



Vendors' methodologies for assigning industry codes

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September 2014

A brief Introduction



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at

CORNERSTONE RESEARCH
Economic and Financial Consulting and Expert Testimony

Litigation support and consulting firm

Our objective today is to gain an insight into information vendors' treatment of industry code assignments





SIC



TRBC

NAICS

So many classification schemes!



GICS

BICS

ISIC



ICB

Fama French

Dun & Bradstreet

Thomson

Compustat

CRSP

Worldscope

So many vendors!

Bureau van Dijk

Bloomberg

Factset

OneSource

Hoovers

Valueline

Commonly used codes

- SIC – Standard Industry Codes
- NAICS – North American Industry Classification System
- GICS – Global Industry Classification Standard
- TRBC – Thomson Reuters Business Classification

Code

SIC

- **Developed: In the 1930s by the U.S. Central Statistical Board, has not updated since 1987**
- **Structure: 2 digits for major groups, 4 digits specification**
- **Used by: SEC and Labor Department**
- **Example:**
 - Major group 21 Tobacco
 - Industry Group 2111 Cigarettes

Code

NAICS

- **Developed:** In 2002 jointly by the U.S., Canada, and Mexico to provide comparable business statistics throughout North America. NAICS is scheduled to be reviewed every 5 years.
- **Structure:** 2 - 6 digits with text descriptions
- **Used by:** US government statistics, Census
- **Example:**
 - 312230 Tobacco products (e.g., chewing, smoking, snuff) manufacturing
 - 111910 Tobacco farming, field and seed production

Code

GICS

- **Developed:** By MSCI and S&P in 1999 to provide a system that would account for the increasing globalization of industry. Reviewed annually.
- **Structure:** 2 - 8 digits, 10 sectors, 24 industry groups, 67 industries and 156 sub-industries.
- **Used by:** Compustat & Capital IQ
- **Example:**
 - Consumer Staples – Tobacco
 - 30203010 Cigarettes manufacturing

Code

TRBC

- **Developed: By Thomson Reuters in 2004, reviewed annually**
- **Structure: 2 – 8 digits with text descriptions**
- **Used by: Thomson Research, SDC**
- **Example:**
 - 54 Non-Cyclical Consumer Goods
 - 54102030 Tobacco

How are codes assigned?



Vendor

Securities & Exchange Commission

- Filers choose their Primary Standard Industrial Classification Code number
- SEC officials may change it



Zynga



FORM S-1
REGISTRATION STATEMENT
Under
The Securities Act of 1933

Zynga Inc.
(Exact name of Registrant as specified in its charter)

<p>Delaware (State or other jurisdiction of incorporation or organization)</p>	<p>7371 (Primary Standard Industrial Classification Code Number)</p>	<p>42-1733483 (I.R.S. Employer Identification Number)</p>
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EDGAR Search Results

EDGAR Search Results
BETA View

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<p>ZYNGA INC CIK#: 0001439404 (see all company filings)</p> <p>SIC: 7374 - SERVICES-COMPUTER PROCESSING & DATA PREPARATION</p> <p>State location: CA Fiscal Year End: 1231</p> <p>formerly: ZYNGA GAME NETWORK INC (filings through 2010-10-12)</p> <p>(Assistant Director Office: 3)</p> <p>Get insider transactions for this issuer.</p>	<p>Business Address</p> <p>699 EIGHTH STREET SAN FRANCISCO CA 94103 800-762-2530</p>	<p>Mailing Address</p> <p>699 EIGHTH STREET SAN FRANCISCO CA 94103</p>
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Vendor

