do not automatically assume that high concentration leads to high pricing power, or that fragmented industries have weak pricing power.

While industry fragmentation is a good indicator of a competitive industry with limited pricing power, there are a few fragmented industries with strong pricing power (the bottom left quadrant in the table below). The following table shows the role of concentration in pricing and competition.

Two Factor Analysis of Industries: Concentration & Pricing Power		
	Strong Pricing Power	*Weak Pricing Power*
Concentrated	Relatively low capital requirements. Differentiated products. Less number of players. Less price competition Ex: Soft drinks (Coke, Pepsi). US Defense. US Railroads. Alcoholic beverage industry.	Generally capital intensive and sell commodity like products. Fierce competition between them. Relative market share matters more than absolute market share. Little or no differentiation in products. Ex: Commercial aircraft (Boeing, Airbus). Integrated oil companies (Exxon, Mobil, BP).
Fragmented	If one or two players are larger than the others, they compete with small players and not among themselves. Highly price-competitive. Each player has a smaller absolute market share. Ex: Asset Management Companies (Fidelity). If the customers are not price sensitive, then the players have high pricing power. Home Improvement (Home Depot– 11% and Lowe's – 7% market share).	Ex: Consumer packaged goods (Procter & Gamble, Unilever) Airlines. Retail. Homebuilding. Restaurants.

5.4 Industry Capacity

- Tight or limited capacity results in high pricing power as demand exceeds supply.
- Overcapacity leads to price cuts and a very competitive environment.

When evaluating the impact of industry capacity on pricing, the following points should be considered:

- Current capacity as well as future capacity levels must be evaluated. Such an analysis might reveal if the capacity crunch is temporary.

- It is quicker to shift financial and human capital to new uses but tough to shift capital invested in physical assets. Physical capital takes a relatively long time to establish. Capacity is fixed in the short term, and variable in the long term – new factories may be built to add capacity.

5.5 Market Share Stability

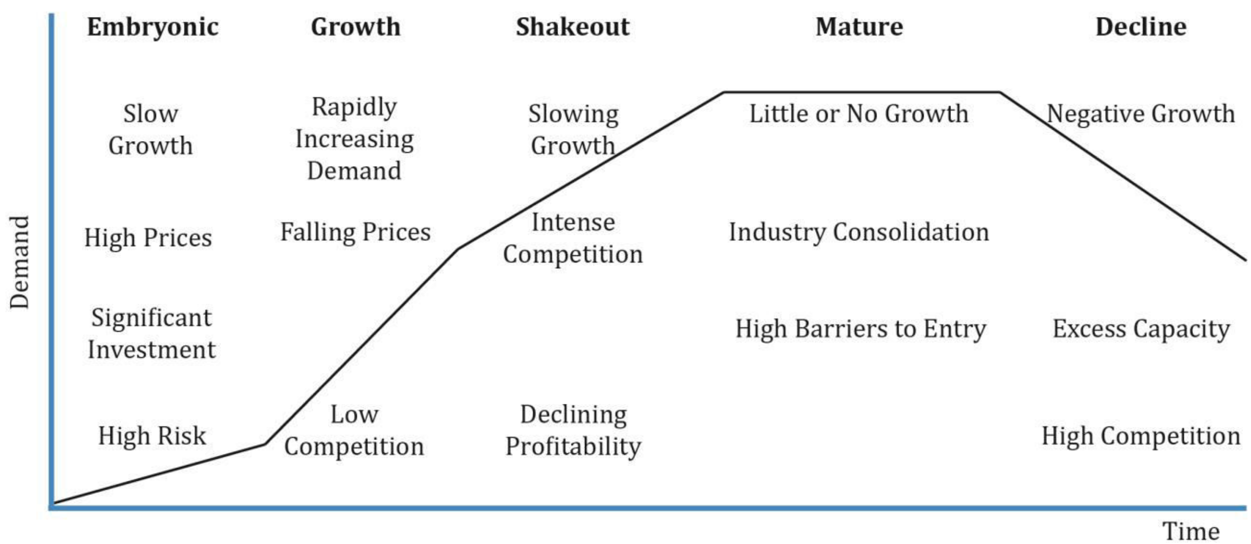
- Stable market share implies less competitive industries.
- Unstable market share implies highly competitive industries and limited pricing power.
- Factors that impact market share stability include: barriers to entry, switching costs, new product introductions, complexity of products, and pace of innovation.
- If barriers to entry are high, switching costs are high and new product introductions are low, then the market share stability will be high.
- If barriers to entry are low, switching costs are low and new product introductions are high, and the market share stability will be low.

