What questions does the process of analyzing, decision-making, and implementing strategic actions raise?

- Why do some firms succeed and others fail?
- Of those that succeed, why are some higher performers than others?
- What information is needed in the strategic planning process?
- How do competing values and beliefs affect strategic decision making?
- What skills and capabilities are needed to implement a strategy effectively?

Case analysis...

- Simulates a real-world experience
- Forces you to choose among different options
- Pushes you to set forth a plan of action based on your choices

To do this cases contain information such as...
How to Conduct a Case Analysis

• Prepare for a case discussion
  - Do your “due diligence”
  - Investigate
  - Analyze
  - Developing potential solutions — that doesn’t include “googling” the internet for what actually happened
  - Gather the advice of others in your team or class
  - Become immersed in facts, options, and implications
  - Answering the “questions” is only a beginning since in business practice you’ll rarely have a set of questions

How to Conduct a Case Analysis

• Put yourself “inside” the case
  - Think like an actual participant
    - Strategic decision maker
    - Board of directors
    - Outside consultant
  - Try different perspectives
    - Business founder or owner

Five Steps for Conducting a Strategic Management Case Analysis

• **Step 1: Become familiar with the material**
  1. Read quickly through the case one time
     Use initial read-through to make possible links to strategic concepts
  2. Read the case again, making notes
     Evaluate the application of strategic concepts
Five Steps for Conducting a Strategic Management Case Analysis

**Step 2: Identify the problem(s)**
- Some cases have more than one problem or issue
  - Problems hinted at from the reading
  - Problems hinted at from analyzing the exhibits
    - Common size P&L statement, trend analysis, ratio analysis
- Avoid getting hung up on symptoms — they’re not the problem, they’re manifestations of the problem.
- Articulate the problem
  - Writing down a problem statement gives you a reference point as you proceed
  - Try to get it down to 25 words or less (John Connelly of Crown, Cork, & Seal!)

**Step 3: Conduct strategic analyses**
- Determine which strategic issues are involved
- Use strategic management tools to conduct the analysis
  - Five Forces analysis
  - Value chain analysis
  - Contingency frameworks
- Test your own assumptions about the case
  - Use the common sized P&L statement as a foundation to build a *pro forma* P&L

**Step 4: Propose alternative solutions**
- Develop a list of options first without judging them
  - Though the text says, ‘Do nothing’ is often a reasonable alternative, you can be sure I won’t agree!
- Evaluate the impact of your alternatives
  - Can the company afford your proposal?
    - Try to model effects in a *pro forma* P&L statement
  - What are the consequences your proposed actions?
    - Is it likely to evoke a competitive response?
  - Will employees accept the change?
  - How will it affect other stakeholders?
  - How does it fit with the vision, mission, objectives?
  - Will the culture or values of the company change?
Five Steps for Conducting a Strategic Management Case Analysis

- **Step 5: Be prepared to make recommendations**
  - Make a set of recommendations that your analysis supports
  - Describe exactly what needs to be done
  - Explain why this course of action will solve the problem
  - Include suggestions for how best to implement the proposed solution
  - The solution you propose must solve the problem you identified

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**Industrial Organization Economics**

What are the characteristics of each of industries organized as…
- a monopoly
- a Duopoly
- an oligopoly, or
- imperfect competition

What is a monopsony? Can you name a market that is effectively a monopsony?

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What are an industry’s dominant economic traits?
- Market share and growth rate
- Scope of competitive rivalry
- Number & relative sizes of competitors
- Prevalence of backward / forward integration
- Entry or exit barriers
- Nature and pace of technological change
- Product and customer characteristics
- Scale economies or experience curve effects
- Capacity utilization and resource requirements
- Industry profitability
How do you figure a simple trend?

New period value – older period value
Older period value

(I use the acronym “no oil” – it reminds me of the word formula: new minus old divided by old. Feel free to create your own mnemonic device.)

Accounting Statements

- The Income (or P&L) Statement
  - Sales
  - Cost of Goods Sold
  - Gross Profit
  - Sales, Gen’l, & Admin Exp’s EBIT
  - Interest Expense
  - EBT
  - Taxes
  - Net Income

Accounting Statements

- Balance sheet
  - Assets
    - Current assets (can you name the common accounts?)
    - Long-term assets (usually dominated by PP&E)
      - Accrued depreciation (what is that?)
  - Liabilities
    - Current liabilities
    - Long-term liabilities
  - Owners equity
Accounting Statements

- Cash flow from Operations

Net Income
- Depr ( & non-cash exp’s)
- Decreases in Curr. Assets \textit{or} Increases in Curr. Assets
- Increases in Curr. Liabilities \textit{or} Decreases in Curr. Liabilities

