

INDUSTRY DATA SOURCES AND INDUSTRY ANALYSES

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Processing and utilising industry analyses

The bases for industry analyses are various, whether acquired from public sources, non-public sources or by means of questionnaire. A company which has underlying data at its disposal may either perform its own analyses or provide the data to another company for processing.

Among the main processors of industry data analyses are:

- large investment companies and commercial banks,
- specialist state institutions,
- private analyst firms,
- multinational institutions (the OECD, European Commission, World Bank),
- ratings agencies,
- news agencies and press publishers.

The most frequent users of industry analyses are:

- enterprises (particularly for corporate strategy),
- investment companies (decision-making on the capital market, fundamental and technical analysis, internal share value),
- government (overview of the economy by industry, favourable business environment, creating legislation, supporting the development of certain industries from the view of their long-term requirements),
- professional and special-interest associations (market protection),
- banks (loan transaction risk, profit potential and customer potential of industries),

Industry analyses are most frequently used for:

- risk management and for assessing the creditworthiness of borrowers from banks or from other creditor institutions within the framework of a comparative industry analysis,
- assessing the successfulness of enterprise activities within the framework of an industry analysis for potential investors, creditors and state institutions,
- comparing the performance results of particular corporate entities with those of entities engaged in the same or similar field of activity.

To perform an industry analysis means to evaluate a large volume of analytical material in the form of tables and text. In commercial banks, the prevailing trend at the moment is not to have in-house analyst teams, but rather to buy industry analyses from external sources. These analy-

ses may be carried out in a standard way (for several users) or they may be customer specific (for only one user).

Industry analysis processors in the Slovak Republic

Industry characteristics and indicators have for more than ten years been reckoned using the database of DataCentrum, an organisation established specifically for this purpose by the Ministry of Finance of the Slovak Republic. The data categorised for processing is drawn from the financial statements annexed to tax declarations, providing access to information on more than 40,000 corporate entities every year.

The company Infin, spol. s r.o., employs this database in its products, including the publication "Median Values of Financial Indicators for Economic Activities in the Slovak Republic". Part of the publication is accessible free of charge on the web site www.infinet.sk. The publication¹ contains values of selected ratios (20) that characterise the status quo and development of the financial situation – in terms of liquidity, profitability, indebtedness, and activity – according to particular industries as well as according to selected legal forms and the territorial-administrative division of the Slovak Republic. Within the classification of entities by the industry principle, indicator values are published in separated groups (double digit and triple digit) under the OKEČ (Industry Classification of Economic Activities), as well as cumulatively for the Slovak Republic, manufacturing sector, retail, wholesale, and services. The size structure within a given industry is worked out by setting interval ranges of assets and turnover for three groups within each size criteria. The ratio values of the financial analysis are determined by quartiles, enabling the position of the evaluated entity to be fixed and thus its risk level to be determined. The methodology for setting these indicators corresponds to the so-called standard indicators in developed economies. The results of financial analyses of particular industries for the previous four years create a time series, which enables a prediction to be made for the development of given indicators. Individual processing of financial analyses is

¹ Information source: www.infin.sk; the text is modified and abridged.



possible on the basis of selected criteria (processing methods, selection of indicators, indicator calculation algorithm, and so on).

The same database is used by the Slovak Ratings Agency, a.s., in its Benchmark application (www.benchmark.sk) and in industry analyses that include an evaluation of the financial situation in an industry and a prediction for its future development.

The Benchmark application² comprehensively maps industries and main macroeconomic indicators in order to provide an overview of the performance level of Slovak corporate entities. The whole database of corporate entities is statistically processed according to several criteria. The main criterion by which the database divides enterprises is field of business, with the subject matter of the activity designated by its OKEČ number.