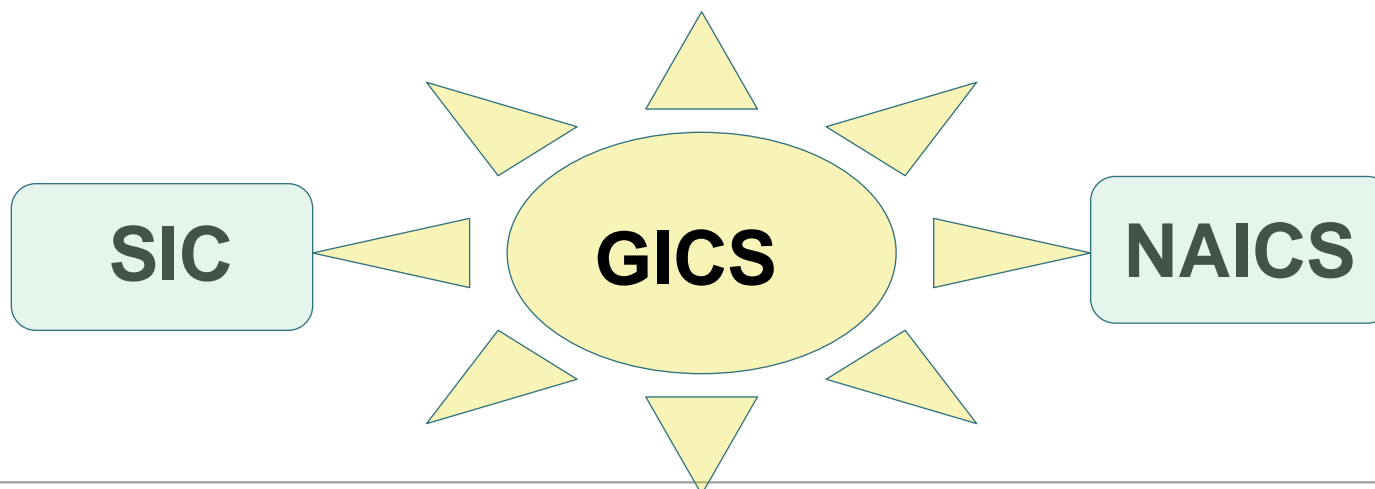
Securities & Exchange Commission

- Filing Review Process
 - The Division of Corporate Finance reviews all filings
 - They assign each company to 1 of 12 primary industries
 - Focus on accounting specialists

Vendor

Compustat

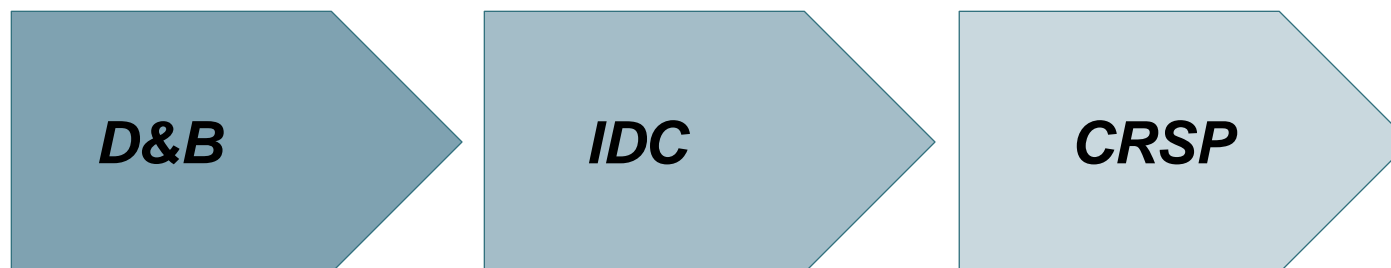
- **Assignment based on “principal business activity”**
- **Based on revenue (earnings and market perception)**
- **Company industry assignments are reviewed annually**



Vendor

CRSP

- **Industry codes from IDC**
- **IDC codes from Dun & Bradstreet**
 - D&B based on main source of revenue



Vendor

Dun & Bradstreet



- **Applying for Duns Number, requestors select their own SIC code**
- **D&B data publications, codes are assigned based on the primary industry from which each company derives its main source of revenue**

BIAS?

- **Possible bias in code assignments?**
- **The Social Contexts of Industry Coding, dissertation by Jongtae Shin**