5.6 Price Competition

If price is a major factor in customer buying decisions, then competition will be high. Ex: commercial aircraft industry. Price is a major factor in an airline's purchase decision. This weakens pricing power for Boeing and Airbus.

5.7 Industry Life-Cycle

There are five stages in the life cycle of any industry: embryonic, growth, shakeout, mature, and decline. The characteristics of each stage are depicted in the diagram below:



<u>Embryonic</u>

- Slow growth, high prices.
- Product still not positioned in the market; buyers unaware; distribution channels to be developed.

- High investment and high risk of failure.
- Low volumes; no economies of scale.

Growth

- Rapidly increasing demand; new customers.
- Falling prices as economies of scale are achieved.
- Low barriers to entry; threat of new entrants.
- Low competition leads to increased market share and profitability.

Shakeout

- Slowing growth, intense competition, and declining profitability.
- Market is saturated; no new customers.
- Investment to add capacity leads to overcapacity. To boost demand, prices are cut which decreases profitability.
- Focus is on reducing costs and building brand loyalty.
- Ex: deregulation of telecom companies in the 1990s.

Mature

- High barriers to entry; consolidation takes places resulting in oligopolies.
- Little or no growth.
- Market is saturated; it is a stable competitive environment.
- Companies with superior products gain market share.

Decline

- Growth is negative.
- Excess capacity leads to price cuts resulting in price wars.
- Competition increases.
- Weaker companies exit.

The life-cycle model is a well-defined framework to understand any industry's evolution. But it is not a cookie-cutter model that all industries adhere to. There are external factors which significantly affect how an industry evolves causing some stages to be shorter or longer than expected. These are technological, social, regulatory, and demographic changes which we will see in detail in the next section.

Limitations of the Industry Life-Cycle Model

- It is less practical for analyzing industries going through rapid changes or periods of economic instability.
- Not all companies in an industry will perform the same. For example, there are consistently profitable companies even in a highly competitive industry such as consumer goods, or retail.

Industry Comparison (Internal Factors)

The table below discusses three industries using the characteristics we have discussed so far. Analyze and test your understanding for the reasoning behind the characteristic. For instance, barriers to entry for branded pharmaceutical companies are high because it requires substantial financial and intellectual capital. A new entrant would require a sizeable investment in R&D and manufacturing facility.

Industry Comparison (Internal Factors)			
	Branded Pharma	*Oil Services*	*Confections/Candy*
Major companies	Pfizer, Novartis, Merck, GlaxoSmithKline	Schlumberger, Halliburton	Cadbury, Nestle, Hershey, Mars
Barriers to success/entry	Very high	Medium	Very high
Level of concentration	Concentrated: small no. of companies control majority of the global market.	Fragmented	Very concentrated: top four companies control most of the global market.
Impact of Industry Capacity	NA	Medium/High	NA
Industry Stability	Stable	Unstable	Very stable
Life Cycle	Mature: no rapid change in demand year on year.	Mature	Very mature: demand varies according to population growth and pricing.
Price competition	Low/medium	High	Low

6. External Influences on Industry

The five external factors affecting an industry's growth are macroeconomic, technological, demographic, governmental, and social influences.

Macroeconomic Factors: Demand for products and services are affected by overall economic activity at any point in time. Economic variables that affect an industry's revenues and profits are: GDP, level of interest rates, inflation, and how easily money is available to businesses. *Example:* People cut down on discretionary spending during the festive/holiday season if inflation is very high (emerging economies), or if the economy is in a recession leading to job cuts.

Technological Influences: New technologies can rapidly change an industry or push them into the decline stage faster. *Examples:* Invention of the microchip and the evolution of the computer hardware industry; impact of digital imaging technology on the photographic film industry, USBs on DVD/CD, digital music on cassette player industry.

Demographic Influences: Changes in population size, age, and gender ratio.

Examples: Surge in retirement-oriented investment products in the U.S. between 1990 and 2000 to cater to the baby boomers. Impact of Japan's aging population on local economy. Impact of India's young population on several sectors of the economy: education, housing, consumer spending, hospitality, technology, etc.

Governmental Influences: Tax rates and rules set by governments affect an industry's revenues and profits. Similarly, regulatory changes such as environmental restrictions, how much of foreign investment is allowed in an industry, or restrictions on gold imports influence an industry's performance. *Examples:* Governments control, through regulations, how much money financial institutions can accept from investors for issuing securities and savings deposits. The objective is to protect investors from fraudulent practices. Patients in developed countries can be treated and prescribed treatment only by certified doctors.

