Bank on it: Returning economic confidence will revive industry revenue
## About this Industry

### Industry Definition

The industry is comprised of banks that provide financial services to retail and business clients in the form of commercial, industrial and consumer loans. Banks accept deposits from customers, which are used as sources of funding for loans. Banks in this industry include banks that are regulated by the Office of the Comptroller of the Currency. Banks that are regulated by the Office of Thrift Supervision are included in the Savings Banks and Thrifts industry (IBISWorld report 52212).

### Main Activities

The primary activities of this industry are:

- Receiving deposits from customers
- Issuing consumer, commercial and industrial loans

The major products and services in this industry are:

- Commercial loans
- Depository Services
- Loans to individuals
- Real estate loan
- Others

### Similar Industries

52212 Savings Banks & Thrifts in the US
Savings banks accept deposits from customers and issue mortgage and real estate loans, as well as invest in high-grade securities.

52213 Credit Unions in the US
Firms in this industry accept members’ share deposits in cooperatives, which are organized to offer consumer loans to their members.

52219 Industrial Banks in the US
Banks in this industry accept deposits and lend funds to clients. This industry includes industrial banks or industrial loan companies, and private banks (i.e. unincorporated banks).

52221 Credit Card Issuing in the US
This industry includes businesses that provide credit by issuing credit cards with repayment of the funds being made on an installment basis. Interest is charged on the funds loaned.

52222 Auto Leasing, Loans & Sales Financing in the US
This industry is made up of businesses that provide sales financing and leasing, which involves money being lent to purchase goods through contractual sales agreements.

52229 Real Estate Loans & Collateralized Debt in the US
This industry comprises a wide range of nondepository financial institutions extending credit or making cash loans (except credit cards and sales financing agreements).

52231 Loan Brokers in the US
Firms in this industry arrange loans by bringing borrowers and lenders together, and then charging fees and commissions to their clients for the provision of these services.
About this Industry

Additional Resources

For additional information on this industry

www.occ.treas.gov
Office of the Comptroller of the Currency

www.fdic.gov
US Federal Deposit Insurance Corporation

www.sec.gov
US Securities and Exchange Commission

IBISWorld writes over 700 US industry reports, which are updated up to four times a year. To see all reports, go to www.ibisworld.com
Industry at a Glance
Commercial Banking in 2013

Key Statistics Snapshot

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Annual Growth 08-13</th>
<th>Annual Growth 13-18</th>
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<tbody>
<tr>
<td>$507.0bn</td>
<td>-4.2%</td>
<td>7.4%</td>
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</table>

<table>
<thead>
<tr>
<th>Profit</th>
<th>Wages</th>
<th>Businesses</th>
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<tr>
<td>$78.1bn</td>
<td>$95.6bn</td>
<td>5,890</td>
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Revenue vs. employment growth

Prime rate

Products and services segmentation (2013)

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>39.5%</td>
<td>Real estate loans</td>
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<tr>
<td>27.2%</td>
<td>Depository Services</td>
</tr>
<tr>
<td>15.5%</td>
<td>Loans to individuals</td>
</tr>
<tr>
<td>12.5%</td>
<td>Commercial loans</td>
</tr>
<tr>
<td>5.3%</td>
<td>Other</td>
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Market Share

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wells Fargo &amp; Company</td>
<td>16.5%</td>
</tr>
<tr>
<td>JPMorgan Chase &amp; Co.</td>
<td>12.1%</td>
</tr>
<tr>
<td>Bank of America Corporation</td>
<td>10.0%</td>
</tr>
<tr>
<td>Citigroup Inc.</td>
<td>4.6%</td>
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Key External Drivers

- Prime rate
- Aggregate household debt
- Corporate profit
- Regulation for the Banking sector
- External competition

Industry Structure

<table>
<thead>
<tr>
<th>Life Cycle Stage</th>
<th>Mature</th>
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<tr>
<td>Revenue Volatility</td>
<td>Medium</td>
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<tr>
<td>Capital Intensity</td>
<td>Medium</td>
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<td>Industry Assistance</td>
<td>High</td>
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<td>Concentration Level</td>
<td>Low</td>
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<td>Regulation Level</td>
<td>Heavy</td>
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<tr>
<td>Technology Change</td>
<td>Medium</td>
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<tr>
<td>Barriers to Entry</td>
<td>Low</td>
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<tr>
<td>Industry Globalization</td>
<td>Low</td>
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<tr>
<td>Competition Level</td>
<td>High</td>
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</tbody>
</table>

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 36
Industry Performance

Executive Summary

The Commercial Banking industry is composed of banks regulated by the Office of the Comptroller of the Currency, the Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC). Banks generate the majority of their revenue by accepting customer deposits and then lending these deposits out to individuals and businesses at interest rates.

In the five years to 2013, industry revenue is expected to fall at an annual average rate of 4.1%. This decline is due to huge losses on home loan defaults at the height of the financial crisis in 2008 that cut industry revenue and profit. Consequently, throughout the majority of the five years to 2013, loan and lease losses soared; however, this trend is not expected to continue as the housing market improves. According to the FDIC, commercial banks are starting to return to prerecession profit levels. Industry net income has increased steadily during the past three years, with the majority of growth taking place in 2011 and 2012. As a result of deposit growth and rebounding corporate profit, commercial and retail loan demand increased toward the end of 2012; it is expected to continue rising in 2013, causing revenue to increase 0.4% to $507.0 billion by year-end.

Between 2008 and 2013, the number of commercial banks is expected to have declined at an annualized rate of 2.2% to total 5,890 enterprises. This decline shows how industry concentration increased and the four largest commercial banks increased their market share because of the subprime mortgage crisis and the recession. In the five years to 2018, government regulation and technology-driven competition are forecast to dramatically change the business model that commercial banks use.

In the five years to 2018, industry revenue will be less volatile than in the previous five years. In addition, too-big-to-fail banks will grow deposits at a faster rate than smaller savings institutions, whose reputations were severely damaged because of the significant number of bank failures that occurred between 2008 and 2012. As a result, revenue is forecast to increase at an annualized rate of 7.4% to $725.0 billion in the five years to 2018.

Key External Drivers

Prime rate
The prime rate refers to the interest rate banks charge their most creditworthy and largest corporate customers. Industry revenue comes from the spread between the federal funds rate and the prime rate, along with the interest rates that banks charge the rest of their customers. While a low prime rate usually boosts loan demand under nonrecessionary conditions, a higher rate causes banks to realize higher net interest income and revenue. The prime rate is expected to remain flat in 2013.

Aggregate household debt
Aggregate household debt includes all outstanding credit market debt held by consumers, including credit card debt, mortgages, personal loans and other debt. Industry interest revenue increases when consumers choose to borrow more money from banks and hold higher debt levels. This driver is also highly correlated to consumer sentiment, which

With economic improvement, loan losses will decline, and industry recovery will continue
Industry Performance

Key External Drivers continued

affects the level of debt consumers choose to hold. Aggregate household debt is expected to increase slowly in 2013.

Corporate profit
Businesses are the largest customer group for commercial banks. Business sentiment and corporate profit determine demand for credit, the quality of lending portfolios and the level of financing transactions. An increase in corporate profit will positively affect commercial banks by increasing commercial loan demand and transaction fees. Corporate profit is expected to increase during 2013, representing a potential opportunity for the industry.

