

Introduction

This guide is intended to help professionals effectively research a new industry. Industry research is often a much dreaded task that business people find frustrating and tedious. It doesn't have to be. The key to good research simply knowing how to be resourceful and staying extremely organized.

While you can't become an industry expert over night, effective industry research can get you about 90% there in no more than a few weeks. A solid understanding of an industry can help you make smarter investment decisions, wow clients or even land a dream job. The goal of our process is to allow generalist business people to master unfamiliar industries quickly. With proper research and preparation, even a junior professional can become 'fluent' enough to hold intelligent conversations with C-suite executives in their industry of interest.

Our 15-step process may be useful for a variety of fields:

- Private equity investing
- Investment banking
- Management or strategy consulting
- Investment management
- Business or corporate development
- Financial advisory
- Seeking employment in a new industry

Step 1: Get Organized

First of all, **create a new spreadsheet**. This spreadsheet will be your dashboard for keeping track of your research. You should label the tabs in advance so that you have a place to record information that you find.

If you're not sure how to start, use the following spreadsheet tabs as a template:

- 'Sources' – Keep track of links to useful data, files, charts, etc. Create a column for web URLs and a column for descriptions.
- 'Companies' – Anytime you come across a company in the industry, list it here. You may add columns for contact information, website, financial data, categorization, product descriptions, etc.
- 'Size' – Anytime you come across an estimate of industry size, list the estimate, methodology and sources here. This will help you triangulate and make sense of conflicting size estimates.
- 'Growth' – Keep track of historical volume/sales statistics as well as future projections. Make sure to keep track of what is being measured, what units it is being measured in, where it came from and when it was created.
- 'Deals' – Keep track of M&A deals, VC financings, IPOs, LBOs, etc.



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Navigation: Sources / Companies / Size / Growth / Deals

Similarly, **start a folder structure** on you computer.

Example folders may include 'Equity Research', 'Government Data', 'Press Releases', 'Charts and Images', 'Academic Papers'. You may also choose to add folders for different sub-segments of the industry. Even if you don't have any files yet, it is important to set up an empty file hierarchy so that you know where to save files.

From this point forward, **save or bookmark everything**. If you don't, you'll frequently find yourself looking for data that you're sure you've come across, but just can't place where you saw it. The more diligent you are about saving, the more efficient you'll be with your time in the long-run.

Before you go on, **read a primer**. This can be an equity research initiating coverage report, an industry update report from an investment bank, a consulting report, or a presentation from an industry association. It should ideally be longer than 50 pages and be written within the past year or two. Don't be picky, just find something long and skim it. If you're having trouble finding it, broaden your scope. Instead of "Wind Turbine Manufacturing in China", look for "Renewable Energy".

Once you have a basic grasp of what the industry is about, pull down as much secondary research as you can and organize it. Treat this as a brainstorming phase. Save everything, and look through it later.

Name your files in a way that makes it easy to remember the report. Example: "Lehman Bros – Financial Derivatives Industry – Dec 2007 (120pgs).pdf"

Keep track of everything in your spreadsheet. As you find a new report, look carefully through the sources and footnotes. Most reports will cite other reports for charts and data. Search the web for those sources.

Tip: Nearly 65% of all searches are done through Google. Remember to use other sources, and you'll find more data than most people. Add these to your repertoire:

- images.google.com – Browse to the image source
- webcrawler.com – Search multiple engines at once
- mahalo.com – user created guides
- wikipedia.com – Skip directly to the sources at the bottom
- scribd.com & docstoc.com – User-generated PDF file sharing
- slideshare.com – User-generated slide sharing
- prnewswire.com – Search press releases

Step 2: Define the Industry

Develop a solid understanding of what it is you are researching. Any industry is a collection of companies. Which companies should be included?

There are two main methods of defining industries—by **product focus** and by **activity focus**. The product focus includes companies based on their end-product or service. For example, "the car industry includes all companies that participate in the sale of automobiles." By this definition, the industry includes not only car manufacturers, but also the dealerships, the trucking companies that transport cars to the dealerships, the training companies that teach salespeople how to sell cars. The activity focus method includes companies based on the actions they perform to earn revenue. For instance, "the B2B training industry includes all companies that provide training and educational services to for-profit organizations." This might include computer training seminars, executive coaches, financial training, as well as training companies that teach salespeople how to sell cars. An effective industry definition is one that combines both methods.

