Using Industry Forecasts as Tools for Predicting Future Actions (Part III)

An important key to establishing and maintaining competitive advantage is understanding your competitors’ future intentions and capabilities. Although forecasting a company’s future behavior is an inexact art, you can make extremely educated projections if you approach the challenge with a four-point attack. The first three of these points were discussed in the preceding two articles. The fourth—to assess how the company’s industry and competitive environment are likely to affect its future—is the subject of this article. It focuses on ways to examine a company’s external environment and to determine how that environment will likely affect the company’s future.

No company operates in a vacuum. Companies respond to, and are affected by, a host of factors that are external to themselves and often beyond their control. Consequently, in forecasting a company’s actions, you must look beyond the company itself to the key factors that influence it.

Following are some of the important factors you should consider when looking at companies in any industry. You’ll also find the best information sources for predicting trends, relevant to each factor, that may affect the future of your target company or business.

Most of the published sources cited should be available in your corporate library. If they are not, ask your librarian to help you locate them in other area libraries.

Industry Climate and Market Demand

To learn about trends in the industry and how they are likely to affect the future actions of your target company, you should interview people who have an overview of the industry. The best and most accessible are likely to be the following.
- **Industry analysts, International Trade Administration (ITA), U.S. Department of Commerce.** Industry analysts at ITA study industries from both a global and domestic perspective. Each analyst specializes in one or more industries and writes a yearly forecast in *U.S. Industrial Outlook*, a guide to the future of all industries that the Department of Commerce (DOC) views as strategic to the economic future or that have customarily been studied. If *Outlook* is not available in your library, it can be purchased from your area Government Printing Office (GPO) bookstore or reviewed in any of the hundreds of Government Depository Libraries around the country. To learn more detailed information about industries and markets, interview the ITA analyst who studies your industry. To locate the specific analyst you need, contact ITA at 202/377-3808 or by fax at 202/482-3808.
- **Investment analysts.** For industries made up of predominantly public companies, financial analysts have good insights into future trends. The best place to start is with a copy of *Nelson’s Directory of Investment Research*. Consult the industry listings to locate not only analysts who specialize in your target’s industries, but also those who monitor industries important to the target.
- **Industries along the target’s entire distribution chain may be important, so you’ll want to consider interviewing analysts who monitor market industries, supplier industries and even suppliers of supplier industries. For example, if paint is a critical supply to your target company, the company’s future could be greatly affected by changes not only in the paint industry but in the chemical industries that supply paint manufacturers. Rarely will you have time to do exhaustive studies of each relevant industry. Investment analysts can often give you the selected insights you need.**
- **Trade associations.** The trade associations that focus on the industry can provide you with insights into industry trends and forecasts. Likewise, the trade associations for the supplier industries keep a close eye on future prospects of the industries they serve. Identify appropriate associations by consulting the *Encyclopedia of Associations*. The index will refer you, by keyword, to the groups you need to contact. Talk with the chief executive of a small association or the individual focusing most closely on your industry segment in a large association. *Encyclopedia of Associations* identifies key executives in each organization.
- **Bureau of Economic Analysis.** The Bureau of Economic Analysis’ Interindustry Economics Division provides useful forecast information about demand for industrial products, which is often overlooked by business researchers. This division tracks input-output accounts, measuring all the repercussions of changes in demand for industrial materials, by Standard Industrial Classification (SIC) codes. An example is required to demonstrate the far-reaching value of these measurements to business forecasting: If utilities increase their use of coal, there will be a demand for related products—such as explosives and steel products—which in turn will require increased quantities of basic chemicals, additional coal, more petroleum products, more plastics material and rubber, and an increase in iron ore production. There will be even further effects. For instance, the increased production of basic chemicals will require more chemical minerals, more steel, more nonferrous metals and still more coal.