Regulation for the Banking sector
Because the US banking system depends on consumer trust in banking institutions, the commercial banking industry is highly regulated. New legislation passed since the 2008 places limits on banking fees, introduces new regulatory oversight and forces banks to hold higher capital reserves. Lower fees hurt industry profit, higher capital reserves leave banks with less money to lend out and new oversight increases compliance costs; all of these factors negatively impact revenue and profit. Regulation is expected to increase in 2013, posing a threat to the industry.

External competition
Competition is high in the banking industry and can come from thrifts, credit unions, government agencies, mortgage brokers and other nonbank organizations that offer financial services. External competition for the Commercial Banking Industry is expected to decrease in 2013.

![Graphs of Prime rate and Aggregate household debt](source: www.ibisworld.com)
Industry Performance

Current Performance

Commercial Banking industry revenue is expected to fall at an annualized rate of 4.1% to $507.0 billion in the five years to 2013. The falling revenue is attributable to the impact that the 2008 subprime mortgage crisis had on the banking sector. Federal Deposit Insurance Corporation (FDIC) numbers indicate that huge mortgage loan losses cut profit during the recession’s peak, with the industry losing an astounding $119.5 billion throughout the course of the five years. As many as 450 banks have failed during the five years to 2013, while many smaller commercial banks were unprofitable on a yearly basis during the same period. Nonetheless, many commercial banks are starting to capitalize on mobile and online platforms, which have recently driven organic, especially deposit, growth. Combined with improvements in the economy, revenue is expected to increase 0.4% in 2013.

Commercial banks earn the majority of their revenue through the interest spread between customer deposits and lent money. Banks accept deposits and place them in savings accounts and in products like certificates of deposit, where the money cannot be withdrawn for a certain period. Banks pay interest to the depositor on this money and loan out these deposits at a higher interest rate as mortgages, auto loans, personal loans or small business loans. Revenue is generally calculated as the spread between interest-bearing accounts and loans, combined with noninterest revenue, such as debit card and overdraft fees. The primary factors driving revenue growth are the prime rate (i.e. the minimum bank loan interest rate) and retail and commercial loan demand, which is represented by aggregate household debt and corporate profit.

Obstacles arise despite recovery

The government spent billions of dollars to prop up the Commercial Banking industry and the economy during the recession. From late 2009 to early 2011, those efforts seemed to pay off, but the consumer credit market has continued to thaw more slowly than anticipated. The Federal Reserve has tried to stimulate the economy by adjusting interest rates, which still remain at all-time low levels between 0.0% and 0.25%; however, because credit markets have faced continued economic uncertainty due to the European sovereign debt crisis and Standard & Poor’s downgrade of US treasuries in August 2011, these low interest rates are still not appealing to borrowers. Also, volatile capital markets coupled with sluggish job growth have increased US consumers’ uncertainty, which has only caused more struggles for the credit market.

Still uncertain about the economy and cautious with their spending, more consumers have been putting money into banks or government treasuries. According to the FDIC, industry deposits have grown at an annualized rate of 5.7% in the past five years to $8.6 trillion. While there has
Industry Performance

Obstacles arise despite recovery continued

been an increase of cash flow into banks, there has also been a large decrease in the outflow of funds in the form of loans. Revenue growth during the past five years has come largely from increased interest income from government stimulus, not organic growth from new loans.

Refinancing opportunities

On the other hand, there has been a considerably high amount of refinancing activity due to record-low interest rates. Refinancing a mortgage can have several benefits for homeowners, including the opportunity to cash out part of their home equity and lower their monthly mortgage payments. Some of the largest commercial banks have seen refinance requests skyrocket, so much so that some have actually increased their credit requirements to slow down the flow of applicants. While refinancing certainly helps homeowners, it also provides commercial banks with another source of revenue. When a homeowner refinances a mortgage, the bank must go through a process similar to a mortgage origination, which requires the homeowner to pay a substantial fee to cover closing costs. Recently, the largest commercial banks have been picky about granting refinance requests. Typically, homeowners must have substantial equity in the house, good credit and a reliable source of income to receive refinancing. Since the recession, many consumers have been unable to meet these requirements, which has prompted government institutions, such as Fannie Mae and Freddie Mac, to step up and help borrowers through backing their refinance loans. Between 2009 and 2012, Freddie Mac helped more than 5.4 million homeowners refinance their mortgage and also helped about 700,000 homeowners avoid foreclosure. Because many commercial banks are Freddie Mac-approved lenders, they benefit from these institutions’ efforts to help distressed homeowners.

A change in landscape

The negative effects of the subprime mortgage crisis drastically changed the industry landscape, leading larger banks to acquire smaller banks. In 2008, savings institution Washington Mutual became the largest US bank failure (in terms of assets) in history and was acquired by JPMorgan Chase. In the second quarter of 2008, Wachovia Bank, then the fifth-largest commercial bank, reported $8.9-billion in losses. This large write-down destroyed Wachovia’s operations; however, the FDIC deemed the bank systemically important to the health of the economy and, ultimately, too big to fail. Wells Fargo purchased Wachovia for $15.1 billion in stock, greatly increasing its banking presence on the East Coast and in the South.

The crisis accelerated the trend of long-term industry contraction and allowed the four largest commercial banks to increase their market share. Between 2008 and 2013, the number of commercial banks is on track to decline at an average rate of 2.2% annually to 5,890. According to the FDIC, in 2009 140 commercial banks failed, followed by
Industry Performance

A change in landscape continued

157 commercial banks failures in 2010. Then, in 2012, 51 commercial banks failed, proving a definitive improvement from previous years. FDIC figures also show that the number of banks with assets less than $1.0 billion declined 1.9% in 2011 (latest available data), while large banks with more than $1.0 billion in assets actually grew 1.6% the same year. These trends further indicate that the industry has been consolidating, with large companies only growing larger.

Government regulation

In response to the subprime mortgage crisis, new government regulation has both helped and hurt the industry. In 2008, the FDIC’s board of directors voted to temporarily increase deposit insurance from $100,000 to $250,000 through December 2013 in an effort to increase consumer confidence. This increase came in response to a heightened number of consumers that diversified their deposits in multiple banks to qualify for the previous insurance limit of $100,000. While this effort did increase consumer confidence because of higher guaranteed insurance, an increase in deposit insurance has put stress on smaller banks. Additionally, the Dodd-Frank Act in 2010 made the insured deposit limit of $250,000 a permanent amount that would no longer expire at the end of 2013.

New regulations imposed by the government have increased consumer confidence

The string of recent bank failures did considerable damage to the FDIC Deposit Insurance Fund, which is just now starting to return to prerecession levels since its historic low in 2009. The FDIC expects the fund to be recovered by the end of 2018. As of the end of 2011 (latest available data), the fund had a balance of about $11.8 billion, with additional funds available through the Treasury. Much of the replenishment came in 2009 when US banks had to repay about $45.0 billion. Such regulatory adherence has increased costs, eroding industry profit.
Industry Performance

The five years to 2018 will be drastically different from the past five years for commercial banks. The economy will continue to recover, helping to bolster industry revenue and making growth much less volatile. Commercial banks will continue to benefit from government support, albeit with some strict, new regulations. Too-big-to-fail banks will grow deposits at a faster rate than smaller savings institutions, whose reputations were damaged by the bank failures that occurred between 2008 and 2012. During the five years to 2018, the industry landscape will also change significantly because of increased government oversight and competition from nontraditional financiers.

