Appendix

Case Analysis

1 The Case Method

The analysis and discussion of case problems has been the most popular method of teaching strategic management for many years. The case method provides the opportunity to move from a narrow, specialized view that emphasizes functional techniques to a broader, less precise analysis of the overall organization. Cases present actual business situations and enable you to examine both successful and unsuccessful organizations. In case analysis, you might be asked to critically analyze a situation in which a manager had to make a decision of long-term corporate importance. This approach gives you a feel for what it is like to be faced with making and implementing strategic decisions.

What we refer to as a “case” in university teaching is a story of an organization—facts, events, people, circumstances that describe a situation you would encounter if you were a consultant to, or a member of, that organization. Cases can depict complex, multidimensional business problems and issues so that students can use their knowledge and experience to diagnose the root causes of the situation as it is described and then recommend a suitable course of action. In other words, case analysis provides students the opportunity to put their skills and knowledge into practice without leaving the classroom. Among the benefits that students can derive from case analysis are these:

- An understanding of the role individuals play in guiding their organizations to success
- Sharpened analytical skills in assessing firm resources or capabilities as well as industry or competitive scenarios
- Practice in identifying key strategic issues and options to address them, and in formulating workable action plans
- An enhanced sense of business judgment and exposure to a range of industries and companies

Strategic management is not the type of discipline you can learn by memorizing a textbook and lecture notes. Knowing facts, theories, and concepts permits you to make good recommendations by providing you with an analytic toolbox. And because students all have different experiences and different values, they do not always see problems in exactly the same way—or the best solutions to them. In a case analysis, there is rarely one “right” answer and a number of “wrong” ones. It is unreasonable to expect that all students agree on what a company should do in the situation described in a case. Nor should we expect reaching a decision about what to do to be straightforward or clear-cut. In the real world, people routinely have to make decisions without knowing whether their decisions are “right.” They make their decisions based on a range of factual knowledge, experience and skill, and intuition. How do they know whether their decisions are good? Only the passage of time permits that sort of assessment. The only important determinant of decision quality is results. Good decisions result in improved performance, whether that is defined by sales, profits, share price, return on equity, reputation, or some other measure. Doing a good job on a case analysis is not about picking the “right” solution, but rather undergoing a thorough process of identifying issues, diagnosing situations,
generating and evaluating options, and preparing implementation plans that will result in improved organizational performance. Your objective is therefore to create a strong argument for a particular course of action, not to investigate what an organization really did in order to prepare an elaborate post hoc justification. Keep in mind that organizations make unwise decisions all the time, not because they are ill-informed or irresponsible, but just because things do not always turn out as expected. In fact, many cases are written about exactly these sorts of situations. So just because an organization did something in real life does not mean that what it did was necessarily the best thing to do. In hindsight, many organizations would do things differently. Do not fall into the trap of using what an organization actually did as a starting point and working backward from there to justify or make sense of it. If you do, you will find yourself terribly unprepared to answer questions about the foundations of your recommendation, and unable to learn from the experiences of conducting a strategic analysis.

Your objective in case analysis is to prepare a well-justified course of action to improve firm performance. A specific recommendation must be made, and it must be supported by systematic analysis and clear thinking. Consider preparing for a case analysis in the following way:

1. **Read the case twice.** The first time gives you a sense of the context of the case (time, industry, firm, products) and the issues or problems you will have to address. Resist trying to analyze or solve the case at this point. Rather, read it through to get the big picture of the issues presented in the case. The second reading permits you to identify information in the case that you will use in your analysis, to generate ideas about possible solutions, and to prioritize issues or concerns raised in the case.

2. **Examine the content of exhibits.** Often there are interesting bits of information in the organizational charts, process maps, or financial statements at the end of the case. Usually there is something in the exhibits worth using, or else they wouldn’t be there.

3. **Identify strategic issues and factors.** Some cases are written in such a way that these are patently obvious. But don’t count on this. Until you have identified issues to address or problems to solve, you are not in a position to start analyzing information or making recommendations. As a guide, look to the beginning and/or ending of the case for a statement of issues. If you cannot find them there, you will need to infer from the facts of the case.

4. **Analyze the situation described in the case.** Analysis is not repetition of the facts of the case. It is a process of adding meaning to facts in order to interpret them for later use. Similarly, analysis is not just your opinion (however good it might be). Use tools and techniques from the textbook to produce important insight and understanding of strategic situations. If you find yourself “analyzing” the case by cutting and pasting large chunks of text into your report or reporting on common sense observations, you are not doing an analysis that shows what you know about the concepts of strategic management.