To Understand Trends in the Industry

Industry Analysts
Investment Analysts
Trade Associations
Bureau of Economic Analysis
With these accounts, the market share for a selected product is revealed by the end user. Input-output analysis also sheds light on regional implications of changes in the gross national product, employment requirements by industry and cost relationships. An industry forecast is incomplete unless it incorporates the valuable insights provided by BEA. Contact them at 202/523-0777 or by fax at 202/523-7538.

Demographics and Statistics
Your target company’s future is dependent, either directly or indirectly, on demographic trends. Companies may be affected by growth, decline or shifts in population; income levels; health trends and life expectancy; educational levels; or family relationships. They may also react to trends in manufacturing, retail and wholesale trade, services, construction, imports and exports, state and local government finances, and myriad other conditions.

- **Bureau of the Census.** The best source for all this demographic and statistical information is also the least expensive—the Department of Commerce’s Bureau of the Census. The Bureau, through its 10-year census of the population and various highly specific censuses, reports the best and most complete demographic information available. Most other population studies have their origin in the Census Bureau’s studies. For information about domestic demographics and statistics, contact 301/763-4051 or fax at 301/763-4644. For demographics and statistics for other countries, contact International Data Base access, Peter Johnson, 301/763-4811.

- **Special interest groups.** If your industry is especially affected by particular segments of the population, membership and lobbying organizations that represent those segments can be helpful in projecting significant demographic trends. For example, for trends regarding senior citizens, consider the American Association of Retired Persons (AARP), and for women’s issues and trends, contact National Organization for Women (NOW). These types of organizations may collect original data, serve as a clearinghouse for statistics, and add value and interpretation to data from the Bureau of the Census. Look for organizations that focus on your key demographic groups in *Encyclopedia of Associations*.

**Environmental Trends**

Environmental concerns have an increasingly powerful effect on the direction of companies, both in terms of how they manufacture and produce their products and the nature of the products themselves. For insights on changing environmental policies and public opinions, contact the following government and private organizations.

- **Council on Environmental Quality.** Reporting directly to the President of the United States, the Council has a broad overview of environmental policies. For assistance, contact 202/395-5750 or by fax at 202/395-3744.
- **Environmental Protection Agency.** The Environmental Protection Agency gathers information on a wide range of industries and has insights on the effects of environmental policies on industry trends. Experts in topics such as air pollution, pesticides, radon and wetlands are available to assist you. For referral to experts and studies at EPA, call 202/660-4361.
- **Environmental Protection Groups.** Domestic and international groups such as Greenpeace and Friends of the Earth can provide valuable insights on environmental trends. Find them in *Encyclopedia of Associations*, or by talking with the industry trade associations about appropriate groups (usually the ones that act as watchdogs for the industry’s activities).

**Political and Regulatory Trends**

Developments in the political and government regulatory arena can turn an industry upside-down. Consider the airline and telecommunications industries since deregulation, the tobacco industry since warning labels and the alcoholic beverage industry since advertising limitations were imposed.

If your target company is in a regulated industry, it is impossible to predict where the company is headed without understanding the regulatory environment. The following are among the key sources for tracking political and regulatory trends affecting your target company and its industry.

- **Trade associations.** Lobbying is an important function for trade associations. They work with the U.S. Congress and other government bodies to push for legislation that benefits companies in the industry and against laws that jeopardize the industry. Find the industry associations in *Encyclopedia of Associations*, then interview the government relations specialist(s) for information on how politics and regulations are expected to affect the industry and individual companies in that industry.

- **Corporate lobbyists.** Usually referred to as “Washington representatives,” corporate lobbyists are responsible for supporting their clients’ interests in Washington. Learn which lobbyists represent your target company as well as other companies in your target company’s industry by checking *Washington Representatives*, published by Columbia Books and also available on diskette from First Data Software Publishing. The corporation you’re researching may have representatives in state capitals as well. These lobbyists are excellent sources of insight on how federal and state laws and regulations will affect specific industries.
• Corporate Washington offices. Very large companies have their own offices in Washington. Among the responsibilities of the Washington office is to keep track of legislation and regulatory activity that might affect the company.