Industry revenue will grow as the economy improves, and as the prime rate and loan demand rise. In the next five years, unemployment levels are projected to fall and per capita disposable income is forecast to grow; consequently, increased income and a relatively high personal savings rate, will cause higher demand for the ability to invest cash into checking, savings and other cash accounts. This will allow banks to keep low interest payments on these accounts.

Consumer confidence and individual and business spending are also projected to increase. Combined with a thawing credit market and interest rates on the mend from their recessionary lows, bank lending is anticipated to rise. With a greater volume of deposit inflows and lending outflows, industry revenue is forecast to increase at an annualized rate of 7.4% to $725.0 billion in the five years to 2018, including expected growth of 2.7% in 2014. Despite these revenue increases, profitability will be stifled during the next five years and is expected to falter to 13.8% of revenue in 2018.

Through 2018, commercial banks’ deposits will grow faster than savings institutions. Larger commercial banks will continue to use their wide range of products and services, such as wealth management, to attract retail depositors. Commercial banks like Bank of America, JPMorgan Chase, Wells Fargo and Citigroup will also have more clients to market these services to because of the merger and acquisition activity that took place during the recession. Savings institutions will find it difficult to compete effectively and will be more susceptible to failure or acquisition than they were before the recession.
Industry Performance

Technology and regulation will reshape the industry landscape

With the finger of blame for the recession pointed sharply at the Commercial Banking industry, increased regulation will dominate the five years to 2018. The Dodd-Frank bill is expected to negatively affect the industry, eating into bank profit through fee reductions, higher compliance costs and the tying up of more capital in trading. Costs are expected to rise as banks strive to meet new regulations, and banks will pass these rising costs on to customers in the form of fees.

Competition will intensify as new entrants target commercial banking. Nontraditional competitors include some of the world’s largest corporations and best-funded venture-backed start-ups. These firms believe new technology and the shift to online banking provide the platform to enter the industry and attract customers with new methods, approaches and business models. The continued evolution of mobile banking will have a dramatic effect on client growth and retention. Generation Y, which includes Americans aged 10 to 30, currently relies heavily on mobile phones for paying bills and making deposits, a trend that is expected to increase in the five years to 2018. Companies with well-developed mobile platforms will be able to attract more young adults, ensuring their future deposit growth and lending capabilities.

Finally, microfinance loans and prepaid debit cards offered by large companies like Walmart allow customers to engage in banking activities outside of the traditional banking network, potentially posing a significant threat to the industry. Increased competition and lower distribution costs, thanks to technology, will play a significant role in the industry’s declining profitability in the next five years, pushing the industry to consolidate further. IBISWorld projects that the number of US commercial banks will decline at a 1.4% average annual rate during the five years to 2018. Despite declines in the number of commercial banks, the number of industry establishments is expected to increase at an annualized rate of 2.7% to 107,392 locations by 2018. This increase will come thanks to sizable increases in consumer deposits, allowing banks to expand their operations and open new locations around the country.
Industry Performance

Life Cycle Stage

IVA is expected to increase at about the same rate as GDP in the 10 years to 2018

Industry consolidation and convergence is increasing

The number of enterprises is declining slowly

Key Features of a Mature Industry

- Revenue grows at same pace as economy
- Company numbers stabilize; M&A stage
- Established technology & processes
- Total market acceptance of product & brand
- Rationalization of low margin products & brands

Quality Growth

- High growth in economic importance; weaker companies close down; developed technology and markets

Maturity

- Company consolidation; level of economic importance stable

Quantity Growth

- Many new companies; minor growth in economic importance; substantial technology change

Decline

- Shrinking economic importance

Commercial Banking
- Commercial Leasing
- Credit Card Issuing
- Industrial Banks
- Savings Banks & Thrifts
- Credit Unions

SOURCE: WWW.IBISWORLD.COM
Industry Performance

Industry Life Cycle

The Commercial Banking industry is in the mature phase of its life cycle, which is characterized by mergers and acquisitions, steady growth, more regulation, a smaller number of banks, market saturation and intense product competition. In the 10 years to 2018, industry value added (IVA), which measures the industry’s contribution to the economy, is expected to grow at an annualized rate of 2.2%, compared with a 2.1% average annual growth rate for the US economy. This level of IVA growth suggests the industry is growing at the same rate as the US economy, a key indication that this industry is in the mature phase of its life cycle.

Despite being mature, the industry continues to undergo restructuring in the wake of the subprime mortgage crisis. This factor has allowed some major commercial banks to make large acquisitions, increasing industry consolidation. These acquisitions and the general trend toward consolidation of services within financial markets, has brought an increasing number of activities under the commercial banking umbrella. Consequently, the lines between various banking activities are expected to continue to blur during the coming years.

Rising consumer Internet access has also given customers the ability to easily compare features and pricing across banking products, which has led to intense pricing competition on fairly standardized industry products, causing profit to fall. Despite competition, the increase in products offered and the rapid rise in the mobile and online banking platforms have caused usage rates to drive revenue, and they will continue to provide year-over-year revenue growth in the five years to 2018.

The maturity of the US Commercial Banking industry contrasts with the growth expected from opening financial services in emerging countries; however, some US banks are currently retreating from overseas operations to conserve scarce capital for the domestic market. Also, the European sovereign debt crisis has made many banks wary of their European operations. Despite this, banks are expected to expand their networks in emerging economies in accordance with economic recovery. Revenue growth in these countries is expected to be higher than in the US market during the next five years, and such expansion will provide an additional stream of capital for US banking operations. These factors will also support more aggressive lending practices in the five years to 2018.
The Commercial Banking industry earns interest revenue from loan products and noninterest revenue from service fees. In 2013, about 67.5% of industry revenue is expected to come from loans, while the remaining 32.5% will come from service fees.

**Real estate loans**
This category includes all mortgage products for retail consumers, including loans secured by refinancing activity and lease financing and receivables. Real estate loans account for an estimated 39.5% of commercial bank revenue in 2013, and this amount is largely...
unchanged from 2009 because mortgage markets have yet to recover from the subprime mortgage crisis.

Mortgage product offerings are for home purchasing and refinancing needs and have fixed or variable rates. Commercial banks manage these mortgage portfolios for asset and liability management purposes, or they repackage and sell them to investors (i.e. collateralized debt obligation and securitization) while retaining the relationship with the customer.

The mortgage business includes the origination, fulfillment, sale and servicing of first mortgage loan products. Servicing activities primarily include collecting cash for principal, interest and escrow payments from borrowers, and accounting for and remitting principal and interest payments to investors and escrow payments to third parties. Servicing income includes ancillary income derived in connection with these activities, such as late fees. Mortgage products are typically available to customers through a commercial bank’s retail network, geographic branch centers, and sales-account executives and sales-force personnel who offer customers direct telephone and online assistance and access to products. Firms also serve customers through partnerships they may have with various mortgage brokers.

**Depository services**

This product segment provides a comprehensive range of services and products to consumers and small businesses and accounts for an estimated 27.2% of commercial banking revenue. Banks provide a depository service to consumers by safely holding their money and paying out interest on deposits. Depository products include traditional savings accounts, money market deposit accounts, certificates of deposit, individual retirement accounts and regular and interest-accumulating checking accounts.