The Benchmark standard shows results for aggregated groups in a broader breakdown (manufacturing, wholesale, retail, services), for aggregated groups in a narrower breakdown by industry (10 groups), and for the two-digit OKEČ. In terms of information provision, the application is divided into 3 basic modules:

- macroeconomic environment – the module comprises 8 parts, each representing an indicator that may be displayed in a time series based on various criteria, in the form of a table or graph,
- commentaries,
- sectoral and industry environment.

The sectoral and industry environment module is divided into three levels:

- strategic – provides basic count information according to various criteria: industry, legal form, region, turnover and assets, (profit- and loss-making entities, revenue volume, profits and losses for a given year or for selected annual intervals);
- situational – provides detailed information on a selected industry: financial performance of entities within the industry according to 11 predetermined indicators in the area of profit/loss creation, liquidity, indebtedness, and profitability; the median and average of the financial indicators for an industry may, in terms of the descriptive characteristics (quantiles), be compared with the values for the aggregated group both in a table and graphically,
- analytical – enables the interactive comparison of a specific entity with a selected industry and/or an aggregated group, with the possibility of more narrowly defining other selection criteria (legal form, region, amount of turnover, amount of assets, and so on). This part has three divisions (indicators – 46 options in three basic groups; comparison of an industry within the aggregated group; comparison of an entity, industry and aggre-

gated group), including the possibility to read data from a file according to the kind of financial statements; the result of the comparison is a table showing the indicator values for the entity, quantiles for the industry and aggregated group, or a graph.

A national licence for Benchmark Index (BI) – a benchmarking methodology developed by the UK's Department of Trade and Industry (originally as an aid to small and medium enterprises) – has been obtained by Slovakia's EKONOM-SERVIS, a non-profit organisation operating under the Ministry of Economy of the SR. The use of this methodology in Slovakia began in 2002 within the PHARE pilot project in the electrotechnical industry. It is a suitable instrument when introducing quality systems and gaining certification for the purpose of improving competitiveness of corporate entities; the European Commission has accepted it and proposed its wider usage within the EU. This method was used in recent projects in which the industries of 9 EU countries were compared. The BI currently includes around 180,000 pieces of financial data and 10,000 pieces of Business Excellence data on enterprises in different countries, and new data is continuously being added. Enterprises now have an excellent opportunity to compare themselves with competitors from other EU countries, a practice which is very important today. From the BI outputs, they acquire an overview of themselves – how they stand in relation to competitors – and also see values achieved by their competitors (quartiles, median) in the form of tables and graphs. An enterprise/interested party seeking a comparison will provide data from which it is possible to calculate characteristics in various areas: financial management, productivity, growth, staff, customers. The data is matched with specific data from competitors, selected by the enterprise according to basic criteria: revenues, number of employees, OKEČ – area of business, geographic data, region. The output forms the basis for an action plan. Interested parties may use "modules" oriented on specific areas of business: marketing, customer services, production, and so on. The data is subject to multiple protection with the customer having to sign an agreement which includes a confidentiality addendum. Since the project is subsidised from several sources, its price is relatively low. The database may only be accessed through EKONOM-SERVIS, the licence holder.

Symsite Research, spol. s r.o., provides sectoral analyses of the market (financial sector -individual areas, pharmaceutical sector, real estate, energy). The price of the product includes a single update. An analysis typically depicts the macroeconomic environment, current development in Slovakia, market share, development in the Czech Republic and in Europe, as well as the expected situation. In analyses of financial market products, it is customary to evaluate the products using a points system based on various criteria and to compile a ranking of providers.

² Information source: www.benchmark.sk; the text is modified and abridged.



Trend Holding, spol. s r.o., provides industry and sectoral analyses which include a brief analysis of the macro-economy, an assessment of the financial situation in the industry, selected financial data, and an assessment of the financial situation of significant enterprises within the industry. Beneficially, there is an analysis of the Slovak market in the context of world producers operating in the given industry (for example, in an analysis of the engineering industry). Until 2004, the Trend analyst team produced analyses of industries central to the Slovak economy and analyses of the financial market.

