



## A Financial Analysis of Goldman Sachs Group

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**Abstract:** The Goldman Sachs Group, Incorporated, founded in 1869 by Marcus Goldman and Samuel Sachs, is the world's top multinational investment banking, securities and investment management firm that provides a diversified group of clients with finance-related services. The company has four main business sectors, namely investment banking, institutional client services, investing and lending, and investment management. Since the focus of this study is investment banking, Goldman Sachs serves as an excellent choice as it consists of services such as strategic advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings, spin-offs and risk management, and debt and equity underwriting of public offerings and private placements, including local and cross-border transactions, as well as derivative transactions. In line with this, we aim to make a comprehensive analysis on the financial statement of our chosen company through suggested methods, interpret the results, and make conclusions and recommendations that will not only benefit the company, but future researchers as well. Hence, we will use two methods to analyze their financial statement. The first method is Porter's Five Forces that measures how competitive Goldman Sachs is compared to other banks and how their business strategy development differs from one another. The second method is David's SWOT (Strengths Weaknesses Opportunities Threats) matrix that identifies the strengths and weaknesses of Goldman Sachs, the opportunities that are open to them, as well as possible threats that they may face. The aforesaid methods will help determine whether the company is up to par with its top competitors, and whether their objectives are attainable and sustainable in the long run. Therefore, after performing the necessary tools to achieve accurate results, we conclude that Goldman Sachs is a highly competitive investment banking firm, and its business strategies have been effective and efficient, as shown by their consistently high positions when ranked against fellow competitors.

**Keywords:** Goldman Sachs; Five Forces; SWOT matrix; Financial Analysis

### 1. INTRODUCTION

As our group's contribution to the 2016 DLSU Research Congress, we have chosen to discuss investment banking: what it is, its advantages and disadvantages, and its implications in the economy as a whole. We aim to do this by giving a

comprehensive discussion on our chosen investment bank, the Goldman Sachs Group.

The Goldman Sachs Group, Incorporated is the one of the world's top multinational investment banking, securities and investment management firms in the world. It was founded by Marcus Goldman and Samuel Sachs in the year 1869 and



has headquarters in the Lower Manhattan Area in New York City. This investment banking corporation provides a diversified group of clients with finance-related services such as underwriting securities, giving professional recommendations on mergers and acquisitions, providing stock brokerage services, as well as aiding clients to deal with asset management. Under its investment banking sector, Goldman Sachs provides quality services regarding divestitures, corporate defense activities, restructurings, spin-offs and risk management, and debt and equity underwriting of public offerings and private placements, including local and cross-border transactions, as well as derivative transactions.

With this in mind, we aim to make a qualitative and quantitative analysis on the financial statement of Goldman Sachs through two widely-used methods, namely, Porter's Five Forces and David's SWOT (Strengths Weaknesses Opportunities Threats) matrix. The former method determines the competitiveness of Goldman Sachs as opposed to other banks and the different business strategies they have exercised throughout the years; while the latter method identifies the strong and weak points of Goldman Sachs, their wide-range of opportunities for the company and its employees, and the possible threats that they face in this globally competitive market. After performing the necessary methods, we will carefully analyse and interpret our results, provide a reliable conclusion, and give useful recommendations that will certainly improve the company's standing in both the micro and macro sectors of society.

It is needless to say that this study has certain limitations such as time constraint, limited resources, and insufficient knowledge on some terminologies or policies in the company. However, we have compensated for them through extensive research, teamwork, and consultations to provide a relevant study that adds value to the research pool.

## 2. METHODOLOGY

Living in a world where resources are scarce is the main reason why humans compete with each other for survival. The same thing happens in different industries where firms are competing with other firms to earn more profit as well as gain market share.

A good type of analysis that firms usually use would be the Porter's Five Forces developed by Michael E. Porter. It is an analysis that allows firms to analyze the competition within the industry, however this type of analysis focuses more on the micro-environment of the firm, and it provides the firms with a deeper analysis with the threats that are faced by the firm. The five forces are namely: threat of new entrants, threat of substitute products or services, bargaining power of customers, bargaining power of suppliers and intensity of competitive rivalry. From the five forces, it is observed that the analysis deals more with the threats the firm is facing in the industry.