You should also understand exactly where your industry falls in the overall economy. A number of organizations have mapped out the taxonomy of all economic activity by sectors, sub-sectors, industries and so on. You can look at their descriptions to better understand how your industry is defined.

Some of the most well-known industry classification methods are:

- [NAICS \(North American Industry Classification System\)](#) – used by the US Government
- [SIC \(Standard Industrial Classification\)](#) – the predecessor to NAICS
- [ICB \(Industry Classification Benchmark\)](#) – by Dow Jones Indexes and FTSE
- [GICS \(Global Industry Classification Standard\)](#) – by Morgan Stanley Capital International (MSCI) and Standard & Poor's (S&P)
- [Yahoo! Finance](#) – a basic, sector-level system
- Proprietary systems – [CapitalIQ](#), [Bloomberg](#), [Morningstar](#) and other paid services offer have their proprietary industry taxonomies

Step 3: Find Information Sources

Every industry has a couple of hubs. Finding these is essential to getting good data on the industry.

Look for **industry trade organizations**. Most industries will have several. For instance, if you're interested in trucking, both the American Trucking Association and the Transportation Intermediaries Association may be useful. Look for groups in different regions (e.g. Europe, Asia), in different sub-segments (e.g. TL trucking, LTL trucking, logistics services), and even adjacent industries (e.g. airlines and air shipping). Each of these might put out publications with statistics that are relevant to your industry.

Look for **industry publications**. These might be magazines, newsletters, email listservs, blogs or websites. Many will link to each other. Look for sections called "resources" or "useful links". Trade associations generally also put out quarterly or annual reports.

Look for **industry trade shows and conferences**. There are many of these for every industry—look for the ones with the most informational websites. Sometimes they will post past presentations or even transcripts of speeches. Most will also provide a list of presenters or (if you're lucky) registrants. This will get you a good list of the main players in the industry.

Find the **equity research analysts** that cover the space. If you have access to a service like Thomson/First Call, look for the analysts that publish annual, long industry studies. If not, Yahoo! Finance has a list of star analysts and recent upgrades/downgrades under "Analyst Coverage" (on the lower left of the screen for any given ticker).

Similarly, find **investment banks that cover the industry**. Some bankers publish really useful presentations with lists of recent acquisitions, industry size estimates, growth rates, etc. Look at those conference and trade show presenter lists to find active industry bankers, or use the "Industries" drop-down menu on [IndustryPrimers.com](#) to browse investment banks by industry.

Find **consulting firms** and **market research firms** that cover the space. [Tekrati](#) keeps a list of a lot of these. You will also notice such firms listed as sources for data in other reports.

Find **books on an industry**. Check [Amazon.com](#), [B&N](#) and [Google books](#). If you have access to your alma mater's library, they might be able to help you as well. If you can only preview a few pages, use your free access to look at the endnotes or bibliography.

Several business school libraries have put together great research guides on doing industry research. Some of the best guides are: [Wharton](#), [HBS](#), [Rutgers](#), and [Columbia](#).

Look for publications, presentations, reports, guides, memos, graphs, tables, videos, etc. Skim the content for relevant data that you can add to your spreadsheet. Remember to add everything you find to your spreadsheet and save files in your folder hierarchy.

Step 4: Get to Know the End Product or Service

At this step, you finally need to start reading what you've saved. If your industry produces a consumer product, it is always best to purchase it (if possible), look at it, use it, etc. If its not, find other ways to get as close to the end-product or service as possible. Talk to other customers, request a demo or free trial, get spec sheets, read consumer forums—get creative.

What are the different types of products available? How do competing firms' offerings vary? What do customers care about most? How much do products cost?

You may want to consider adding a tab to your spreadsheet where you compare different products or services by price and other relevant metrics.

Step 5: Learn the History of the Industry

You may not think that history is relevant, but the CEO across the table from you sure does. When someone says "we don't want a repeat of the 80's", you need to know what that means. Unfortunately, most industry analysts neglect history altogether or do a poor job describing it.

If you can't find a good summary in an analyst report or on the trade association website, look through the less common resources. Academic papers, books, magazine or newspaper articles, and even Wikipedia may have good timelines of the industry. You may also want to try searching for the industry name together with a decade (Example: "hospitality industry 1970s").