Suggestions



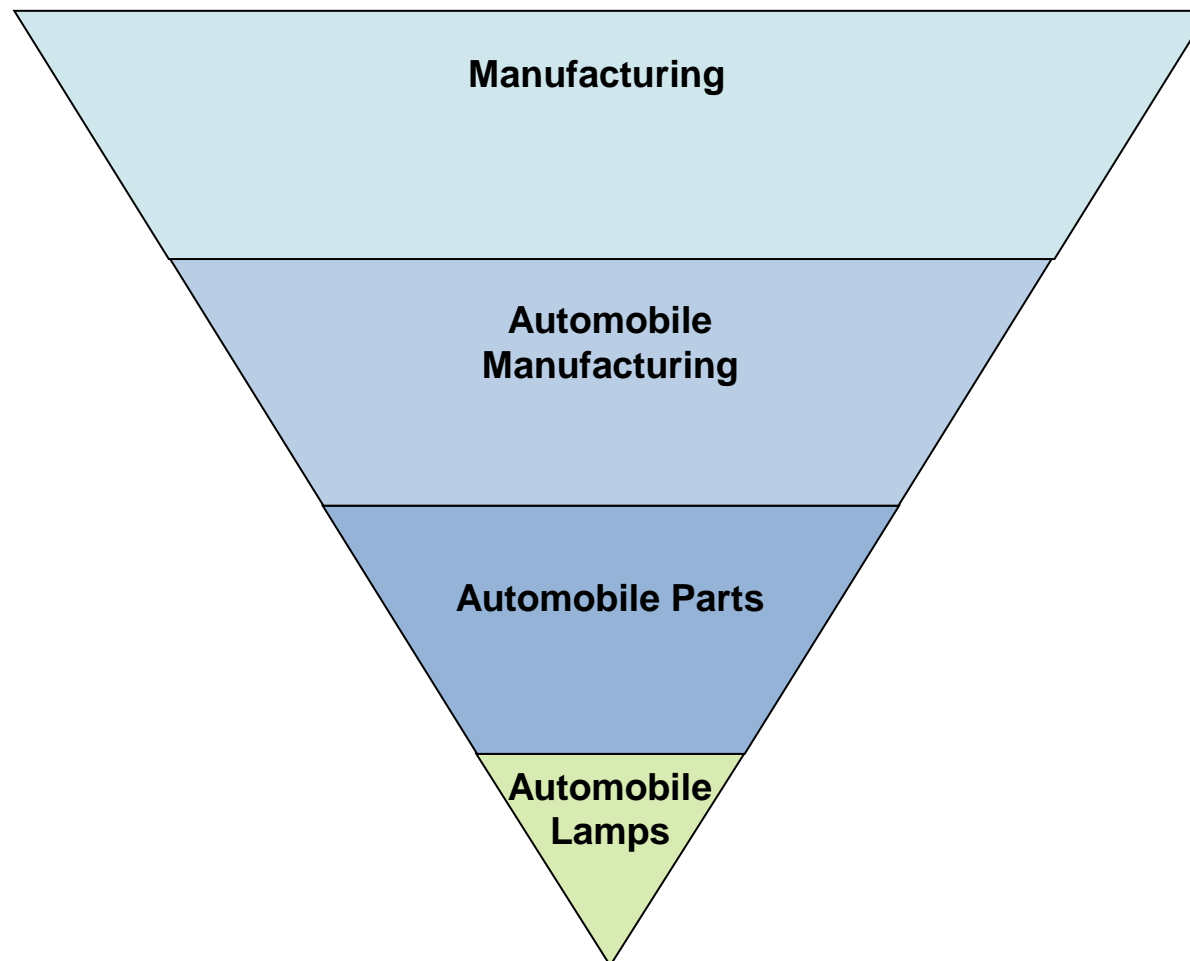
Suggestions

- Realize that the results from 2 different sources will never match



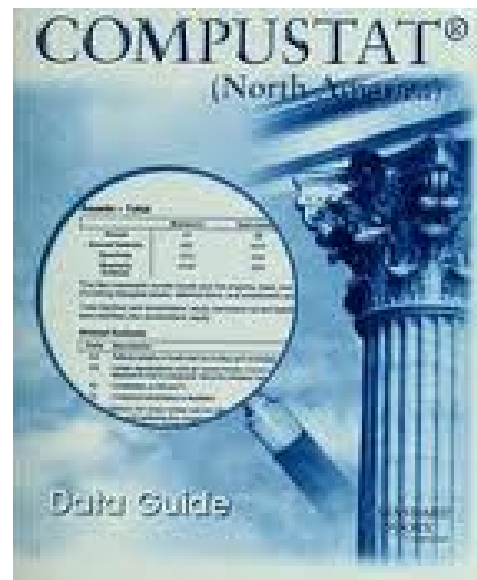
Suggestions

- Use a broad industry code



Suggestions

- Best to use the code preferred by the database
 - Search Compustat with GICS, not NAICS



Suggestions

- Limit the search to the companies' primary industry

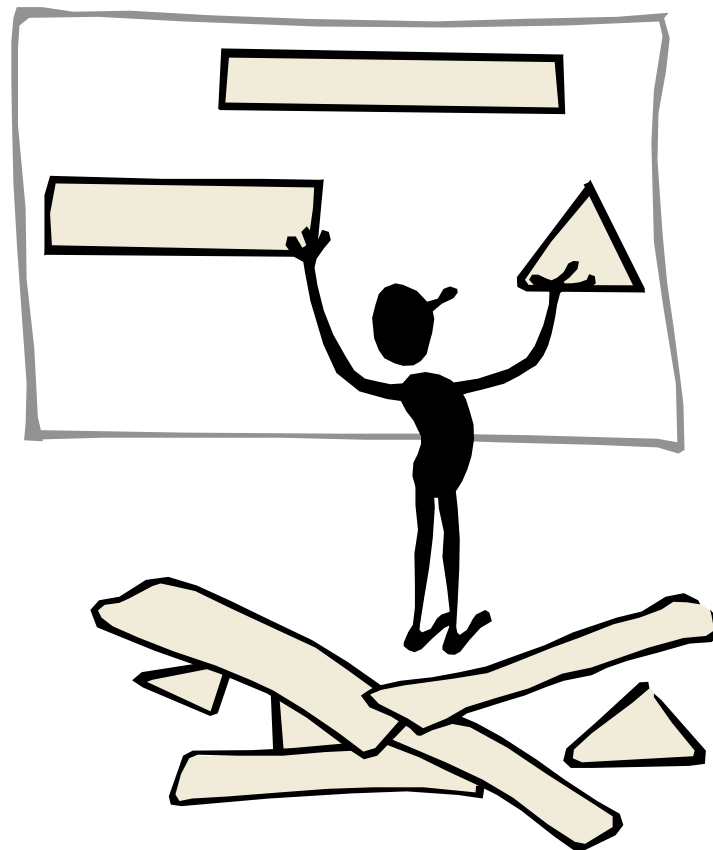
Ford Motor

1 3711

2
3711 6159
7515 6331
7514 7519
6719

Suggestions

- Remember that a vendor may revise the companies' codes over time



Suggestions

- Additional considerations
 - Does the database include private or international companies?
 - Is there a revenue minimum?
 - How does the database deal with mergers?
 - Are defunct companies kept in the database?

Questions?

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