5. **Don’t treat the facts of the case as gospel.** Many cases are written from the perspective of people with particular opinions, values, and assumptions. Their view of the situation is therefore not necessarily the same one that you might have, or that others within the organization might have. Similarly, financial statements might be inaccurate or misleading, or projections might be made on dubious assumptions. Feel free to challenge the validity of the data and information provided in the case, because you will not sound convincing justifying your recommendation by saying “but that’s what the case said.”

6. **Use strong rationale.** Everything you include in your report needs to be explained and justified. Opinions should be avoided, not because they are necessarily wrong, but because they are not supported by any form of evidence. When you use strong rationale, you take away the “Why?” questions that make analysis look thoughtless or incomplete. Including your rationale demonstrates the comprehensiveness and clarity of your thinking, and makes it much easier for a listener or reader to understand how you reached your recommendation.
7. Prepare a detailed action plan. The tough part about strategic management is not making a “good” decision based on the facts available, but turning that decision into actions that will produce the desired results. Here is where you can demonstrate your creativity and thoroughness by specifying what needs to be done, by whom, at what time, and at what cost. The more detail you provide here, the more likely you are to be convincing about the overall recommendation you make. Nothing looks worse than a recommendation that is not accompanied by details on how to implement it. It’s easy to say “we need to sell more products.” But is anyone going to be prepared to act on that sort of recommendation without knowing how to do it?

In conclusion, there is a definite skill in preparing case analyses. The case is both a way to introduce a little “real life” to students without leaving the classroom and a way for students to demonstrate their ability to apply concepts from the class to a particular situation. To do well on your cases, you therefore need to be thorough in preparing your analysis and recommendations, have clear reasons for the choices you have made, use evidence to support your reasons, and show a conviction to your course or action. Try not to worry about what actually happened—it is not always a good indicator of what should have happened. If you are convincing in your recommendation as described above, you will do well on your case analyses. But do not interpret this as meaning that any case report is as good as the next, or that any case report will receive a top grade. Some analyses, recommendations, and action plans are better than others are. You must be prepared to clarify the process by which your decisions were made. If you do so in a way that most reasonable people can see merit in, then you know you’ve done a good job. Be worried if you cannot answer “Why?” questions for every piece of advice you give. And be sure you understand how every section of your strategic reports tells the reader something about why, how, when, and by whom firm performance will be improved.

2 Researching the Case Situation

Depending on the type of assignment used by your instructor, you may be required to conduct your own research on the case situation prior to preparing your recommendations. Here you should undertake outside research into the environmental setting. Check the decision date of each case (typically the latest date mentioned in the case) to find out when the situation occurred, and then screen the business periodicals for that time period. Use computerized company and industry information services such as COMPSTAT, Compact Disclosure, ABI/INFORM Global, CBCA (Canadian Business and Current Affairs), and CD/International, available on CD-ROM or online at many university libraries. On the internet, Hoover’s Online Corporate Directory (www.hoovers.com), the Financial Post (www.nationalpost.com/financialpost), and the CBC (www.cbc.ca/business) provide a wide range of business activity and the circumstances at the time a case was written. These sites also have links to company and industry sites, as well as their own archives of stories and reports.

A company’s annual report from the year of the case can be very helpful. Annual reports contain not only the usual income statements and balance sheets, but also cash flow statements and notes to the financial statements indicating why certain actions were taken. An understanding of the economy during that period will help you avoid making a serious error in your analysis, for example, suggesting a sale of stock when the stock market is at an all-time low or taking on more debt when the prime interest rate is over 15%. Information on the industry will provide insights on its competitive activities. Some resources available for research into the economy and a corporation’s industry are suggested in later in this chapter.

Many instructors, however, want students to work only with the facts as provided in the case. This changes the experience of analyzing a case from one of researching and investigating to
one of working with a limited amount of information and trying to do the most with it. The reality of decision making in any organizational context is one of incomplete information. But it is both timely and costly to collect and interpret data. Unfortunately, with so much information available through the internet and other computerized sources, decision makers can easily be flooded with information. Do they make better decisions as a result? Not necessarily. Although the cases you will study in a strategic management class contain much less information than a strategic decision maker would like to have, it is good practice to work with the information you have, making judicious assumptions only where necessary and not using a lack of information as an excuse for not making a decision. In other words, use the information that is presented in the case to the best of your abilities. All professionally written cases provide you with more than enough material to conduct a strategic analysis as described in this book. Learn to construct defensible recommendations in the context of imperfect information, and most important, use whatever information you do have at your disposal as support or rationale for the decisions you do make.