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Financial Ratio Analysis Techniques

Liquidity ratios:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>What It Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>Ability to use assets to pay off liabilities.</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>Ability to use liquid assets to pay off liabilities quickly.</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>Ability to pay off liabilities with cash on hand.</td>
</tr>
</tbody>
</table>

Adapted from Exhibit 13.1 Summary of Financial Ratio Analysis Techniques

Leverage ratios:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>What It Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt ratio</td>
<td>How much of a company’s total assets are financed by debt.</td>
</tr>
<tr>
<td>Debt-equity ratio</td>
<td>Compares how much a company is financed by debt with how much is it financed by equity.</td>
</tr>
<tr>
<td>Equity multiplier</td>
<td>How much debt is being used to finance assets.</td>
</tr>
<tr>
<td>Times interest ratio</td>
<td>How well a company has its interest obligations covered.</td>
</tr>
<tr>
<td>Cash coverage ratio</td>
<td>A company’s ability to generate cash from operations.</td>
</tr>
</tbody>
</table>

Adapted from Exhibit 13.1 Summary of Financial Ratio Analysis Techniques
Financial Ratio Analysis Techniques

Activity ratios:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>What It Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover</td>
<td>How many times each year a company sells its entire inventory.</td>
</tr>
<tr>
<td>Day’s sales in inventory</td>
<td>How many days on average inventory is on hand before it is sold.</td>
</tr>
<tr>
<td>Receivables turnover</td>
<td>How frequently each year a company collects on its credit sales.</td>
</tr>
<tr>
<td>Days’ sales in receivables</td>
<td>How many days on average it takes to collect on credit sales (average collection period).</td>
</tr>
<tr>
<td>Total asset turnover</td>
<td>How much of sales is generated for every dollar in assets.</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>The dollar investment in assets needed to generate $1 in sales.</td>
</tr>
</tbody>
</table>

Adapted from Exhibit 13.1 Summary of Financial Ratio Analysis Techniques

Profitability ratios:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>What It Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit margin (ROS)</td>
<td>How much profit is generated by every dollar of sales.</td>
</tr>
<tr>
<td>Return on assets (ROA)</td>
<td>How effectively assets are being used to generate a return.</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>How effectively amounts invested in the business by its owners are being used to generate a return.</td>
</tr>
</tbody>
</table>

Adapted from Exhibit 13.1 Summary of Financial Ratio Analysis Techniques

Example of selected ratios for Google, Inc

<table>
<thead>
<tr>
<th>Financial Ratio</th>
<th>Company</th>
<th>Its Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>11.2</td>
<td>8.9</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>11.2</td>
<td>8.9</td>
</tr>
<tr>
<td>Debt-equity ratio</td>
<td>0.00</td>
<td>0.02</td>
</tr>
<tr>
<td>Return on assets (ROA)</td>
<td>22.3</td>
<td>18.3</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>24.4</td>
<td>20.7</td>
</tr>
<tr>
<td>Asset turnover</td>
<td>0.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Receivable turnover</td>
<td>10.4</td>
<td>10.9</td>
</tr>
</tbody>
</table>

Source: http://moneycentral.msn.com
Implications of key market traits (1-5):

- **unusual size**: small markets don’t attract new entrants as quickly; larger markets attract firms willing to grow by acquisition of firms with established positions in attractive markets.
- **fast or slow growth rate**: Fast growth breeds new entry; slow growth spawns increased rivalry & shake-out of weak firms.
- **surpluses or shortages**: surpluses push profits and prices down; shortages pull them up.
- **industry profitability**: high-profit industries attract new entrants; depressed conditions lead to exit.
- **product is a big-ticket item for customers**: buyers tend to shop around more; price pressure is common.

Implications of key market traits (6-10):

- **standardized products**: buyers have more power because it’s easier to switch from seller to seller.
- **rapid technological change**: this raises risk; investments in technology facilities or equipment may become obsolete before they’re amortized.
- **High capital requirements**: big capital requirements make investment decisions critical; timing becomes important; creates a barrier to entry or exit.
- **vertical integration**: this raises capital requirements; often creates competitive & cost differences among firms with differences in integration.
- **economies of scale**: these increase pressure for production volume & market share in order to be cost competitive.

What are some common barriers to entry into a market?

- Sizable economies of scale
- Inability to access specialized technology because of trade secrets, copyrights, patents
- Strong learning or experience curve effects
- Strong brand preferences
- Large capital requirements / specialized resource requirements
- Cost disadvantages (independent of size)
- Difficulty getting access to distribute
- Regulatory policies, tariffs, trade restrictions