

Syllabus from: <http://www.dangode.com/drivers/>

Business Drivers of Industries

[Search](#)

[Bio](#) [Overview](#) [Prerequisites](#) [Differences](#) [Drivers](#) [Help](#) [Materials](#) [Grading](#) [Schedule](#)

Overview

This course counts towards **Strategy specialization for MBA**. This course is designed for finance as well as non-finance majors. There are three objectives of this course:

- A broad but not too deep analysis of financial statements of companies in a wide range of industries to identify their key success factors and the competitive landscape.
- Learn to apply my Six-Pack framework of analysis to get a quick initial look at comprehensive financial metrics and then relate them to the company's business drivers.
- Prepare a write-up that explains the value drivers and links to company's stock price performance.

These skills are essential for your general business IQ regardless of your career choices. Having a perspective about how various industries make money is critical whether you analyze a company for investment, advise its managers, manage its operations, market its products, or choose its capital structure.

Let us take a walk around your neighborhood. Start with a CVS or Walgreens. You notice that the actual prescription drug pharmacy is at the back of the store and occupies a small percentage of the total store space. Would you be surprised to know that around 67% the store sales come from prescription drugs? You may then wonder why they do not get rid of the front store and simply run a small pharmacy to increase profit per square foot? To be "business literate," you should know the business drivers of a pharmacy store and understand its layout.

You then decide to eat something. You think that fast food businesses are highly competitive and probably have low margins. Here is some data.

Company name	Operating margin
Red Robin Gourmet Burgers	4.20%
Jack in the Box	7.00%
The Wendy's Company	7.30%

Darden Restaurants	9.00%
Starbucks Corporation	13.70%
Domino's Pizza	16.50%
Yum! Brands	16.50%
Chipotle Mexican Grill	16.90%
Burger King Worldwide	23.10%
McDonald's Corp	30.30%

Surprised?! McDonald's margin seems to be more than double that of Starbucks.

"OK," you say, "I read more about tech companies. I know how they work." How about the table below?

Company name	Apple	IBM	Intel	Dell	Pfizer	Google
R&D	3,381	6,258	8,350	856	9,112	6,793
R&D as % of sales	2.2%	5.9%	15.5%	1.4%	13.5%	13.5%

Apple does not spend that much on R&D while Intel outspends Pfizer in R&D as percent of sales.

I find it fascinating to peek at basic financial and operational characteristics of a wide range of businesses. It is a step towards making sense of businesses financially. This course is about sharing that fascination with you. It covers business drivers of a wide range of industries. This knowledge is essential for your general business IQ regardless of your career choice. Having a perspective about how various industries make money is critical whether you analyze a company for investment, advise its managers, manage its operations, market its products, or choose its capital structure.

The course will not cover financial institutions such as banks and insurance companies.

Prerequisites

The only prerequisite is the financial accounting course.

Do take this course if you expect the following:

- You enjoy class discussions (sometimes unstructured) that bring together insights from business economics, strategy, and analysis of financial statements.
- You are prepared to put in the time to analyze five companies in depth during the course and do a final project.
- You work well in a team.
- You value constructive criticism of your work in front of your peers.
- You understand that the class is about guiding you towards discovering the challenging process of business analysis. Mastering this process requires extensive practice. The class starts you on that journey. However, it will take business experience to develop the skills to identify business drivers.

Do **NOT** take this course if you expect the following:

- You think there is a quick process or a magic formula to identify business drivers of an industry comprehensively.
- You expect a structured class with PowerPoint presentations highlighting the business drivers of each industry.
- You dislike reading company financial statements.

How this course differs from existing courses

This is a new type of course. To clarify its role, I will now explain how it differs from the following existing courses:

Strategy: We will discuss the factors that influence strategy. We will illustrate the application of frameworks you have learned in your strategy courses to a wide array of companies and industries.

Financial statement analysis (FSA): The focus of my course is on a broad financial overview of industries, not on a detailed analysis of financial statements. The latter is reserved for the FSA course. The following attributes make my course different from the FSA courses.

Modeling: We will not build any financial statement models in the course. However, you will use excel for certain assignments — basic knowledge of excel is sufficient.

Valuation: We will discuss value drivers but we will not build a valuation model and actually value companies.

No new accounting concepts beyond the core accounting course will be needed or discussed. However, the course does require you to read financial statements every week, which requires accounting knowledge.

The Six Pack

The course highlights how and why businesses differ along the six key drivers listed below:

- Size
- Growth
- Margins
- Volume or net asset turnover
- Business risk
- Financial risk

Size

How do we measure size? Market cap, or sales, assets, or number of employees? What are the merits or demerits of each metric? Is the industry fragmented or do a few large firms dominate it? What are the reasons for such patterns? For example, how do economies of scale and scope affect the distribution of sizes? What role do network externalities play in industry consolidation? How do the bigger firms differ from the smaller firms in the industry? How does size affect risk and return?

Growth

What are the drivers of growth? How does growth affect the business model of a company? How does growth affect the financing of a company? What do we know about the rate at which an innovation is adopted by a wider market?

Margins

What are the major components of costs as a percentage of sales? What are the drivers of margins? For example, is the margin driven by pricing power, conversion efficiency, or purchasing power? Is the company primarily driven by the success of its R&D, the efficiency of its production, or the successful marketing of its products to customers? How do the margins change as a company matures? How do companies offset low margins with high volumes, and vice versa? How does that affect its hiring and management practices?