3 Financial Analysis: A Place to Begin

Once you have read a case, a good place to begin your analysis is with the financial statements. **Ratio analysis** is the calculation of ratios from data in these statements. It is done to identify possible financial strengths or weaknesses. Thus, it is a valuable part of SWOT analysis. A review of key financial ratios can help you assess the company’s overall situation and pinpoint some problem areas. Ratios are useful regardless of firm size and enable you to compare a company’s ratios with industry averages. **Table 1** on page 312 lists some of the most important financial ratios, which are (1) liquidity ratios, (2) profitability ratios, (3) activity ratios, and (4) leverage ratios. These ratios are usually used in one of two ways: (a) to identify financial trends over time for an organization or one of its divisions; or (b) to make comparisons across companies at a given point in time. Financial ratios in isolation are rarely particularly revealing. Having some basis of comparison allows for analysts to make comparisons that point to improving or deteriorating financial position, suggesting how future performance will be affected by recent changes.

**LIQUIDITY RATIOS**

Liquidity ratios indicate how easily an organization can complete its operating cycle. In financial terms, an operating cycle is the length of time it takes to produce its product, sell it, and use the proceeds to product more products. Normally, organizations need to finance their production through paying for raw materials and components in cash or on credit. When products are sold, the organization uses cash or creates accounts receivable to meet its accounts payable or replenish inventory levels. The ability to repeat this cycle requires liquidity, a surplus of current assets that can be used to finance operating activities and meet current liabilities. Liquidity analysis, therefore, compares the organization’s current asset endowments with its obligations. This suggests a margin of safety provided by the cash and other current assets available to the organization in comparison with its obligations. In reality, no organization liquidates all its current assets. If it did, it would have no inventory to sell and would therefore not be able to operate as a going concern. Liquidity ratios need to be interpreted carefully, with the optimal level of liquidity determined by economic and real-world factors. In other words, a current ratio of 2.0 is virtually meaningless out of context. For some organizations it might be very high, while for others it might be dangerously low.

**PROFITABILITY RATIOS**

An organization’s owners are concerned with its ability to generate, sustain, and increase profitability. This is normally measured by examining the organization’s net profits and two
Table 1 Financial Ratio Analysis

<table>
<thead>
<tr>
<th>Formula</th>
<th>How Expressed</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Liquidity Ratios</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current ratio</td>
<td>Current assets / Current liabilities</td>
<td>Decimal</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>Current assets – Inventory / Current liabilities</td>
<td>Decimal</td>
</tr>
<tr>
<td>Inventory to net working capital</td>
<td>Inventory / (Current assets – Current liabilities)</td>
<td>Decimal</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>Cash + Cash equivalents / Current liabilities</td>
<td>Decimal</td>
</tr>
<tr>
<td><strong>2. Profitability Ratios</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit margin</td>
<td>Net profit after taxes / Net sales</td>
<td>Percentage</td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>Sales – Cost of goods sold / Net sales</td>
<td>Percentage</td>
</tr>
<tr>
<td>Return on investment (ROI)</td>
<td>Net profit after taxes / Total assets</td>
<td>Percentage</td>
</tr>
<tr>
<td>Return on Assets (ROA)</td>
<td>Net profit after tax / Average assets</td>
<td>Percentage</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>Net profit after taxes / Shareholders’ equity</td>
<td>Percentage</td>
</tr>
<tr>
<td><strong>3. Activity Ratios</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term (operating) Inventory turnover</td>
<td>Net sales / Inventory</td>
<td>Decimal</td>
</tr>
<tr>
<td>Days of inventory</td>
<td>Inventory / (Cost of goods sold / 365)</td>
<td>Days</td>
</tr>
<tr>
<td>Net working capital turnover</td>
<td>Net sales / Net working capital</td>
<td>Decimal</td>
</tr>
<tr>
<td>Average collection period</td>
<td>Net working capital / Accounts receivable / Sales for year / 365</td>
<td>Days</td>
</tr>
</tbody>
</table>
### Table 1 (continued)

<table>
<thead>
<tr>
<th>Formula</th>
<th>How Expressed</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable turnover</td>
<td>Annual credit sales / Accounts receivable</td>
<td>Decimal</td>
</tr>
<tr>
<td>Accounts payable period</td>
<td>Accounts payable / Purchases for year / 365</td>
<td>Days</td>
</tr>
<tr>
<td>Days of cash</td>
<td>Cash / Net sales for year / 365</td>
<td>Days</td>
</tr>
<tr>
<td>(b) Long-term (investment) asset turnover</td>
<td>Sales / Fixed assets</td>
<td>Decimal</td>
</tr>
<tr>
<td>(c) Hybrid asset turnover</td>
<td>Sales / Total assets</td>
<td>Decimal</td>
</tr>
</tbody>
</table>