Go back several decades, and summarize a few key bullet points for each one.

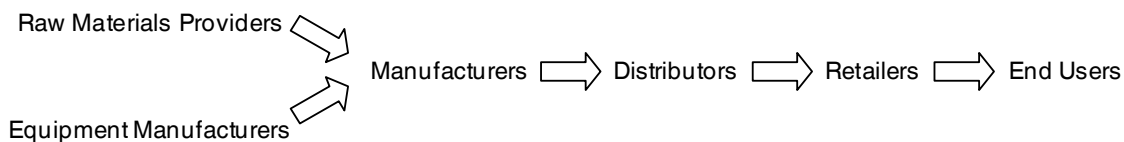
Step 6: Understand the Industry Composition

There are three main ways to divide up an industry: 1) by sub-segments, 2) by value chain and 3) by geography.

Sub-segments: Do there distinct groups of end-products or services? It is very important to distinguish sub-segments from value chain groups. In the car industry, for example, sports car manufacturing and minivan manufacturing are in different sub-segments, but fall in the same part of the value chain. Sports car manufacturing, performance parts manufacturing and dealerships focused on sports cars are all in the same sub-segment, but are different parts of the value chain.

Value chain: Map the entire value chain, from raw materials to end-product. What steps does the industry go through to create its product or service? How many steps are there?

A traditional industrial value chain looks something like this:



However, this will vary by industry. For service industries, it may be more appropriate to consider the value chain of your industry's customers. Are the companies you're studying servicing the end-consumer? The manufacturer? Who provides comparable services to the rest of the value chain?

Keep in mind that the value chain is not static. It changes as the industry expands or contracts. Companies often participate in multiple parts of the value chain. They move upstream or downstream as the competitive nature of the industry changes. Being able to explain how the strategic environment of an industry affects shifts in the value chain brings many useful insights to investing. However, it is only possible after you truly learn an industry inside and out.

Geography: Look at both where companies are based and where they sell to. In most cases, the location of a company's headquarters is not nearly as relevant as the geographic segmentation of their customer base.

Step 7: Size the Industry

Hands down, the easiest way to figure out the size of an industry is to see if anyone else has already done it. Equity research analysts, industry associations, investment bankers, academics, and individual companies in the industry may have put together estimates of how big their industry is.

The problem is, these estimates are rarely explained well, so you're stuck with a number and no methodology behind it. More often than not, you will find several widely different estimates. Which one is right? It is possible that they all have some rationale behind it, but you just don't know what that is. Does it include raw materials, manufacturers, dealers or retailers? Which sub-segments are included or excluded? Does it reflect the size of market at cost of production, or at retail prices?

One factor that often will cause industry size estimates to vary is how the value chain is treated. If the size of the market is the sum of all revenues, and a manufacturer sells a product to a distributor, who sells it to a retailer, who sells it to an end-user, do you count that revenue three times (including each company's mark-up)? When industry analysts simply add company revenues

Tips for effective industry sizing:

- The best way to start is to look at equity research reports or market research reports, go to their footnotes or sources and search for the original documents they used in their estimates.
- Don't repeat work. If a credible source has calculated how frequently single family homes are re-painted, you probably don't need to do it yourself.
- Keep track of estimates vs. actuals.
- The year in which an estimate was made matters. Don't use old estimates as proxies for today, use them as estimates for the year they were made in, and adjust as necessary.
- The credibility of your sources matter. Try not to rely too much on unfamiliar sources.
- Always, always, always keep in mind which part of the value chain, which sub-segment and which geography you're talking about. This is the single most common reason industry size estimates are always so different.

together, they often do this inadvertently by assuming that companies in an industry don't sell to each other (which they often do).

So, to create your own estimate of industry size, you must first choose if you're going to do a **bottom-up** estimate or a **top-down** estimate. In an ideal world, you would do both, but this is usually very time consuming.

Bottom-up market sizing refers to summing up individual companies' output to get a grand total. This approach is **best for concentrated industries**. For instance, if you know that Pepsi and Coca Cola control 95% of the carbonated beverages industry in the U.S., you can add their revenues and divide by 0.95 to get the total market size.