Another good type of analysis that firms employ to determine how they would have an edge over other competitors would be the SWOT analysis. This type of analysis is credited by multiple authors to Albert Humphrey, however he personally does not claim the creation over the analysis. This analysis is extremely useful since it is an analysis that guides firms in determining their Strengths and Weaknesses, firms determine their strengths to make sure that they will still have an advantage over other firms, and at the same time they are improving on their weaknesses to ensure that they will gain market power over competitors. This type of analysis also allows the firms to explore the opportunities they have and identify the threats to the business. By identifying threats, firms will be prepared for competition and other risks they are about to face; thus, they would still be able to secure the market shares they have over other companies.

## 3. RESULTS AND DISCUSSION

The Porter's five forces framework allows business managers to measure the level of competition in the industry and at the same time, evaluate current and potential lines of businesses. It helps in setting expectations in profitability and firm impact in the industry. This is a very useful tool in determining the firm's current strength in competitive position and assesses future plans to move to another position. With Goldman Sachs' dominant presence in the investment banking industry, the firm's competitive position is presented in Table 1.



Table 1. Porter's Five Forces

<b>Porters Five Forces</b>
<u>Intensity of Competitive Rivalry</u>
<ul style="list-style-type: none"> <li>• Large industry and not so many players in the market for some countries</li> <li>• Actions and firm decisions are regulated by the government</li> <li>• Big players in the industry dominate the market share</li> </ul>
<u>Threat of New Entrants</u>
<ul style="list-style-type: none"> <li>• High capital requirements needed to enter and compete in the market</li> <li>• Large sunk costs that would take a long time to be recovered</li> <li>• Not easy and costly building reputation, connections, and client loyalty</li> </ul>
<u>Bargaining Power of Suppliers</u>
<ul style="list-style-type: none"> <li>• Low variable cost inputs</li> <li>• Competition of highly skilled/expert employees within the industry</li> </ul>
<u>Bargaining Power of Customers</u>
<ul style="list-style-type: none"> <li>• Clients are large firms that highly depend on the company for their service</li> <li>• Service is important and has a large value added for the clients</li> </ul>
<u>Threat of Substitute Products and Services</u>
<ul style="list-style-type: none"> <li>• Substitute products/services are at a minimum because of the nature of the services provided</li> </ul>



Deriving from Hashemi et al. (2011) and Hinamdar's (2015) SWOT analysis of Goldman Sachs, the pre-existing factors of Goldman Sachs are classified and ranked in the matrix. The company's strengths, weaknesses, opportunities, and threats are identified such that strategies can be considered in evaluating possible decisions intended to achieve preferred outcomes.

Table 2 David's SWOT Matrix

	<b>Strengths:</b> <ul style="list-style-type: none"> <li>High profitability margins</li> <li>Investment banking leader</li> <li>High brand equity</li> <li>Recruitment and retention of talent</li> </ul>	<b>Weaknesses:</b> <ul style="list-style-type: none"> <li>Negative cash flow from operations</li> <li>Interest income instability</li> </ul>
<b>Opportunities:</b> <ul style="list-style-type: none"> <li>Focus investment banking on emerging regional markets such as Asia Pacific and Southeast Asia</li> <li>Private equity account generation</li> </ul>	<b>SO Strategies:</b> <ul style="list-style-type: none"> <li>Venture into emerging markets to maintain high profitability margins</li> </ul>	<b>WO Strategies:</b> <ul style="list-style-type: none"> <li>Opportunities for private equity accounts to offset negative operating cash flow</li> </ul>
<b>Threats:</b> <ul style="list-style-type: none"> <li>Volatility of financial markets</li> <li>Consolidations</li> <li>Conflict of Interest</li> </ul>	<b>ST Strategies:</b> <ul style="list-style-type: none"> <li>Do not repeat malpractices of delivering highly volatile investment products to unknowing customers</li> </ul>	<b>WT Strategies:</b> <ul style="list-style-type: none"> <li>Avoid instability of investment products by being cautious in delivering forecasts</li> </ul>

#### 4. CONCLUSIONS

As shown in the methods of strategic management used, we conclude that Goldman Sachs is a highly competitive investment banking firm,

and its business strategies have been effective and efficient. From the Porter's Five Forces Analysis, it can be concluded on how competitive Goldman Sachs is compared to other competitors. It would take a big firm to compete with the company. Through our evaluation of the company's strengths, weaknesses, opportunities, and threats, the possible decisions the financial institution can use for further sustaining its long-term objectives. Likewise, they have consistently ranked highly against fellow competitors.

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