#### 4. Leverage Ratios

<table>
<thead>
<tr>
<th>Formula</th>
<th>How Expressed</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt to assets</td>
<td>Total debt / Total assets</td>
<td>Percentage</td>
</tr>
<tr>
<td>Debt to equity</td>
<td>Total debt / Long-term debt</td>
<td>Percentage</td>
</tr>
<tr>
<td>Long-term debt to equity</td>
<td>Shareholders' equity / Long-term debt</td>
<td>Percentage</td>
</tr>
<tr>
<td>Times interest earned</td>
<td>Profit before taxes + Interest charges / Interest charges</td>
<td>Decimal</td>
</tr>
<tr>
<td>Coverage of fixed charges</td>
<td>Profit before taxes + Interest charges + Lease charges / Lease obligations</td>
<td>Decimal</td>
</tr>
<tr>
<td>Current liabilities to equity</td>
<td>Current liabilities / Shareholders' equity</td>
<td>Percentage</td>
</tr>
</tbody>
</table>

#### 5. Other Ratios

<table>
<thead>
<tr>
<th>Formula</th>
<th>How Expressed</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share (EPS)</td>
<td>Net profit after taxes – Preferred stock dividends / Average number of common shares</td>
<td>Dollars</td>
</tr>
<tr>
<td>Price/earnings</td>
<td>Market price per share / Earnings per share</td>
<td>Decimal</td>
</tr>
<tr>
<td>Divided payout</td>
<td>Annual dividends per share / Annual earnings per share</td>
<td>Percentage</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>Annual dividends per share / Current market price per share</td>
<td>Percentage</td>
</tr>
</tbody>
</table>

Note: In using ratios for analysis, calculate ratios for the corporation and compare them with the average and quartile ratios for the particular industry. Refer to Standard and Poor's and Robert Morris Associates for average industry data. Special thanks to Dr. Moustafa H. Abdelsamad, Dean, Business School, Texas A&M University–Corpus Christi, Corpus Christi, Texas, for his definitions of these ratios.
interrelated dimensions. First, comparing profits to sales indicates the residual return an organization earns for every dollar of sales revenue. By measuring how well an organization is able to control costs in relation to revenues, return on sales points to the earning power of the organization. Second, comparing profits to the investments required to generate them allows owners to compare the return per dollar invested in the organization with the returns possible in debt or equity markets. Whichever method is used, some form of profitability index is invariably used by management as an assessment of its overall performance. This is particularly important in highly competitive industries, where a firm’s above-average levels of profitability will allow it to withstand the downward pressure on prices that occurs as industry profits attract new entrants.

**ACTIVITY RATIOS**

Activity ratios describe the relationship between an organization’s operations (such as manufacturing and selling products, providing services) and the investment in assets required to sustain that level of activity. Whatever the scope of an organization’s activities might be, it requires both current assets (e.g., cash, inventory, accounts receivable) and fixed assets (e.g., property, plant, equipment) in order to function. A high activity ratio indicates efficiency in operations because fewer assets are required to produce a certain level of activity. Trends in this ratio can be predictive of changes in profitability, given that inefficient operations tend to put organizations at some level of competitive disadvantage. Activity ratios are also useful in forecasting an organization’s capital requirements because they point to the increased investments necessary to support targeted sales increases.

The first set of activity ratios presented in Table 1 are referred to as short-term or operating activity ratios. They focus on how efficiently current or short-term assets such as cash, inventory, and accounts receivable are used. Low ratios in these areas indicate a drain on current assets based on poor credit policies and/or inventory management. Long-term or investment activity ratios specifically examine the efficiency of fixed assets such as property, plant, and equipment. Larger investments like these are usually made periodically to meet planned increases in sales. So as production levels near capacity, fixed asset turnover appears very good. But as soon as a capacity expansion is made, the ratio declines. Using an aggregate measure of overall investment efficiency such as total asset turnover can, therefore, be helpful.

**LEVERAGE RATIOS**

Leverage is the term referring to the partial use of debt to finance investments. Leveraged firms can provide superior returns to their shareholders when there is a gap between the cost of debt (the interest rate associated with the debt) and the return on the investments made by it. These benefits, however, come with certain risks. Any time debt financing is used, firms create fixed costs of interest and principal repayment. If demand or profit margins decline, these newly created fixed financing costs can decrease profitability.

A normal amount of financial leverage often varies by industry. Some are very capital-intensive, such as steel production, automobile manufacturing, and oil refining. In these industries it is normal to incur high levels of debt to finance the capital equipment necessary to finance business activity. Generally speaking, debt should be long term to match the useful life of the assets it was used to acquire. Analysts also want to consider the organization’s ability to meet current debt obligations, more specifically the interest expense created by incurring debt. Once again matching is what is desired—an ability to meet current interest or principal payments based on current net profit levels.