Top-down market sizing is **better for highly fragmented industries** (e.g. retail). For this approach, you start with the addressable market and apply adjustments to get to the market size. These types of estimates resemble consulting firm case interviews. How many gallons of paint are sold each year? Well, you take the number single family homes out there, plus commercial real estate, and assume that they are painted or re-painted every X years, so on and so on.

Both approaches will be multi-year models, so create an Excel line item for each assumption, and grow or shrink it as appropriate.

Step 8: Understand Growth

Understanding how quickly industries are growing (or shrinking) is crucial to making smart investment decisions. Industry growth is never as simple as "X%". To get a complete understanding of growth, you need to look at a number of factors:

- **Historical growth:** How has the industry grown over the past 5-10 years? Are year to year growth rates relatively stable, or does the industry expand and contract every year? Industry associations are great for finding historical data.
- **Volume vs. pricing:** Which growth rate are you estimating? The number of products sold is only half the picture. How is pricing changing? Is that 5% annual revenue growth really a combination of volume declines and simultaneous price increases? How has the volume/pricing growth mix changed over time?
- **Cyclical:** Is your industry cyclical? What happened in the last downturn? Last economic boom? If the industry goes up and down the general business cycle, don't assume a constant growth rate for the next ten years. You do NOT want to get burned when we go through another downturn.
- **Geographic expansion:** Are your growth rates global? How do growing economies factor into the analysis?

Tips to keep in mind:

- Estimates are estimates. They will almost always be wrong. Understanding how the drivers affect your projections is more relevant than guessing the right number.
- Don't use assumptions for which you have no basis at all. If you put garbage in, you'll get garbage out.
- Use existing estimates to triangulate an appropriate range, but don't simply try to match existing forecasts—especially if you don't know where they come from.
- Few industries grow at constant growth rates.
- The next 5 years and the average of the past 5 years are not the same thing.

Look at market analysts' projections for growth. What are the key drivers? What assumptions do they make for those drivers, and do you believe them? Use your industry sizing model, and apply your own assumptions.

Step 9: Understand Key Themes

Every industry has a number of topics that dominate the headlines of industry newsletters, equity research reports and conference themes. By this point in your research, you should have already come across a number of them. Now take the time to list them out.

What are the **key drivers** of the industry? What is the **focus of most equity reports**? Is it the effect of the economic downturn? Consolidation? Outsourcing? New technology? Pricing?

There is no one source for finding key themes, but after you've read a handful of reports, you will begin to get a sense for what is most important. A lot of the time, the things people are talking about most are the big unknowns. Will the government introduce new regulations? Will pricing become competitive with substitutes? Will companies be able to find financing for new projects?

To understand the key themes is to **understand which issues CEOs lose sleep over at night**. If you're investing in the industry, perhaps you'll lose some sleep over it as well. However, doing your research on these topics out and keeping track of them systematically should provide some comfort with the uncertainties that the industry is facing.

Step 10: Understand Key Risks

Listing out key risks is standard procedure for many investment firms. List out **what could go wrong**, and write down what might **mitigate the risk**. If there isn't a good mitigant, don't make one up. It is more important to be honest with yourself about the risk/reward tradeoffs of investing in the space.

If you're having trouble getting started, take the 5 largest publicly traded companies in the industry and look at the **"risks" section in their latest 10K filing**. Look at **analyst reports**. Pitch the industry to one of your colleagues, and take note of their questions or concerns. These are all likely to have some merit, so it is best to list them out and address them.

If you're in a position to interview company executives, **develop a list of diligence questions** that pertain to the industry. How do the companies in the industry perceive the risks that you've identified? How do they plan on addressing them?

Step 11: Understand Specific Companies

In steps one through ten, you were looking at an industry from a 30,000 foot level. Now you're moving a bit closer to ground.

To research specific companies, **start with the publicly traded companies** that have easily accessible data. Create a list of the largest ones by revenue. See if any reports have market share by company and you'll get a sense of who really makes up the industry. What are the biggest companies in each subsector, geography, value segment?

Which private companies make the list? **Check for any recent and large leveraged buyouts**, these are likely to be the largest private companies in the industry. They may have S.E.C. filings if they were recently taken private, or if they have publicly traded debt.

How about start-ups? Check for **recent venture capital deals** to see if there are any relevant newcomers in your industry. What can you learn from these start-ups? How do they differentiate?