Social Influences: How people work, spend their money and leisure time pursuing hobbies, and travel affect various industries. The curriculum cites the example of how more women entering the workforce worldwide has spun many new industries, while boosting others. Restaurants, work wear for women, home and child care services, and demand for more cars are some of the effects of this trend.

Environmental Influences: In recent times, the need to evaluate and mitigate environmental impact has become an important consideration for industries. Climate change poses a real threat to the growth and profitability of many industries. For example, public awareness about the environmental impact of livestock and protection of animal rights has been increasing. Many people are shifting towards healthier and plant-based diets. These factors will impact the agriculture industry.

Now, we analyze the impact of these external factors for the same three industries.

Industry Comparison (External Influences)			
	Branded Pharma	**Oil Services**	**Confections/Candy**
Demographic Influences	Population increasing. Demand for drugs is high.	Low	Low
Government and Regulatory Influences	Very high as it requires govt. approval.	Medium	Low
Social Influences	N/A	N/A	N/A
Technological Influences	Medium/High	Medium/High	Low
Growth vs. Defensive vs. Cyclical	Defensive	Cyclical	Defensive

7. Company Analysis

Company analysis involves analyzing a company's financial position, products and/or services, and competitive strategy. Porter has identified two chief competitive strategies: low-cost strategy (also called price leadership) and a product/service differentiation strategy.

Low-cost Strategy/Price Leadership

- In this strategy, companies price their products and services lower than their competition to stimulate demand and gain market share.
  Examples: low cost airlines, cheap alternatives of iPad/iPhone.
- It is a defensive strategy to protect market share in the near term. Companies may then raise prices in the future to increase profits.
  Example: full service airlines use this strategy to compete against low cost carriers to protect lucrative routes.
- Usually adopted by experienced companies to lower costs. Requires tight cost controls, efficient operating systems, continuous monitoring of the operating costs, lowering of labor costs, and eliminating any overheads.
- The company must have easy access to capital to invest in technology and production-improving equipment.
- Low switching costs for customers, little to no product differentiation helps this strategy.

Differentiation Strategy

- In this strategy, companies establish themselves as suppliers of products/services that are unique in quality/type/distribution. Caters to a niche market with specific needs.
- The target customer base is usually not price sensitive.
- The higher rate of return is by selling the products at a premium. The price premium should be greater than the costs of differentiation. Focus is on building brand recognition and a loyal customer base.
- Focus is on market research and R&D to understand a customer's needs and incorporating them in product design. These companies employ creative people to design such products. *Example*: Apple Inc.
- Companies also need to invest in marketing and sales efforts to create brand awareness.

7.1 Elements that should be covered in a Company Analysis

Some of the important points that should be covered in the research report for a company are listed below:

- Company profile: products/services, sales composition, management strengths & weaknesses, labor issues, legal actions, etc.

- Industry characteristics: industry analysis, stage in life cycle, brand loyalty.
- Analysis of demand for products/services: sources of demand, differentiation, long term outlook.
- Analysis of supply of products/services: sources of supply, industry/company capacity.
- Analysis of pricing: historical relationship between demand, supply, and prices; pricing outlook based on demand and supply; impact of raw materials and labor costs.
- Financial ratios and measures: activity ratios, liquidity ratios, solvency ratios, profitability ratios, and other financial statistics for the previous years to forecast performance.

7.2 Spreadsheet Modeling

Spreadsheet modeling is a widely used tool by analysts in company analysis, but it has certain limitations:

- Most models are highly complex in nature and require a lot of assumptions. For instance, revenue growth projections for the next five years, leverage/equity financing, wages, inventory costs, tax rate, beta, etc.
- The complexity of the model may make it appear that the conclusions or stock price forecasts are right, when in fact they may be inaccurate.

Here is what an analyst can do to determine whether a model is valid:

- Start with the income statement. Ask what important changes have taken place since the previous year.
- What effects do these changes have on the net income? Are they reasonable? For instance, is a 5% growth in revenue leading to a 30% growth in net income?
- Does the financial model's format match that of the company's financial statements?

Summary

LO.a: Explain uses of industry analysis and the relation of industry analysis to company analysis.

Uses of industry analysis:

- To understand a company's business and business environment.
- To identify active equity investment opportunities.
- To create an industry or sector rotation strategy.
- For portfolio performance attribution.