**OTHER RATIOS**

A variety of ratios are used for securities valuation. Corporations have common shares that may be publicly or privately traded. Potential investors look to certain measures of firm
performance to gauge the desirability of investment in particular organizations, and as such look to its profitability in relation to the number and value of shares outstanding. Earnings per share is the most widely used performance indicator for publicly traded firms. It permits a quick comparison of the profits associated with each dollar of equity invested in the firm. The price earnings ratio is another popular measure, showing the degree to which the market capitalizes a firm’s earnings. By showing how much investors are willing to pay per dollar of reported profits, the price earnings ratio indicates the growth prospects for a firm and the associated risks in its operations. A high ratio indicates market perceptions that a firm’s operations are less risky than most, that growth prospects are good, or both.

ANALYZING FINANCIAL STATEMENTS

In the preceding section you were introduced to a variety of financial ratios that are commonly used in the analysis of financial statements. These ratios (liquidity, profitability, activity, and leverage) all measure some aspect of an organization’s operating, investment, and financing activities. They are intended to give insight into different dimensions of firm performance, both by an organization’s managers in their decisions about the future, as well as by potential creditors and investors. In case analysis, the analysis of financial statements forms part of the assessment of the organization’s current position and serves as an indicator of its financial resources that may permit further investments associated with changes in firm strategy. Ratio analysis cannot answer all questions about an organization’s performance, but it can point to aspects of a firm’s operations, investments, and financing that have strategic importance.

How should the financial ratios you calculated be used? In your analysis, do not simply make an exhibit including all the ratios; select and discuss only those ratios that have an impact on the company’s problems. For instance, accounts receivable and inventory may provide a source of funds. If receivables and inventories are double the industry average, reducing them may provide needed cash. In this situation, the case report should include not only sources of funds, but also the number of dollars freed for use. Compare these ratios with industry averages to discover whether the company is out of line with others in the industry. A typical financial analysis of a firm would include a study of the operating statements for five or so years, including a trend analysis of sales, profits, earnings per share, debt-to-equity ratio, return on investment, and so on, plus a ratio study comparing the firm under study with industry standards. Developing trends may be revealed through examination of the information obtained through these steps:

- Scrutinize historical income statements and balance sheets. These basic two statements provide most of the data needed for analysis. Statements of cash flow may also be useful.
- Compare historical statements over time if a series of statements is available.
- Calculate changes that occur in individual categories from year to year, as well as the cumulative total change.
- Determine the change as a percentage as well as an absolute amount.
- Adjust for inflation if that was a significant factor.

Compare trends in one category with trends in related categories. For example, an increase in sales of 15% over three years may appear to be satisfactory until you note an increase of 20% in the cost of goods sold during the same period. The outcome of this comparison might suggest that further investigation into the manufacturing process is necessary. If a company is reporting strong net income growth but negative cash flow, this would suggest that the company is relying on something other than operations for earnings growth. Is it selling off assets or cutting R & D? If accounts receivable are growing faster than sales revenues, the company
is not getting paid for the products or services it is counting as sold. Is the company dumping product on its distributors at the end of the year to boost its reported annual sales? If so, expect the distributors to return the unordered product the next month—thus drastically cutting the next year’s reported sales.

Other “tricks of the trade” need to be examined. Until June 2000, firms growing through acquisition were allowed to account for the cost of the purchased company through the pooling of both companies’ stocks. This approach was used in 40% of the value of mergers between 1997 and 1999. The pooling method enabled the acquiring company to disregard the premium it paid for the other firm (the amount above the fair market value of the purchased company often called “goodwill”). Thus, when PepsiCo agreed to purchase Quaker Oats for $13.4 billion in PepsiCo stock, the $13.4 billion was not found on PepsiCo’s balance sheet. As of June 2000, merging firms must use the “purchase” accounting rules in which the true purchase price is reflected in the financial statements.¹

Note that multinational corporations follow the accounting rules for their home country. As a result, their financial statements may be somewhat difficult to understand or to use for comparisons with competitors from other countries. For example, British firms such as British Petroleum and The Body Shop use the term “turnover” rather than sales revenue. In the case of AB Electrolux of Sweden, a footnote to the annual report indicates that the consolidated accounts have been prepared in accordance with Swedish accounting standards, which differ in certain significant respects from generally accepted accounting principles (GAAP) in Canada. For one year, net income of 4830 million SEK (Swedish kronor) approximated 5655 SEK according to GAAP. Total assets for the same period were 84 183 million SEK according to the Swedish principle, but 86 658 according to GAAP.