Volume or net asset turnover

How asset intensive is the business model? Does it create barriers to entry? What risks does it create? How does it affect the financing needs of the companies in that industry? Are the revenue-generating assets listed on the balance sheet?

Business risk

How does the extent of fixed costs, i.e., operating leverage, affect the business model of a company? Does it lead to ruinous price competition in a down cycle? Which costs are fixed in the short-run vs. the long run? How does a company mitigate the risks arising from fixed costs?

Is the business cyclical? What do we know about business cycles? What risks do they create? How does fiscal and budgetary policy change in response to business cycles? How does that affect the business we are trying to understand? Is its business model sustainable enough to survive the downturn of a business cycle? Can and how does a company mitigate the risk of down cycles? How does cyclical affect the financing of a company?

Is the business regulated? Why? What aspects of regulation must it manage in order to be successful? How does that affect risk?

Financial risk

How much financial leverage do companies in the industry have? Is there a wide variation? How have the business risk, industry cycle, corporate performance, and the financial policy affected the leverage? What types of debt do the companies have? How does leverage change over the life cycle of a company? Why do industries differ in their borrowing costs? What is the company's credit rating? How have the business risk and the extent of leverage affected the borrowing costs? How has debt structuring affected the interest rate?

Disclaimers

- You need to be in the following systems before the start of the first class:
 - NYU Classes
 - Stern AIS
 - If you are a non-Stern student, you must know how to access Stern email and Stern wifi
 - Google groups for the class
 - Even your access to dgode.stern.nyu.edu is not controlled by me. It is linked to whatever Stern has entered in the class roster. I cannot override it.

- **If you are not in the above systems (which is quite likely if you registered late), you will not be able to access the class materials during the first class and will miss out on important announcements.**
- **Please do NOT contact me regarding access to any of the above systems.** If it takes time for the systems to be updated, complain to the school administration, not me. If someone in IT or Student Affairs tells you that I can add students, they are wrong. I am a professor, not an administrator. It is their job to fix these issues.
- Only registered students will be allowed to sit in this class. I will not grant permissions to anyone to sit in the course without being registered in it.
- Classes are not videotaped **unless there is a special session.**

Help and Office

- Me: dgode@stern.nyu.edu, 212-998-0021, Office: KMEC 10-86.
- Administrative assistant: Emma Gutman egutman@stern.nyu.edu 212-998-0046, Office: KMEC 10th Floor

Materials

- There is no book that I am aware off that covers the topics from the mindset of this course. Therefore, I have written my own materials that are distributed as class handouts.

Attendance

- The class relies on your participation. I expect you to attend all classes.
- Videotaping encourages absenteeism and constrains what I say in class. Therefore, the classes will not be videotaped.
- If you have a qualified disability and will require academic accommodation during this course, please contact me directly.

Grading

- There is no midterm or final. There will be no in-class graded quizzes.
- Weekly assignments (6 in total): 30%
 - I provide a spreadsheet template and document/report template.
 - Students fill out the spreadsheet with the company data and figure out what the analysis is telling them.
 - They send the spreadsheet to the TA who checks it for accuracy.
 - They fill out the document/report template with their analysis.
 - They discuss the report with me if necessary via a phone call.
 - They present the report in class in 15 minutes.
 - Each team analyses about six companies during the course.

- Attendance and class participation: 30%
- Team presentations of an industry: 40%

Schedule

#	Industry	Subsectors
1	Overview	The analytical framework and tools
2	Retail	<ul style="list-style-type: none"> ▪ Grocers ▪ Supply and Distribution ▪ Pharmacies ▪ Department stores ▪ Discount warehouses ▪ Online retailers ▪ Luxury retail ▪ Specialty retail ▪ Mall owners and operators
3	Healthcare	<ul style="list-style-type: none"> ▪ Hospitals ▪ Diagnostic labs ▪ Medical supply and distributors ▪ Prescription benefit managers ▪ Health insurers ▪ Drug manufacturers ▪ Pharmacies [Already covered as part of retail] ▪ Medical device makers ▪ Biotechnology
4	Housing, real estate, and hospitality	<ul style="list-style-type: none"> ▪ Homebuilders ▪ Residential REIT ▪ Commercial REIT ▪ Homebuliding supply [HomeDepot and Lowes] ▪ Hotels and motels
5	Energy	<ul style="list-style-type: none"> ▪ Oil and gas <ul style="list-style-type: none"> ▪ Upstream ▪ Midstream ▪ Downstream ▪ Oil and gas services ▪ Coal
6	Renewable energy and utilities	<ul style="list-style-type: none"> ▪ Solar ▪ Wind ▪ Battery

		<ul style="list-style-type: none"> ▪ Utilities
7	Automobiles and rentals	<ul style="list-style-type: none"> ▪ Car manufacturers including electric vehicle manufacturers ▪ New and used car dealers ▪ Car rental companies
8	Transportation	<ul style="list-style-type: none"> ▪ Airlines ▪ Rail ▪ Trucking and package delivery
9	Marketing intensive industries	<ul style="list-style-type: none"> ▪ Branded products [Luxury and specialty retail has been discussed above.] ▪ Luxury products
10	Services	<ul style="list-style-type: none"> ▪ Education ▪ Consulting ▪ Fast food ▪ Cruises
11	Technology	<ul style="list-style-type: none"> ▪ Chip manufacturers ▪ Consumer hardware ▪ Packaged software ▪ Enterprise software ▪ Social media and advertising-based revenues
12	Final presentations	Company of your choice