Step 12: Understand the Other Players

While an industry is comprised of a set of companies, companies aren't the only relevant players make up the industry. Which **regulatory bodies** have an impact on your industry? Which **research analysts** are influential? Which **associations** do companies belong to? Don't forget investors – are there **private equity or venture capital firms** that are very active in the space? Who has done the most acquisitions in the industry? Which **investment banks** cover the industry? **Legal advisors?** **Accounting firms?**

Having even a basic list of these may come in handy if you plan to do work in the sector in the future. These “other” players may have good industry information or may be more generous with their time if you're planning on conducting primary interviews.

Step 13: Financial Analysis

When getting to know an industry, there are some basic financial analyses that should be standard. Look at **public company stock prices**—how have they done over the past 1, 2 and 5 years? Compare individual companies as well as any indexes that cover the whole industry. Consider creating **your own indexes out of sub-segments, value chain groups or geographies**. This information may be a quick tell which types of companies have been doing well, and which have struggled.

Now take the public companies you've identified, and take down all of their relevant financial metrics. **Compare revenues, prices and margins**. If you have **volume data**, compare that (as well as year over year trends). Compare margins at the **gross margin, operating margin and net margin** level. Don't forget **cash conversion cycles** and balance sheet metrics such as **days payable, inventory turnover, days sales outstanding, current ratio, debt ratios, ROE and ROI**, etc...

If you have access to a service such as FactSet or CapitalIQ, these analyses should not take long. If you don't, look at the ratios that equity analysts are using for guidance. If you have some time, invest in learning XML functions on [Google Spreadsheets](#) or [EditGrid](#). They allow you to pull down website information automatically, and you can use Google Finance, Yahoo Finance or even SEC Documents to feed your online spreadsheets.

Step 14: Valuation

Valuation is a big topic, and this guide does not intend to cover it comprehensively. The basic idea of using valuation in the context of industry research is to understand what factors and trends affect valuation in the industry. To do this, you can run **public and transaction comparables** and compare **valuations across time, sub-segments, value chain segments and geographies**. When you look at deals, don't forget to look at the **volume of deals** (in addition to valuation levels). Are there more or less deals, and what is the trend over time?

If it is of interest, you can also compare **VC deals, joint ventures, debt deals, stock issuances and other non-control investments**. However, this is usually a lot of work and the deal structures vary so much that it often isn't a good source of comparable valuation data.

As with the previous section on financial analysis, having access to a service that can automatically pull down lots of financial data by company is a huge help.

Step 15: Strategic Analysis

At this final step, you are no longer gathering information. Step 15 is mostly to help you **digest the volumes and volumes of data** you have spent a lot of time gathering. Take the data you've found, and force yourself to put it into relevant frameworks. **Ask yourself tough questions about the industry.** It may feel like regurgitation, but you will better understand everything you have read so far and become more proficient in describing your findings.

Not all analyses will be relevant, but here are some to throw in the mix:

- SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis
- Porter's 5 Forces
- PEST (Political, Economic, Social, Technological) analysis
- Value chain graph
- Market segmentation / strategic group map / company segmentation graph
- Willingness to pay / cost graph
- Adoption curve analysis
- Marketing 5C's – Company, Competition, Consumers, Collaborators, Context
- Marketing 4P's – Product, Price, Promotion, Place
- EVC – Economic Value to the Customer
- Customer Benefit ladder
- Triple bottom line
- Product Positioning statement

A great resource for these types of analyses is www.quickmba.com.

Gathering data without putting it all together can be a big waste of effort. Make sure you think about the industry strategically and think about how companies' strategies affect whatever action or investment you are considering.

About IndustryPrimers.com

IndustryPrimers.com provides comprehensive, practical and unbiased industry research. Finance and investment professionals frequently need to quickly get up-to-speed on new industries. However, the process often involves lots of tedious research and data mining. Our primers save professionals time and money by offering relevant industry information in one, easy-to-use format.

Written from the point of view of a potential buy-side investor, our research products summarize the issues most relevant to our clients' investment strategies. Instead of spending months of analysts' research time or tens of thousands of dollars on custom reports, investment professionals and executives can get familiar with the key issues in a given sector through our targeted reports.

For more information, contact Max Prilutsky at max@industryprimers.com.