COMMON-SIZE STATEMENTS
Common-size statements are income statements and balance sheets in which the dollar figures have been converted into percentages. For the income statement, net sales represent 100%; calculate the percentage of each category so that the categories sum to the net sales percentage (100%). For the balance sheet, give the total assets a value of 100% and calculate other asset and liability categories as percentages of the total assets. (Individual asset and liability items, such as accounts receivable and accounts payable, can also be calculated as a percentage of net sales.)

When you convert statements to this form, it is relatively easy to note the percentage that each category represents of the total. Look for trends in specific items, such as cost of goods sold, when compared with the company’s historical figures. To get a proper picture, however, make comparisons with industry data, if available, to see if fluctuations are merely reflecting industry-wide trends. If a firm’s trends are generally in line with those of the rest of the industry, problems are less likely than if the firm’s trends are worse than industry averages. Common-size statements are especially helpful in developing scenarios and pro forma statements because they provide a series of historical relationships (for example, cost of goods sold to sales, interest to sales, and inventories as a percentage of assets) from which you can estimate the future with your scenario assumptions for each year.

Z-VALUE, INDEX OF SUSTAINABLE GROWTH, AND FREE CASH FLOW
If the organization being studied appears to be in poor financial condition, use Altman’s bankruptcy formula to calculate its Z-value. The Z-value formula combines five ratios by weighting them according to their importance to a corporation’s financial strength. This is the formula:

\[ Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5 \]

where:

\[ x_1 = \frac{\text{Working capital}}{\text{Total assets}} (\%) \]
\[ x_2 = \frac{\text{Retained earnings}}{\text{Total assets}} (\%) \]
\[ x_3 = \frac{\text{Earnings before interest and taxes}}{\text{Total assets}} (\%) \]
\[ x_4 = \frac{\text{Market value of equity}}{\text{Total liabilities}} (\%) \]
\[ x_5 = \frac{\text{Sales}}{\text{Total assets}} \text{ (number of times)} \]

Scores below 1.81 indicate significant credit problems, whereas a score above 3.0 indicates a healthy firm. Scores between 1.81 and 3.0 indicate question marks. The index of sustainable growth is useful to learn if a company embarking on a growth strategy will need to take on debt to fund this growth. The index indicates how much of the growth rate of sales can be sustained by internally generated funds. Here is the formula for it:

\[
g^* = \frac{[P(1-D)(1+L)]}{[T-P(1-D)(1+L)]} \]

where:

\[ P = \frac{\text{Net profit before tax}}{\text{Net sales}} \times 100 \]
\[ D = \text{Target dividends/Profit after tax} \]
\[ L = \frac{\text{Total liabilities}}{\text{Net worth}} \]
\[ T = \frac{\text{Total assets}}{\text{Net sales}} \times 100 \]

If the planned growth rate calls for a growth rate higher than its \( g^* \), external capital will be needed to fund the growth unless management is able to find efficiencies, decrease dividends, increase the debt to equity ratio, or reduce assets by renting or leasing arrangements.

Takeover artists and LBO (leveraged buyout) specialists look at an organization’s financial statements for operating cash flow: the amount of money generated by a company before the cost of financing and taxes. This is the company’s net income plus depreciation plus depletion, amortization, interest expense, and income tax expense. LBO specialists will take on as much debt as the company’s operating cash flow can support. A similar measure, EBITDA (earnings before interest, taxes, depreciation, and amortization), is sometimes used, but it is not determined in accordance with generally accepted accounting principles and is thus subject to varying calculations. Although operating cash flow is a broad measure of a company’s funds, some takeover artists look at a much narrower free cash flow: the amount of money a new owner can take out of the firm without harming the business. This is net income plus depreciation, depletion, and amortization less capital expenditures and dividends. The free cash flow ratio is very useful in evaluating the stability of an entrepreneurial venture. The danger in using these instruments is that they appear to be the same as cash flow—which they are not. According to Martin Fridson, chief of high-yield research with Merrill Lynch, “A capital intensive company isn’t earning a profit if its assets are wearing down from wear and tear.”

**USEFUL ECONOMIC MEASURES**

If you are analyzing a company over many years, you may want to adjust sales and net income for inflation to arrive at “true” financial performance in constant dollars. **Constant dollars** are dollars adjusted for inflation to make them comparable over various years. See the **Global Issue** feature to learn why inflation can be an important issue for multinational corporations. One way to adjust for inflation is to use the **consumer price index** (CPI), as given in Table 2.
on page 319. Dividing sales and net income by the CPI factor for that year will change the figures to 1992 constant dollars (when the CPI was 1.0).