Relation of industry analysis to company analysis:

- They are closely interrelated.
- Together they can provide insights about the firm's potential growth, competition, and risk.

LO.b: Compare methods by which companies can be grouped.

The three main methods for classifying companies are

- Products and/or services offered: For example, firms that produce healthcare related products or provide healthcare related services will constitute the healthcare industry.
- Business cycle sensitivities: Companies are classified as 'cyclical' – earnings highly dependent on the stage of the business cycle or 'non –cyclical' – earnings are relatively stable over the business cycle.
- Statistical similarities: Firms that historically have had highly correlated returns are grouped together.

LO.c: Explain the factors that affect the sensitivity of a company to the business cycle and the uses and limitations of industry and company descriptors such as "growth", "defensive" and "cyclical".

Depending on the sensitivity to the business cycle, companies can be classified as:

- Cyclical: Earnings are highly dependent on the stage of the business cycle.
- Non-cyclical: Earnings are relatively stable over the business cycle.

Non-cyclical industries can be further divided into:

- Defensive: Industries that are least affected by the stage of the business cycle, for example, utilities and consumer staples.
- Growth: Industries that have a very strong demand due to which they are largely unaffected by the stage of the business cycle.

Limitations

- Cyclical industries often include growth firms.
- Non-cyclical industries can be affected by severe recessions.
- Business cycles can differ across countries so it is difficult to measure sensitivity for a

global firm.

LO.d: Describe current industry classification systems, and identify how a company should be classified, given a description of its activities and the classification system.

Classification systems are provided by both commercial entities and government agencies. However, commercial classification systems are commonly used in the investment industry because they are more frequently updated as compared to government classification systems.

The two main commercial industry classification systems are:

- Global industry classification standard (GICS): It uses a four-tier structure to classify companies based on the company's primary business activity as measured by revenue.
- Industry classification benchmark (ICB): It uses a four-tier structure to classify companies based on the source from which a company derives the majority of its revenue.

The ICB and GICS are similar in the number of tiers and the method by which companies are assigned to particular groups. But the two systems use significantly different nomenclature

LO.e: Explain how a company's industry classification can be used to identify a potential "peer group" for equity valuation.

A peer group is a group of companies engaged in similar business activities whose economics and valuation are influenced by closely related factors.

Constructing a peer group is a subjective process. Commercial classification systems can be used as a starting point to quickly discover public companies operating in the chosen industry. The analyst can then further investigate these companies using a variety of sources, such as the companies' annual reports, industry trade publications etc. The analyst has to confirm that each comparable company derives a significant percentage of revenue from a business activity similar to the primary business of the subject company.

LO.f: Describe the elements that need to be covered through industry analysis.

Investment managers and analysts examine industry performance in relation to other industries (cross-sectional analysis) and over time (time-series analysis).

The objective is to identify industries that offer the highest potential risk-adjusted returns. Not all industries perform well at any point in an economic cycle. Economic fundamentals and, hence, economic profits can vary substantially across industries.

LO.g: Describe the principles of strategic analysis of an industry.

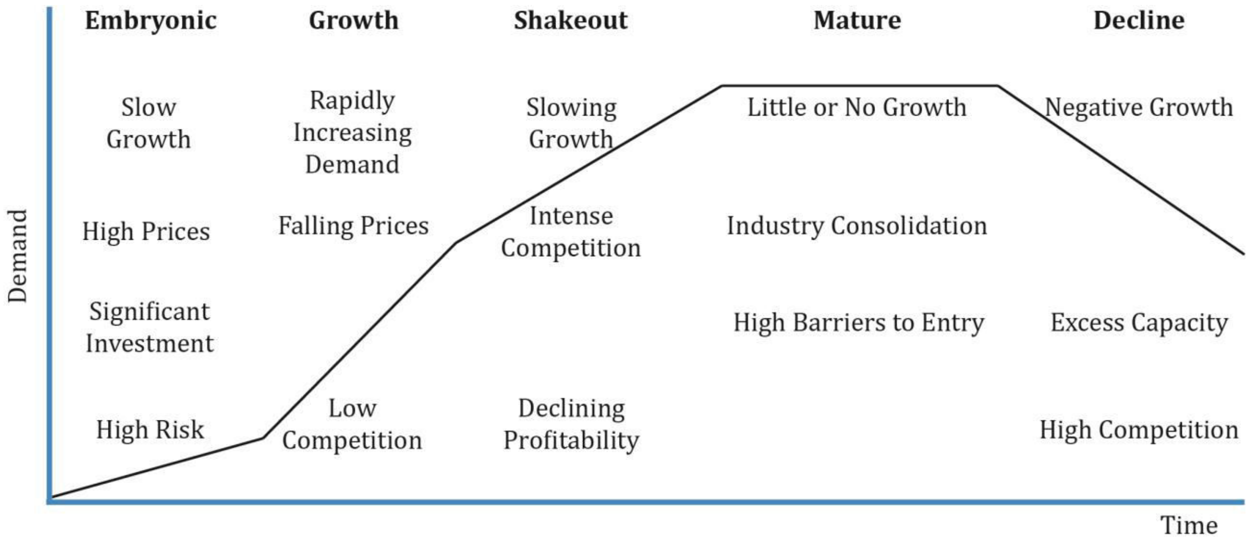
Porter's Five Forces	
Force	*Description*
Threat of substitute products	Customers may switch to alternative products if switching costs are low. If substitutes are easily available, then the threat is high. If this force is strong, it will weaken the pricing power of the market players.
Bargaining power of customers	Large volumes and smaller number of buyers. Customers demand low prices which drives profitability low.
Bargaining power of suppliers	Do suppliers have a control over pricing or restricting supply of key inputs to a company?
Threat of new entrants	If barriers to entry are high, then the threat of new entrants is low. Conversely, if barriers to entry are low, then the threat of new entrants is high.
Intensity of rivalry among existing competitors	Industries with high fixed costs, high exit barriers, little differentiation in products, and of similar size, experience intense rivalry.

