CALCULATIONS OF THE INDUSTRY NORMS

INDUSTRY NORM FORMAT

At the top of each industry norm will be identifying information: SIC code number and short title. Beside the year date, in parenthesis, is the number of companies in the sample. The "typical" balance-sheet figures are in the first column and the "common-size" balance-sheet figures are in the second. The respective income statements begin with the item "Net Sales", and the respective Key Business Ratios begin with the item "Ratios." The latter are further broken down, or refined, into the median, and the upper quartile and lower quartile.

THE COMMON - SIZE FINANCIAL STATEMENT

The common-size balance-sheet and income statement present each item of the financial statement as a percentage of its respective aggregate total. Common-size percentages are computed for all statement items of all the individual companies used in the industry sample. An average for each statement item is then determined and presented as the industry norm.

This enables the analyst to examine the current composition of assets, liabilities and sales of a particular industry.

THE TYPICAL FINANCIAL STATEMENT

The typical balance-sheet figures are the result of translating the common-size percentages into dollar figures. They permit, for example, a quick check of the relative size of assets and liabilities between one's own company and that company's own line of business.

After the common-size percentages have been computed for the particular sample, the actual financial statements are then sequenced by both total assets and total sales, with the median, or mid-point figure in both these groups serving as the "typical" amount. We then compute the typical balance-sheet and income statement dollar figures by multiplying the common-size percentages for each statement item by their respective total amounts.

(For example, if the median total assets for an SIC category are $669,599, and the common-size figure for cash is 9.2 percent, then by multiplying the two we derive a cash figure of $61,603 for the typical balance sheet.)

KEY BUSINESS RATIOS

The Fourteen Key Business Ratios are broken down into median figures, with upper and lower quartiles, giving the analyst an even more refined set of figures to work with. These ratios cover all those critical areas of business performance with indicators of solvency, efficiency and profitability.

They provide a profound and well-documented insight into all aspects for everyone interested in the financial workings of business—business executives and managers, credit executives, bankers, lenders, investors, academicians and students.

In the ratio tables appearing in this book, the figures are broken down into the median—which is the midpoint of all companies in the sample—and the upper quartile and lower quartile—which are mid-points of the upper and lower halves.

Upper quartile figures are not always the highest numerical value, nor are lower quartile figures always the lowest numerical value. The quartile listings reflect judgmental ranking, thus the upper quartile represents the best condition in any given ratio and is not necessarily the highest numerical value. (For example, see the items Total Liabilities-to-Net Worth or Collection Period, where a lower numerical value represents a better condition.)

Each of the fourteen ratios is calculated individually for every concern in the sample. These individual figures are then sequenced for each ratio according to condition (best to worst), and the figure that falls in the middle of this series becomes the median (or mid-point) for that ratio in that line of business. The figure halfway between the median and the best condition of the series becomes the upper quartile; and the number halfway between the median and the least favorable condition of the series is the lower quartile.

In a statistical sense, each median is considered the typical ratio figure for a concern in a given category.