Deposit products provide a relatively stable source of funding and liquidity for commercial banks. Banks earn interest revenue from investing deposits in assets, through client lending and asset and liability management activities. Deposits also generate various account fees, such as insufficient-fund fees, overdraft charges and account-service fees. More than any other service, deposits are the lifeblood of lending for an organization. Commercial banks pay interest on customer deposits and then lend these deposits to borrowers at a higher rate, profiting on the interest spread.

**Loans to individuals**

In general, individual loans are the fastest-growing loan segment and include indirect consumer loans that allow firms in the commercial banking industry to offer financing through automotive, marine, motorcycle and recreational vehicle dealerships across the country. This segment represents the greatest opportunity for industry growth during the next five years as the economy recovers, but competition will be fierce and come from nontraditional players, such as Walmart.

**Commercial loans**

Although the commercial client base is smaller than the individual consumer base, revenue from loans to commercial clients accounts for an estimated 12.5% of industry revenue, down slightly from 2009 when companies held off spending as a result of economic uncertainty. This category is broadly termed business lending and includes lending to commercial, agricultural and industrial enterprises.

Business lending includes a range of products and services that are primarily...
Products & Markets

Demand Determinants

The demand for bank deposits is affected by a variety of different factors, especially the real after-tax return on deposits relative to alternative investments and consumer confidence.

Commercial banks set the after-tax return on deposits in accordance with the volatility of equity markets as well as consumer confidence in the economy, which determines the demand levels for savings, checking and money market accounts. In bull markets, there is low demand for savings-type products, and banks have to raise rates to compete with the increased flow of funds into equity investments. Given their low-risk (albeit low-return) profile, commercial banks experience an increase in the flow of funds into bank deposits in bear markets. Consumer confidence is also an important demand determinant for the level of deposits. The more people fear equity markets, the greater propensity they have to put money in the bank.

Loans

The demand for loans is determined by the real after-tax cost of debt relative to the cost of equity. The demand for debt financing typically falls as the real cost of such financing increases. Commercial and industrial (C&I) loans depend on investment spending by businesses on equipment and other capital goods, as well as financing related to mergers and acquisitions. C&I loans tend to be cyclical and fall as general economic activity slows and increase when the economy recovers again.

Commercial real estate loans are largely determined by investment in nonresidential structures, such as multifamily housing, construction and land development. Multifamily housing investments tend to be more volatile.

The demand for consumer loans largely depends on consumer expenditure, and particularly, durable goods expenditure. The demand for mortgage lending depends on conditions such as mortgage rates, house price movements and employment levels. Demand will also be affected by lending standards and the criteria for eligibility for a loan.

The level of interest rates, which represents the cost to borrow, will also affect the demand for loans. Low interest rate levels encourage households and businesses to take on more debt because the relative cost of consumption through borrowing falls as interest rates fall.

Products & Services continued

offered to customers via client-relationship teams and product partners associated with the banks. Products include commercial and corporate bank loans and commitment facilities that will cover business banking clients, middle-market commercial clients and large multinational corporate clients. Real estate lending products are generally issued to public and private developers, home builders and commercial real estate firms.

Other

Other products include consumer-related business activities in this industry, including forms of insurance, some card services (though this area is primarily specific to the Credit Card Issuing industry, IBISWorld report 52221) and the allocation of interest income from loan activities not elsewhere classified. Also included are loans to various federal, state and local government agencies and loans between depository banks. IBISWorld estimates that this segment accounts for 5.3% of industry revenue.
Commercial bank customers include two major markets: retail customers and corporate clients. One-time transactions are categorized under other customers.

**Retail customers**
The retail customer market segment is expected to account for the largest part of a commercial bank’s customer base. Although these customers mainly deal in small transaction sizes, the sheer proportion of customer numbers makes this market segment more significant. IBISWorld estimates retail customers represent 53.0% of the commercial banking market, down slightly over the past five years due to frozen mortgage markets.

Consumer and retail customers provide a substantial amount of deposits for commercial banks, where account-keeping fees and investments made on the deposits make these customers highly profitable. Furthermore, with the high degree of competition in the Commercial Banking industry, the ability to attract and retain these customers is essential. If a commercial bank has a satisfied base of retail customers, it can then market various other products and services to customers at minimal cost. Enticing customers to branch out from their primary banking activities (deposits) and purchase mortgage products, fund management services, credit cards and other banking sectors offered by that specific company is another way commercial banks cross-sell products and bolster revenue.

**Corporate clients (small business, corporations and government clients)**
Unlike retail customers, small businesses, corporations and institutional clients deal in a much larger scale of transaction value. Although there may be fewer clients in this category, their dollar value of dealings is substantially larger. Corporate clients require large forms of business lending, and they too deposit cash into commercial banking accounts. IBISWorld estimates that corporate clients account for 42.0% of the industry. Generally, larger corporations and institutional clients deal with commercial banks whose assets are greater than $1.0 billion. According to data from the FDIC, commercial banks with assets in excess of $1.0 billion had a greater exposure to commercial, industrial and credit card loans; however, commercial banking institutions with less than $1.0 billion in assets had a greater exposure to...
Products & Markets

Major Markets continued

residential mortgages, commercial real estate and agriculture loans.

Commercial banks in this industry also provide loans to and accept deposits from government institutions. Loans will vary across regions and government departments but tend to be similar to other market segments. They can include various government-type loans as well as real estate lending, personal loans, and auto loans.

Other clients

Other customers hold a small market share and generally involve a one-time, niche-type transactional service. These customers can be involved in student loan services, retirement services, auto finance and other forms of commercial real estate. This segment accounts for about 5.0% of the commercial banking market.

International Trade

There are no imports or exports in this industry.
Business Locations

The geographic spread of commercial banking establishments across the United States is vast. Unlike many other industries, there is no single state that holds a large market share of establishments. The location trend of the industry closely follows population since banking is still predominantly done at the bank as opposed to online. However, as online banking becomes more popular, the geographic location of banks will become less important.

Southeast
In terms of geographic spread by region, the Southeast has the largest proportion of establishments, estimated at 29.6%. This region includes some major economic states such as Florida (6.3% of establishments), North Carolina (3.5%) and Georgia (3.4%). Comprising 12 states, the Southeast is the largest region by size and population, which somewhat reflects the number of establishments there. This region also generates the most revenue for the industry, about 25.0% of the total.

Mid-Atlantic
Although the Mid-Atlantic region is estimated to hold the third-largest percentage of establishments at 14.0%, this region generates the second-largest amount of revenue, estimated at 22.5%. The Mid-Atlantic region holds the largest financial state, New York, which is expected to generate about 16.7% of total industry revenue with about 5.0% of the total industry establishments in 2013. As the New York region headquarters the majority of the largest banking institutions, this region has been severely affected by the subprime mortgage crisis.

Many employees lost jobs in this region because large financial corporations cut costs to maintain their bottom lines. Despite this trend, the region continues to generate the greatest amount of income and will remain the financial hub of the United States into the future.