LO.h: Explain the effects of barriers to entry, industry concentration, industry capacity, and market share stability on pricing power and price competiton.

- If the barriers to entry are high, then it discourages new entrants from entering the industry. But that does not mean it leads to high pricing power. This might happen if price is a large percentage of the customer's purchase decision or the industry has high barriers to exit.
- In concentrated industries, each player generally has high pricing power. In segmented industries, each player generally has low pricing power. However, there are exceptions to this rule.
- Tight or limited capacity results in high pricing power as demand exceeds supply. Similarly, overcapacity leads to price cuts and a very competitive environment.
- Factors that impact market share stability include: barriers to entry, switching costs, new product introductions, complexity of products, and pace of innovation.

LO.i: Describe industry life-cycle models, classify an industry as to life-cycle stage, and describe limitations of the life-cycle concept in forecasting industry performance.

There are five stages in the lifecycle of any industry and their characteristics are depicted in the diagram below:



There are external factors at play which significantly affect how an industry evolves causing some stages to be shorter or longer than expected. One of the limitations of this model is that it is less practical for analyzing industries going through rapid changes, or periods of economic instability. Another limitation is that not all companies in an industry will perform the same.

LO.j: Describe macroeconomic, technological, demographic, governmental, social, and environmental influences on industry growth, profitability, and risk.

External influences on industry growth, profitability, and risk include:

- Macroeconomic influences: Includes long-term trends in factors such as GDP growth, interest rates, and inflation.
- Technology: Can dramatically change an industry through the introduction of new or improved products.
- Demographics: This includes changes in population size, age, and gender ratio.
- Government: This includes tax rates, regulations, and government purchases of goods and services.
- Social factors: Relates to how people work, play, and spend their leisure time.
- Environmental influence: Refers to the environmental impact of an industry.

LO.k: Compare characteristics of representative industries from the various economic sectors.

Major companies	Pfizer, Novartis, Merck, GlaxoSmithKline	Schlumberger, Halliburton	Cadbury, Nestle, Hershey, Mars
Barriers to success/entry	Very high	Medium	Very high

Level of concentration	Concentrated: small no. of companies control majority of the global market	Fragmented	Very concentrated: top four companies control most of the global market
Impact of Industry Capacity	NA	Medium/High	NA
Industry Stability	Stable	Unstable	Very stable
Life Cycle	Mature: no rapid change in demand year on year	Mature	Very mature: demand varies according to population growth and pricing
Price competition	Low/medium	High	Low
Demographic Influences	Population increasing. Demand for drugs is high	Low	Low
Government and Regulatory Influences	Very high as it requires govt. approval.	Medium	Low
Social Influences	N/A	N/A	N/A
Technological Influences	Medium/High	Medium/High	Low
Growth vs. Defensive vs. Cyclical	Defensive	Cyclical	Defensive

LO.l: Describe the elements that should be covered in a thorough company analysis.

A through company analysis includes investigation of:

- corporate profile
- industry characteristics
- demand for products/services
- supply of products/services
- pricing
- financial ratios