Another helpful analytical aid provided in Table 2 is the prime interest rate, the rate of interest banks charge on their lowest-risk loans. For better assessments of strategic decisions, it can be useful to note the level of the prime interest rate at the time of the case. A decision to borrow money to build a new plant would have been a good one in 1993 at 6%, but less practical in 2000 when the rate reached 9.5%.

In preparing a scenario for your pro forma financial statements, you may want to use the gross domestic product (GDP) from Table 2. GDP is used worldwide and measures the total output of goods and services within a country’s borders. The amount of change from one year to the next indicates how much that country’s economy is growing. Remember that scenarios have to be adjusted for a country’s specific conditions.

**Global Issue**

**Why Consider Inflation in Case Analysis?**

Inflation has been a recent problem in North America. Between 1800 and 1940, there was no clear trend up or down in the overall cost of living. A moviegoer in the late 1930s watching a drama set in the early 1800s would not notice prices to be unusual. For example, the cost of a loaf of bread in the late 1930s was roughly the same as in 1800. With the minor exceptions of 1949 and 1955, prices have risen every year since 1945. The US consumer price index (a generally used measure of the overall cost of living) increased nine times from 1945 to 1994. The rate of inflation was high but was a far cry from Bolivia’s astounding annual rate during 1985 of 25 000%. During 1994–1999, the countries of the European Union had an inflation rate of around 2%–3%, while Eastern European countries were dealing with higher rates, such as 64% in Russia and 19% in Hungary. During 1997 alone, Romania’s annual inflation rate was 170%, while Bulgaria’s was 1268%. During the 1994–1999 time period in Latin America, Mexico’s annual rate was 24%, Colombia’s was 18%, and Brazil’s was 17%. Although most Asian countries had a low rate of inflation (Singapore, Taiwan, and Malaysia increased less than 5%), Indonesia’s was 20% and India’s was 8%.

Before inflation is declared dead by politicians anxious to reduce cost-of-living increases to social insurance payments (to reduce government expenditures and thus government debt), note what happens with a relatively constant 3.4% rate of inflation. Through the working of compound interest, the debt, note what happens with a relatively constant 3.4% rate of inflation. Through the working of compound interest, the

Conducting a Strategic Audit of an Organization

The strategic audit is designed to help students “ask the right questions” to help prepare a case analysis. Through questions based on the content of each chapter of this book, you are provided with a checklist that matches the elements of the strategic decision-making process shown in Figure 1–6 (in Chapter 1). The answers to these questions do not, in and of themselves, give the “answer” to the case. Rather they can assist students to identify the most important aspects of each part of the strategic development process, from environmental scanning to strategy formulation and implementation, and finally evaluation and control. The strategic audit is, therefore, a tool that permits a systematic assessment of the organization and its environment. Use the answers to these questions to complete a SWOT analysis, develop and choose between strategic alternatives, prepare an implementation plan, and create systems of evaluation and control. The strategic audit is only the starting point for your strategic analysis, not the end of it. It provides a description of the organization and its environment. By interpreting these facts and events, attaching significance to them, and integrating them into a well-justified course of action to improve organizational performance, you will end up with a comprehensive, well-justified recommendation that is the hallmark of a good case report.

I. CURRENT SITUATION

A. Current Performance See Section 10.2 on pages 257–270
1. How did the organization perform the past year overall in terms of return on investment, market share, and profitability?

B. Strategic Posture See Section 1.4 on pages 12–20
1. What are the organization’s current mission, objectives, strategies, and policies? Are they clearly stated or are they merely implied from performance?
2. Mission: What business(es) is the organization in? Is the mission statement appropriate?
3. Objectives: What are the corporate, business, and functional objectives? Are they consistent with each other, with the mission, and with the internal and external environments?
4. Strategies: What are the current corporate, business, and functional strategies? Are they consistent with each other, with the mission and objectives, and with the internal and external environments?
5. Policies: What are they? Are they consistent with each other, with the mission, objectives, and strategies, and with the internal and external environments?
6. Do the current mission, objectives, strategies, and policies reflect the organization’s international operations—whether global or multidomestic?

II. ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

A. Business Ethics See Section 2.1 on pages 30–36
1. What is contained in a code of ethics that will guide organizational strategy?
2. Is there a history of ethical behaviour, or the presence of a culture of ethics?
3. How does the organization articulate its broader social responsibility?
4. What are the relevant organizational stakeholders and how does the organization view their claims?