In 2005, the company launched "industrial packages" - brief profiles of industries with updated aggregated data and a database of individual and consolidated results of the most significant enterprises operating in the respective sector. The industry³ profile includes:

- brief text part (on current development),
- graphic part (selected aggregated data, 1998 to 2003),
- database part (2001 to 2003).

The most comprehensive analysis of agricultural sector development is given in the "Green Report" published by the Ministry of the Agriculture of the SR, accessible online at www.mpsr.sk. It includes an analysis of the development in the macro-environment, and it analyses Slovakia's agricultural and food industries in the international context, the market in production inputs and production factors, agricultural production, the agro-food market, the relationship between agriculture and the environment, economic results by legal form, and information on science and research. Another part of the report is devoted to agricultural policy. The Green Report for a given year provides data on the previous year.

The basic characteristics of industries (and other aggregations) are shown by the Statistical Office of the Slovak Republic on the internet (www.statistics.sk) and in special print publications. Infostat, the Institute for Information and Statistics (www.infostat.sk), provides online publications by means of the electronic information service ELIS. In the web site editorial software there is a format in which data may be acquired from selected publications and information on when the publications are updated. The basis for information on industries, typically according to the OKEČ, is contained in the "collected publications" (including, for example, the Economic Monitor of the Economy of the Slovak Republic, the National Accounts of the Slovak Republic for the respective year, Employment, Wage Structure, Total Labour Costs, Industry Yearbook, Construction Yearbook⁴, Energy Sector, and so on).

³ Engineering, network industries, chemicals, food and tobacco, metallurgy, wood processing, electrotechnology, light industry, construction materials, mining.

The significance of industry analyses

In connection with the role of industry studies, note should be taken of certain facts which help ensure that the conclusions of the analyses are used correctly:

- an investor selecting an investment object cannot proceed simply on a route from an industry to an enterprise, or from an enterprise to an industry, since the process hinges on a whole series of other factors that may affect the flow of free capital;
- product diversification, acquisitions and mergers lead to the emergence of complex corporate units and an industry classification that is ever more complicated; at the same time, however, the core companies retain a primary importance within industries and are sufficiently comparable from the investment point of view;
- industry data has a framework role which serves as a basis for comparing enterprises with their milieu; the data does not represent specific characteristics which are to be fulfilled by all firms engaged in the same type of activity;
- an attractive industry outlook is not a prerequisite for buying the ordinary shares of a particular enterprise within that industry; the development of certain enterprises may contrast with that of their industry and therefore the overall prospect of an industry should not be overemphasised⁵.

For an enterprise, the industry environment means above all the competition, while for an analyst (investor) it is important to assess the strength of the competition and the significance of firms within the industry. An analyst may be interested in market share, in aggregating enterprises by an evaluation based on several financial-economic criteria, or in making comparison with the financial structure and ratio values of the typical enterprise within an industry. These are the practical questions of an industry analysis. But whether or not the future expectations of an investor are fulfilled depends not only on the strategic prospects of the enterprise, but also on life cycle and character of the industry within which the enterprise is developing its activity. It is clear that, at the industry level, there is a certain future risk which applies to all enterprises irrespective of their individual risks.

⁴ The yearbook is compiled in cooperation with the Ministry of Construction and Regional Development of the Slovak Republic and the Association of Construction Entrepreneurs of Slovakia (ZSPS). It contains an analysis of the macro-environment, the development of the construction industry in the SR (its standing within the national economy), the development of construction output volume and its structure, economic results of construction enterprises employing more than 20 people, construction output development in regions, and information on apartment construction. It analyses the construction materials industry and the issue of imports and exports in the construction industry. The yearbook for a given year provides data for the preceding year.

⁵ Not all enterprises within an especially promising industry will necessarily share in the success of the others, just as not all the enterprises within an unpromising industry will necessarily suffer (Coottle, Murray, and Block: Analysis of Securities).