Other major commercial banking areas throughout the United States include the Great Lakes region (17.0% of establishments), with Illinois accounting for an estimated 5.5% of total revenue and 5.0% of all establishments; and the West region (12.5% of establishments), with California generating an estimated 9.9% of industry revenue and 8.4% of total establishments. The West was also largely affected by the recession, with California and Nevada suffering more than other states from the subprime mortgage crisis.
Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in this industry is Low

The subprime mortgage crisis has caused large-scale merger and acquisition (M&A) activity in the banking sector. Within the commercial banking sector, four out of the top five commercial banks have either merged or acquired banks struggling with losses associated with the crisis. This has resulted in an increase of concentration within the industry. In 2008, the four largest players accounted for an estimated market share of 31.6%; however, in 2013, this market share is expected to increase to 42.9%.

Although the top four banks combined have increased their market share, losses by major players Citigroup and Bank of America caused their individual market shares to weaken. These losses, however, were offset by Wells Fargo’s and JPMorgan’s large acquisitions during the five years to 2013. Furthermore, market concentration is expected to increase in the five years to 2013, as smaller commercial banks are unable to compete against larger commercial banks’ diverse products and services. Due to the inability of smaller banks to compete, the number of commercial banks is estimated to have fallen at an annualized rate of 2.2% in the five years to 2013.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Having a good reputation
A firm’s reputation is crucial to attracting new customers and retaining existing customers. Also, the effects of the recession have made a firm’s reputation even more important.

Membership of joint marketing/distribution operations
Revenue models for commercial banks are based on selling a multitude of bank products to customers.

Superior financial management and debt management
Commercial banks need good processes for managing interest rates, foreign exchanges and operational risks because they must maintain a rigorous and conservative risk-management approach. Customer perception of credit worthiness is also important.

Ability to raise revenue from additional sources
Commercial banks need to be able to cope with slower lending growth by increasing non-interest income. Banks may need to make an aggressive push to nontraditional products by providing other financial services.

Economies of scale
Reducing unit cost is a key driver of profitability. This has increased as more banks reach economies of scale through increased merger and acquisition activity.

Easy access for clients
Having a strong branch presence throughout the United States makes it easier and more appealing for customers to conduct business with a particular bank. This creates more opportunities for banks to sell loans and other bank products.
Cost Structure
Benchmarks

The global credit crunch has significantly altered the cost structure of the Commercial Banking industry, specifically in the loan and lease loss-provision segment. As the economy begins to recover from the recession, the cost structure is expected to return to prerecession proportions.

Profit
Profit, measured as earnings before interest and taxes, is expected to account for 15.4% of revenue in 2013. The collapse of the housing market and the credit freeze dropped banks’ profit levels to record lows. Loan and lease loss provisions skyrocketed in 2009 and bank deposits decreased as many people were laid off. Since 2009, banks have restructured their operations and now run a more efficient, leaner business. As the economy improves, loan and lease loss provisions have decreased substantially, and deposits have increased, momentarily increasing profit margins. In the five years to 2018, profit margins are expected to continue to decline slightly as increased regulation hurts banks’ streams of revenue.

Other expenses
The other expenses category is the industry’s largest cost segment. This segment includes interest expenses, loan and lease loss provisions, and miscellaneous costs. Miscellaneous expenses make up 11.6% of the industry’s cost structure and include general administrative costs, data processing, and technology and telecommunication fees. Noninterest expense from deposits is also expected to account for 7.1% of industry revenue in 2013. These costs include FDIC and other deposit assessments.

In 2013, loan and lease loss provisions are expected to comprise 16.7% of...
Competitive Landscape

Cost Structure

Benchmarks continued

The largest cost traditionally incurred by banks is interest expense, which accounts for an estimated 11.9% of industry revenue in 2013. Interest expense is determined by the amount, type and maturity of liabilities, market interest-rate conditions and competition in lending markets. For banks, the most significant item contributing to an interest expense is the interest charged on domestic deposits. Banks rely heavily on customer deposits as a means of funding their interest payments to depositors, and this reliance has somewhat shielded the industry from the increasing cost of funds through capital markets that other financial institutions have faced. The credit crisis has raised the cost of acquiring funds through securitization and capital markets, causing investors who are reluctant to lend in turbulent times to exit the market. Banks that were active participants in capital markets were also affected by this trend. Other types of funding that incur interest costs are deposits made by foreign investors, federal funds purchased, trading liabilities and subordinated notes and debentures.

Wages

Labor costs are another significant expense item for commercial banks, estimated to account for 18.8% of industry revenue in 2013. The profitability of a commercial bank is directly related to the quality of service that their employees deliver to customers. A successful bank or branch requires well-trained, knowledgeable staff that can provide excellent customer service. This need is unlikely to change in the coming years; thus, wages will continue to make up a significant portion of banks’ expenses.

Rent and Utilities

A key to succeeding in the industry is to have an easily accessible branch network that spans regions heavily populated with customers. With a focus on decreasing the capital intensity of the industry, banks continue to opt for leasing premises rather than owning them outright. Consequently, rent and utilities are significant costs for the industry, accounting for an estimated 9.8% of revenue.

Basis of Competition

The Commercial Banking industry is highly competitive. Generally, the markets served by this industry involve competition with banks, thrifts, credit unions, government agencies, mortgage brokers and other nonbank organizations offering financial services. This industry competes with nonbank organizations such as brokerage houses and commercial and manufacturing companies that offer financial services to facilitate their customers’ purchases. Additionally, these nonbank institutions are faced with fewer regulatory constraints and are, therefore, able to have lower operating costs. Firms in this industry will also compete against banks and thrifts owned by nonregulated diversified corporations and other entities that offer financial services through alternative delivery channels, such as the Internet.
Competitive Landscape

Basis of Competition continued

Competition is based on customer service, interest rates on loans and deposits, quality and variety of products and services, lending limits and customer convenience (e.g. locations of branches). Despite the large decline in the number of commercial banks and the explosion in the number of ATMs, growth in the number of banking offices has continued, highlighting the need for convenient locations for customers. Transaction execution, innovation, technology, reputation and price are also factors on which firms compete in this industry.

Competitive conditions are likely to continue to intensify as merger activity in the financial services industry produces larger, better-capitalized and more geographically diverse companies capable of offering a wider array of financial products and services at more competitive prices. Competition for retail deposits is also expected to intensify as banks seek to reduce their reliance on wholesale markets for funding. There are also new entrants joining in the competition. In 2008, both Goldman Sachs and Morgan Stanley converted from investment bank status into bank holding companies to increase their access to retail deposits. Additionally, as technology continues to progress, the importance of a depository institution and a financial intermediary for transferring funds may diminish.

Barriers to Entry

An organization must receive prior approval by the Board of Governors of the Federal Reserve System to operate as a commercial bank in the United States. It is then subject to the supervision of and regular inspections by the Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and other federal and state regulatory agencies. Banks are restricted in their range of activities, in acquisitions of other banks and in interstate banking activities. Furthermore, commercial banks are subject to capital and operational requirements based on risk and leverage.

Another barrier to entry is industry competition, making entry into the industry a deterrent. Large firms such as Bank of America, Wells Fargo, JPMorgan Chase and Citigroup are major players in the commercial banking industry; therefore, these companies have an increased advantage to secure customers. Major companies have many locations throughout the United States and offer a wide range of services, making it difficult for new entrants to compete. However, as technology continues to advance, the geographic location of operators will matter less to consumers.

