

Key Lesson:

UNDERSTANDING NAICS

*An Important Measure of a
Company's Profitability*

Understanding NAICS: A Simple Guide

NAICS, or the North American Industry Classification System (pronounced 'Nakes'), is **a tool that groups businesses into specific industries**. It's a key component in understanding the U.S. economy and plays a crucial role in the functionality of ValuCompass's products.

NAICS is based on a 'production-oriented concept', meaning it groups businesses based on their primary activities or the processes they use to produce goods or services.

The History of NAICS

NAICS was developed collaboratively by Mexico's INEGI, Statistics Canada, and the U.S. Economic Classification Policy Committee. The aim was to establish common industry definitions for Canada, Mexico, and the United States, facilitating easier comparison and analysis of these three countries' economies.

Next, let's consider the ways the NAICS codes impact what we learn about a business through ValuCompass's Discover Assessment and Report.

NAICS and Normalized Trading Range, Potential Value and Value Gap

In ValuCompass's Discover Assessment, industry selection is determined using self-assigned NAICS codes. Accurate industry selection is vital as it establishes the Normalized Trading Range for comparison, shapes the "How Does Your Business Compare?" section in the Discover report, and affects the calculation of Potential Enterprise Value and the Value Gap.

The NAICS is a system that categorizes businesses into specific industries based on their primary activities. Its correct application in ValuCompass's Discover Assessment is vital for providing accurate industry comparisons and calculating the correct Enterprise Value.

In summary, NAICS codes play a crucial role in organizing and understanding industries in North America. They facilitate data collection, analysis, business identification, and policy development, making them valuable tools for various stakeholders in the business and economic landscape.



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Interested in learning more?
Let's chat!

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