Vendors’ methodologies for assigning industry codes

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September 2014
A brief Introduction

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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.
So many classification schemes!
So many vendors!

- Thomson
- CRSP
- Dun & Bradstreet
- Worldscope
- CRSP
- Bureau van Dijk
- Compustat
- Bloomberg
- OneSource
- Factset
- 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
Vendor Methodologies

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
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
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)

444 De Haro Street, Suite 125
San Francisco, CA 94107
(800) 762-2530

ZYNGA INC CIK#: 0001439404 (see all company filings)
SIC: 7374 - SERVICES-COMPUTER PROCESSING & DATA PREPARATION
State location: CA | Fiscal Year End: 1231
formerly: ZYNGA GAME NETWORK INC (filings through 2010-10-12)
(Assistant Director Office: 3)
Get insider transactions for this issuer.
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

![Diagram showing a hierarchy from general to specific industry categories: Manufacturing, Automobile Manufacturing, Automobile Parts, Automobile Lamps.]
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?
Bibliography


CRSP. Data Descriptions Guide, 2010


Executive Office of the President, Office of Management and Budget. “Standard Industrial Classification System, 1987”.