Bars to Entry checklist

<table>
<thead>
<tr>
<th>Barriers to Entry</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition</td>
<td>High</td>
</tr>
<tr>
<td>Concentration</td>
<td>Low</td>
</tr>
<tr>
<td>Life Cycle Stage</td>
<td>Mature</td>
</tr>
<tr>
<td>Capital Intensity</td>
<td>Medium</td>
</tr>
<tr>
<td>Technology Change</td>
<td>Medium</td>
</tr>
<tr>
<td>Regulation &amp; Policy</td>
<td>Heavy</td>
</tr>
<tr>
<td>Industry Assistance</td>
<td>High</td>
</tr>
</tbody>
</table>

SOURCE: WWW.IBISWORLD.COM
Commercial bank operations are predominantly focused in the United States; however, banking is increasingly becoming global in nature. The deregulation of financial markets in a rising number of countries has facilitated this shift. Furthermore, in order to make it easier for international banking organizations to gain access to a specific country’s banking market, the industry has started unifying regulation. International capital standards, outlined in the Basel II Capital Accord, imply that very little adjustment to a bank’s operational and capital standard is required to enter banking markets of participating countries. All of the industry’s largest players have global operations and have offices set up in many countries.

The subprime mortgage crisis caused a number of banks to reduce their level of participation in foreign markets, concentrating instead on their domestic operations and on regaining the capital strength needed to recover from the debilitating recession. According to the International Monetary Fund, cross-border assets, which are held on banks’ balance sheets as a proportion of total assets, fell in 2008, as cross-border lending declined at a faster rate than overall credit. This situation will likely reverse as the Commercial Banking industry recovers and banks continue expanding into foreign markets.
Player Performance

Wells Fargo & Company
Market share: 16.5%

Headquartered in San Francisco, Wells Fargo and Company is a diversified financial services company that provides banking, insurance, investment, mortgage and consumer finance. The firm separates its businesses into three main segments: community banking, wholesale banking, and wealth, brokerage and retirement. Wells Fargo has about 9,000 retail branches, 12,000 ATMs, 269,200 employees and serves more than 70 million customers.

Community banking is the largest business segment, generating about 60.0% of revenue. It serves small-business clients, retail customers and high-net worth individuals. The company’s community-banking segment provides a range of products from home mortgages and debit cards to personal trusts. Commercial banking activities for wholesale banking are also included in Wells Fargo’s industry-specific revenue.

Financial performance

Like many of the other major players, Wells Fargo’s revenue growth has been bolstered by acquisitions. In 2008, Wells Fargo acquired Wachovia and, as a result, became the nation’s largest mortgage lender and the second-largest diversified services firm, in term of deposits, in the United States.

Wells Fargo was, however, negatively impacted by the credit crisis and subsequent recession, which caused declines in revenue and profit. Nonetheless, Wells Fargo’s declines were not as severe as other companies, and the company has not been forced to write down large losses on assets. In the five years to 2018, Wells Fargo will be in a good position to pick up market share.

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Wells Fargo & Company (US commercial banking segment) – financial performance*

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ billion)</th>
<th>(% change)</th>
<th>Net Income ($ billion)</th>
<th>(% change)</th>
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<tr>
<td>2013</td>
<td>83.5</td>
<td>7.7</td>
<td>20.8</td>
<td>13.7</td>
</tr>
</tbody>
</table>

*Estimates
Major Companies

Player Performance continued

while its revenue and net income grew. The recent rise in income is due to its limited exposure to risky investments and the financial strength of its parent company, Berkshire Hathaway.

During the five years to 2013, Wells Fargo’s industry-specific revenue increased at an estimated annualized rate of 15.2% to $83.5 billion. This growth is inflated by a massive 92.5% revenue increase in 2009, after Wells Fargo acquired Wachovia. In 2013, Wells Fargo’s revenue is estimated to increase 7.7%, which is in line with increasing commercial and consumer demand for loans. IBISWorld estimates that Wells Fargo’s net income has grown consistently each year, with an expected increase of 13.9% in 2013 to $20.8 billion.

JPMorgan and Co. is one of the largest financial institutions in the world. After the second quarter of 2011, it became the largest bank in the United States with about $2.2 trillion in assets and second-largest bank in revenue behind Bank of America. JPMorgan’s activities are organized into four business segments: consumer and community banking, corporate and investment bank, commercial banking, and asset management. It operates in the United States with about 5,614 branches and 18,699 ATMs.

The most-relevant business segments for this industry are consumer and community banking, and commercial banking. On September 25, 2009, JPMorgan acquired Washington Mutual for $1.9 billion from the Federal Deposit Insurance Corporation. The acquisition of Washington Mutual gave JPMorgan its first significant presence in the West, which is expected to help boost revenue in the future. The bank’s card-services segment is also one of the nation’s largest credit card issuers, with 64.5 million accounts and $128.0 billion in loans. Commercial banking is a small but strong component of JPMorgan’s business, with more than $181.5 billion in assets. This division provides a range of services to corporations, government agencies, nonprofits and other financial institutions.

Financial performance
In relation to other commercial banks, JPMorgan operated smoothly through

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ billion)</th>
<th>(% change)</th>
<th>Net Income ($ billion)</th>
<th>(% change)</th>
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<td>2013</td>
<td>61.4</td>
<td>4.6</td>
<td>17.7</td>
<td>33.1</td>
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</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD

JPMorgan Chase & Co. (US commercial banking segment) – financial performance*
Major Companies

Player Performance continued

Bank of America Corporation (BofA), headquartered in Charlotte, NC, is the world’s largest holding-backed company in terms of revenue. After a 2009 reorganization following its merger with Merrill Lynch, the company now operates through five business segments: consumer and business banking, consumer real estate services, global banking, global markets, and global wealth and investment management. The company’s retail-banking operations entail 53 million customers in 50 states with about 5,500 banking centers, 16,300 ATMs and 267,000 employees.

BofA conducts commercial and retail banking activities primarily through its consumer and business banking, and consumer real estate services segments. Report estimates also include corporate lending through its global-banking division. Deposit products include traditional savings accounts, money market savings accounts, certificates of deposit and individual retirement accounts, checking accounts and debit cards. Deposits provide a stable source of funding and liquidity. The company earns net interest revenue from investing this liability in interest-earning assets. The bank also generates revenue through various account fees, such as insufficient-fund fees, overdraft charges, account service fees and interchange fees from debit cards. Loan payments from businesses, credit cards and home loans make up the largest share of commercial-banking revenue.

Financial Performance

Between 2006 and 2010, BofA’s commercial banking revenue grew an average of 6.1% annually to $63.7 billion; therefore, the company’s average annual revenue decline of 5.2% to $50.7 billion during the five years to 2013 can be misleading. The growth between 2006 and 2010 occurred because of BofA’s high-profile acquisitions of FleetBoston, MBNA, Countrywide Financial and Merrill Lynch. Due to changing accounting practices and the poor housing market, the full extent of BofA’s exposure to subprime mortgage loans became clear in 2011; IBISWorld estimates that revenue fell 39.1% to $36.7 billion in 2011 due to a loss in revenue from its home loans and insurance division.

Retail deposits experienced gains during the past five years as investors pulled their money from capital markets and sought the safety of checking and savings accounts. Despite these gains,
Major Companies

Citigroup Inc. has the world’s largest financial services network, spanning more than 160 countries and about 12,074 offices worldwide. The company employs about 259,000 employees and holds more than 200 million customer accounts globally. Based on deposits, Citibank is the fourth-largest retail bank in the United States.