If your company has a Washington office, you may find the staff to be quite helpful in identifying how legislative and regulatory activities will affect your industry. For a more direct view of how your competitors view the impact of Washington’s activities, call the Washington offices for those competitors. In any case, try to interview the chief executive in the office or one of the lobbyists.

You can locate these offices through directory assistance in Washington, D.C. Just ask for a listing for the company you’re researching. For a company that has no other operations in Washington, there is likely to be only one number listed. For a large company with many listings, there will likely be a separate number for government relations.

• U.S. Congress. There are several ways that Congress can help you track the regulatory climate in which your target operates.

  * One of your senators or your member in the House of Representatives may be willing to assign a staff assistant to do some research for you. If this is the case, you will benefit from the considerable data and analyses that are continually produced to support the legislative process. Contact your senators or representative through the Capitol switchboard, 202/224-3121, or their district office in your area. The Government Printing Office (GPO) publishes directories of both the Senate and the House of Representatives that you can purchase for a nominal fee.

  * If you want to avoid the above route, or it proves unsuccessful, you can take a more direct approach by tapping Congress’s own database with the help of Congressional staff. Call 202/225-1772 and ask the staff to search LEGIS database, using keywords that will identify the industries of interest to you. The search will tell you which committees have held hearings bearing on the industry. From the descriptions provided, choose those bills and committees that appear to be most related to your interests. Then call the committee staffers directly. Reach the committees through the Capitol switchboard or via one of the directories published by GPO. For direct access to staffers who have been involved in various types of legislation, consult Almanac of the Unlected.

  * Congressional hearings can also provide important insights on how corporate executives expect impending legislation—or the lack thereof—to affect their company. Executives testify (often with great detail and candor) before Congress on issues of importance to the industry and their company. Their testimony is available to the public. You can identify most relevant hearings through LEGIS, but you may find it more convenient to use Congressional Information Service (CIS) Index, which indexes all testimony by company name and subject matter. Often you can obtain hearing transcripts free of charge from the appropriate committee. Otherwise, most transcripts are available from the Government Printing Office.

• Executive branch legislative liaisons. All cabinet-level executive departments and most independent agencies have individuals that act as liaisons with the Congress. Often, they are an excellent source of information about legislative and regulatory trends. The Congressional Research Service has compiled a list of all congressional liaison offices. You can obtain a free copy by requesting it through the office of your senator or representative. Ask for a copy of Congressional Research Service report #91-348 PGM. You can also call any government cabinet-level department or agency and ask for the regulatory liaison’s office.

• State legislation and regulation. If your industry is regulated at the state level, you’ll want to monitor the likely effects of state legislation and regulation on your competitors. You can conduct your research directly with the state legislatures and regulators. You’ll find all the telephone numbers and addresses you need in How to Find Information About Companies—Part 1. In addition, both your company and your competitors are likely to have lobbyists or offices in critical states. Tap your own company’s offices as well as those of your competitors for their specific insights. Locate them through directory assistance in the critical states’ capital cities.

Economic Trends

For international, national and regional economic trends, you can learn a great deal from just one source.

• Bureau of Economic Analysis. Bureau of Economic Analysis (BEA), described previously in this article, produces a wide variety of economic and industry statistics. In addition, BEA’s analysts can provide detailed information about specific topics.

Technological Advancements

To learn how technological advancements are likely to affect the company or industry you’re researching, one source stands above all others.

• Office of Technology Assessment. An arm of the U.S. Congress, the Office of Technology Assessment (OTA) studies emerging technologies and how they will affect society. In the process, OTA forecasts industries’ involvement in, and response to, emerging technologies. For general information, contact 202/224-9241. For insights on particular technologies, ask to be referred to the appropriate technology expert.

Other External Environment Issues

Systematically monitoring your competitive environment should be an integral part of your competitive management program. This article has identified those external environmental factors that significantly affect companies in most industries, but you will want to identify and monitor additional factors that are critical to your industry. To ensure that you’ve covered all the important bases, conduct your own assessment or hire a professional to provide you with this service.