Citigroup operates four business segments: global consumer banking, institutional clients group, corporate, and citi holdings. The global consumer-banking segment is most relevant to this industry and includes the retail bank of Citigroup’s global branch network, branded Citibank. Additionally, revenue from local consumer lending under the citi-holdings segment is relevant to this industry.

Out of the four biggest banks in the United States, Citigroup suffered the most during the recession. The firm faced huge losses during the crisis and was rescued by a massive US government bailout in 2008, and because the government took an ownership stake, it demanded that Citigroup downsize. As a result, the company reorganized its primary banking businesses into Citicorp, while the rest of its businesses were placed in Citi Holdings, which will be sold in the future. Citigroup’s downfall came because of its large exposure to collateralized debt obligations. The firm used risk models to examine mortgages in particular areas, but it never included the possibility of a national housing downturn.

Financial Performance

During the five years to 2013, industry revenue is estimated to have fallen an

Bank of America Corporation (US commercial banking segment) – financial performance*

<table>
<thead>
<tr>
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<th>(% change)</th>
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</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD
Major Companies

Player Performance continued

average of 5.5% annually to $23.6 billion. Net Income offers a better picture of Citigroup’s problems. The company recorded net losses of $9.7 billion loss in 2009 and $852.0 million in 2011. Poor performance, government-mandated downsizing and acquisitions by industry competitors greatly hurt Citibank’s market share. Net income has been growing slowly, reaching net gains in 2012 and 2013 as the housing market has started to recover.

Citigroup Inc. (US commercial banking segment) – financial performance*

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<tr>
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<td>23.6</td>
<td>3.8</td>
<td>1.3</td>
<td>30.4</td>
</tr>
</tbody>
</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD

Other Companies

US Bancorp

Estimated market share: 2.3%

US Bancorp is the fifth-largest commercial bank in the United States. With 3,084 offices and 5,065 ATMs, US Bancorp serves 25 states. The bank operates five distinct businesses: wholesale banking and commercial real estate, consumer and small business banking, wealth management and securities services, payment services, and treasury and corporate support. The firm provides these services to more than 15.8 million customers. US Bancorp’s consumer and small business banking division is most relevant to this industry and includes the following services: community banking, corporate banking, small-business banking, consumer lending, home mortgage, student banking, and ATM and debit processing and services.

Similar to the larger commercial banks in the industry, US Bancorp has grown through acquisitions during the recession. In November 2008, US Bancorp purchased Downey Savings, and Loan and Pomona First Federal Bank and Trust. In October 2009, US Bancorp also agreed to acquire the Nevada banking operations of BB&T. The company’s revenue grew 9.7% to $10.6 billion in 2012 because of acquisitions and limited exposure to financial instruments affected by the recession. Revenue is estimated to continue rising 7.5% to $11.4 billion in 2013 as two of the company’s 2012 acquisitions. Indiana Corporate Trust and the banking operation of BankEast Corporation of Tennessee, become fully integrated with Bancorp.
Capital Intensity

The Commercial Banking industry is highly competitive, requiring banks to continually achieve cost savings and other efficiencies to maintain customer satisfaction and retain their business. This requires investment in an extensive branch and ATM network to have a presence in regions that are conveniently located near a bank’s customer base.

Beyond this, banks must invest heavily in technology and communication infrastructure, which is necessary to remain competitive in today’s dynamic environment. These and other investments impose capital investment requirements on banks, which is represented by depreciation.

In an attempt to reduce capital intensity, banks have opted to rent and lease premises as opposed to owning them outright. This trend has caused some institutions to sell property where

Tools of the Trade: Growth Strategies for Success

New Age Economy

Recreation, Personal Services, Health and Education. Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labor skills are key to product differentiation.

Traditional Service Economy

Wholesale and Retail. Reliant on labor rather than capital to sell goods. Functions cannot be outsourced therefore firms must use new technology or improve staff training to increase revenue growth.

Investment Economy

Information, Communications, Mining, Finance and Real Estate. To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.

Old Economy

Agriculture and Manufacturing. Traded goods can be produced using cheap labor abroad. To expand firms must merge or acquire others to exploit economies of scale, or specialize in niche, high-value products.

Change in Share of the Economy
Operating Conditions

Capital Intensity continued

branches were located and to rent new locations. As a result, the Commercial Banking industry in the United States has a moderate level of capital intensity.

Labor continues to be the biggest investment that banks have to make due to the heavy reliance on human capital in the industry’s activities. The provision of banking services requires staff who are well educated, professional and able to deliver services to clients in a satisfactory manner. The investment in branch networks is further driving up the investment in labor. With each additional branch, banks must hire employees to serve the customers that they acquire and retain.

Technology & Systems

Commercial banks operate in an increasingly competitive environment as merger and acquisition (M&A) activity continues to define the industry. M&A activity produces larger, better-capitalized companies capable of offering a wider array of financial products and services at more competitive prices. The technological advances and the growth of e-commerce have made it possible for many non-depository institutions to offer products and services that were traditionally banking products. Financial institutions are also competing with technology companies in providing electronic and internet-based financial solutions.

In addition, technology has significantly changed the Commercial Banking industry by lowering the cost of storing, processing and accessing data through the growth of low-cost communications equipment. Technology will continue to contribute to significant changes in retail payments systems and financial services distribution channels, bank risk management and data assessment.

More so than ever, banks are being forced to develop new technology to retain and persuade customers to continue to use their services. Over the past two years, banks have been focusing on improving the ease and timeliness of banking procedures through the development of banking apps for smartphones. In 2011, JP Morgan introduced QuickDeposit and QuickPay that allow their customers to cash checks and transfer funds between unaffiliated accounts on their smart phones. The technology greatly reduces JP Morgan’s day-to-day operating costs, thus increasing profit. It is important to point out that banks such as JP Morgan do not profit directly off these activities, but rather indirectly through strategically assessed account fees. Major players, Bank of America and Wells Fargo, also offer mobile banking applications that allow customers to conduct all of their banking needs, most notably bill payments. Mobile banking effectively decreases operating costs while replacing revenue from the check cashing and money transmission segments of this industry.

Because of the increasing need for technological empowerment and continuous improvement of equipment, new pricing structures and distribution channels have emerged. It is expected that these developments will encourage customers to adapt to these new, low-cost distribution channels instead of more costly alternatives. Access to the Internet, restricted internal intranets and the increasingly secure transmission of information is expected to accelerate the use of networks as a means to reduce costs.
Operating Conditions

Revenue Volatility

Industry revenue is affected by fluctuations in interest rate levels, as the industry is able to charge higher average rates to loan balances. However, these increased returns may be offset by the resulting dampened demand for credit, which reduces lending growth. General economic conditions also affect the industry; a strong economy can lead to greater consumer and business confidence, which causes greater demand for the industry’s products and services. In the five years to 2013, industry revenue growth rates fluctuated from plummeting 11.9% to growing 0.4%. Severe declines as the financial system collapsed and the economy contracted, drove industry’s recent volatility. However, as the economy begins rebounding, industry revenue is expected to rise in 2013, also contributing to the volatility.

Federal Reserve System

The Federal Reserve is the federal supervisor and regulator for all US banks and bank holding companies, including financial holding companies formed under the authority of the Gramm-Leach-Bliley Act of 1999, and of state-chartered commercial banks that are members of the Federal Reserve System. In overseeing these organizations, the Federal Reserve seeks to promote the organizations’ sound operation and compliance with laws and regulations.

The Federal Reserve exercises important regulatory influence over entry into the US banking system and the structure of the system through its administration of the Bank Holding Company Act, the Bank Merger Act (with regard to state member banks), the Change in Bank Control Act (with regard to bank holding companies and state member banks) and the International Banking Act. In carrying out its responsibilities, the Federal Reserve coordinates its supervisory activities with other federal banking agencies, state agencies, functional regulators and the bank regulatory agencies of other nations.

Bank Holding Company Act

Under the Bank Holding Company Act, a corporation or similar organization must obtain the Federal Reserve’s approval before forming a bank holding company.

Regulation & Policy

The Federal Reserve exercises important regulatory influence over entry into the US banking system and the structure of the system through its administration of the Bank Holding Company Act, the Bank Merger Act (with regard to state member banks), the Change in Bank Control Act (with regard to bank holding companies and state member banks) and the International Banking Act. In carrying out its responsibilities, the Federal Reserve coordinates its supervisory activities with other federal banking agencies, state agencies, functional regulators and the bank regulatory agencies of other nations.

Volatility vs Growth

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.

* Axis is in logarithmic scale

SOURCE: WWW.IBISWORLD.COM

Level & Trend

The level of Regulation is Heavy and the trend is Increasing.
Operating Conditions

Regulation & Policy continued

through the acquisition of one or more banks in the United States. Once formed, a bank holding company must receive Federal Reserve approval before acquiring or establishing additional banks. Bank holding companies generally only engage in activities that the Board of Governors of the Federal Reserve System (the Board) has determined to be closely related to banking. Since 1996, this act has provided an expedited prior notice procedure for certain permissible nonbanking activities and for acquisitions of small banks and nonbank entities.

Bank Merger Act
The Bank Merger Act requires that the appropriate federal banking agency acts on all proposals involving the merger of insured depository. If the surviving bank is a state member bank the Federal Reserve has primary jurisdiction. Before acting on a merger proposal, the Federal Reserve considers financial and managerial resources of the applicant, the future prospects of the existing and combined institutions, the convenience and need of the community to be served, and the competitive effects of the proposed merger.

Change in Bank Control Act
The Change in Bank Control Act requires individuals seeking control of a US bank or bank holding company to obtain approval from the appropriate federal banking agency before completing the transaction. The Federal Reserve is responsible for reviewing changes in the control of state member banks and bank holding companies. In its review, the Federal Reserve considers the financial position, competence, experience and integrity of the acquiring party; the effect of the proposed change on the financial condition of the bank or bank holding company being acquired; the effect of the proposed change on competition in any relevant market; the completeness of information submitted by the acquiring person; and whether the proposed change would have an adverse effect on the federal deposit insurance funds.

The Dodd-Frank Wall Street Reform and Consumer Protection Act
Signed into law in 2010, the Dodd-Frank Act implements financial regulatory reform upon nearly every aspect of the financial services industry. Once the act was passed, the Financial Stability Oversight Council (FSOC) was created to oversee and coordinate the efforts of the primary US financial regulatory agencies in establishing regulations to address financial stability concerns. Of specific importance to the Commercial Banking industry, Dodd-Frank included the Consumer Financial Protection Act of 2010, which targets banks, card issuers and card network operators with new increased regulations. The regulations focus mainly on enforcing consumer rights and increasing the security of financial information. As a result, industry participants are forced to develop and implement new technologies that adhere to the regulations, which in turn increase costs. In order to keep up with an ever-changing complex set of compliance issues, many companies had to increase their work forces.

Overall, these regulations decrease profit as they increase compliance costs. The Dodd-Frank Act also gave the FDIC greater discretion to manage the Deposit Insurance Fund, which backs commercial banks’ deposits. The Act raised the minimum reserve ratio that a commercial bank must have to 1.35%. Additionally, Dodd-Frank increases transparency and puts limits on proprietary trading, which hurts both profit and revenue for the industry.
The Commercial Banking industry does not receive any protection by way of direct or indirect tariffs. However, given the instability that the global financial crisis brought upon the financial sector in the United States, the government has stepped in to stabilize conditions through the introduction of the Troubled Asset Relief Program (TARP). TARP allows the US Treasury Department to purchase assets and equity from those financial institutions deemed too important to fail in order to strengthen the financial sector; it allows the purchase of up to $475.0 billion of troubled assets. The Treasury was given $250.0 billion immediately following the creation of the fund as the Emergency Economic Stabilization Act of 2008. An additional $100.0 billion was distributed later, followed by a final distribution of $125.0 billion at Congress' discretion.

Under TARP, the Treasury is allowed to purchase illiquid, difficult-to-value assets from banks and other financial institutions. The Treasury purchased assets, which included collateralized debt obligations sold in the booming market prior to the subprime mortgage crisis, obligations that resulted in widespread foreclosures on the underlying loans. By buying these troubled assets, TARP is intended to improve the liquidity of these assets to allow participating companies to stabilize their balance sheets, strengthen their capital and avoid further losses. Ultimately, TARP was established to stabilize the financial sector and free up capital markets by encouraging banks to resume their lending activity to levels seen before the financial crisis, both to each other and to consumers and businesses. Bank of America and Citibank received $45.0 billion in TARP support, and Wells Fargo and JP Morgan Chase received $25.0 billion.

Furthermore, the institutions that opted to receive government assistance under TARP are required to issue equity warrants or equity debt securities to the Treasury as consideration for the arrangement, a practice beneficial for both taxpayers and institutions. The Treasury's ownership stakes allow it to profit from the company regaining financial strength when it sells its shares in the company. The financial institutions benefit from the financial support provided because it gives them the capital strength to improve their balance sheets and return to profitability.
### Key Statistics

#### Industry Data

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<td>32.08</td>
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#### Annual Change

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#### Key Ratios

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<td>Share of the Economy (%)</td>
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Figures are inflation-adjusted 2013 dollars. Rank refers to 2013 data.

SOURCE: WWW.IBISWORLD.COM
Jargon & Glossary

Industry Jargon

GENERATION Y The demographic of Americans generally aged 10 to 30.

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

LOAN AND LEASE LOSS PROVISION An amount set aside as an allowance for bad debts (i.e. debts where the customer defaults or where the terms of the loan need to be renegotiated).

LOAN DEFAULT When a customer fails to pay back money received through a loan to the bank.

SUBPRIME MORTGAGE A type of mortgage made out to borrowers with lower credit ratings. Lending institutions often charge higher interest on subprime mortgages to compensate themselves for carrying more risk.

WARRANT A type of security that entitles the holder to purchase shares in the issuing company at a specified price.

WRITE-DOWN A deliberate reduction in the value of an asset to reflect its current market value.

IBISWorld Glossary

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the “real” growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the US Bureau of Economic Analysis’ implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by US companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in the United States.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry’s contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry’s life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry’s products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.
**Jargon & Glossary**

**IBISWorld Glossary continued**

**PROFIT** IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

**VOLATILITY** The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

**WAGES** The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.
At IBISWorld we know that industry intelligence is more than assembling facts
It is combining data with analysis to answer the questions that successful businesses ask

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions

Who is IBISWorld?
We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 700 US industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply-researched answers quickly.

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