B. Top Management See Sections 2.2–2.4 on pages 36–45
1. What person or group constitutes top management?
2. What are top management’s chief characteristics in terms of knowledge, skills, background, and style? If the organization has international operations, does top management have international experience? Are executives from acquired companies considered part of the top management team?
3. Has top management been responsible for the organization’s performance over the past few years? How many managers have been in their current position for less than three years? Were they internal promotions or external hires?
4. Has it established a systematic approach to strategic management?
5. What is its level of involvement in the strategic management process?
6. How well does top management interact with lower level managers and with the board of directors?
7. Are strategic decisions made ethically in a socially responsible manner?
8. What role do stock options play in executive compensation?
9. Is top management sufficiently skilled to cope with likely future challenges?

III. EXTERNAL ENVIRONMENT: OPPORTUNITIES AND THREATS (SWOT)

A. Societal Environment See Section 3.1 on pages 51–58
1. What general environmental forces are currently affecting both the organization and the industries in which it competes? Which of these present current or future threats? 
   Opportunities? (See Table 3–1.)
   a. Economic
   b. Technological
   c. Political-legal
   d. Socio-cultural
2. Are these forces different in other regions of the world?

B. Task Environment (Industry) See Section 3.2 on pages 62–74
1. What forces drive industry competition? Are these forces the same globally or do they vary from country to country?
a. Threat of new entrants
b. Bargaining power of buyers
c. Threat of substitute products or services
d. Bargaining power of suppliers
e. Rivalry among competing firms
f. Relative power of unions, governments, special interest groups, etc.

2. What key factors in the immediate environment (that is, customers, competitors, suppliers, creditors, labour unions, governments, trade associations, interest groups, local communities, and shareholders) are currently affecting the organization? Which are current or future threats? Opportunities?

C. Summary of External Factors
Which of these forces and factors are the most important to the organization and to the industries in which it competes at the present time? Which will be important in the future?

IV. INTERNAL ENVIRONMENT: STRENGTHS AND WEAKNESSES (SWOT)

A. Organizational Structure See Sections 4.3 and 8.4 on pages 92–94 and 203–218
1. How is the organization currently structured?
   a. Is the decision-making authority centralized around one group or decentralized to many units?
   b. Is it organized on the basis of functions, projects, geography, or some combination of these?
2. Is the structure clearly understood by everyone in the organization?
3. Is the present structure consistent with current corporate objectives, strategies, policies, and programs as well as with the firm’s international operations?
4. In what ways does this structure compare with those of similar corporations?

B. Organizational Culture See Section 4.3 on pages 94–96
1. Is there a well-defined or emerging culture composed of shared beliefs, expectations, and values?
2. Is the culture consistent with the current objectives, strategies, policies, and programs?
3. What is the culture’s position on important issues facing the organization (that is, on productivity, quality of performance, adaptability to changing conditions, and internationalization)?
4. Is the culture compatible with the employees’ diversity of backgrounds?
5. Does the company take into consideration the values of each nation’s culture in which the firm operates?

C. Organizational Resources Marketing See Section 4.3 on pages 96–97
1. What are the organization’s current marketing objectives, strategies, policies, and programs?
   a. Are they clearly stated, or merely implied from performance and/or budgets?
   b. Are they consistent with the organization’s mission, objectives, strategies, and policies, and with internal and external environments?
2. How well is the organization performing in terms of analysis of market position and marketing mix (that is, product, price, place, and promotion) in both domestic and international markets? What percentage of sales comes from foreign operations? Where are current products in product life cycle?
   a. What trends emerge from this analysis?
   b. What impact have these trends had on past performance and how will they probably affect future performance?
   c. Does this analysis support the organization’s past and pending strategic decisions?
   d. Does marketing provide the company with a competitive advantage?
3. How well does this corporation’s marketing performance compare with that of similar corporations?
4. Are marketing managers using accepted marketing concepts and techniques to evaluate and improve product performance? (Consider product life cycle, market segmentation, market research, and product portfolios.)
5. Does marketing adjust to the conditions in each country in which it operates?
6. What is the role of the marketing manager in the strategic management process?

**Finance See Sections 4.3 and Appendix on pages 97–98 and 308–319.**

1. What are the organization’s current financial objectives, strategies, policies, and programs?
   a. Are they clearly stated or merely implied from performance and/or budgets?
   b. Are they consistent with the organization’s mission, objectives, strategies, policies, and with internal and external environments?
2. How well is the organization performing in terms of financial analysis? (Consider ratios, common size statements, and capitalization structure.) How balanced, in terms of cash flow, is the company’s portfolio of products and businesses?
   a. What trends emerge from this analysis?
   b. Are there any significant differences when statements are calculated in constant versus reported dollars?
   c. What impact have these trends had on past performance and how will they probably affect future performance?
   d. Does this analysis support the organization’s past and pending strategic decisions?
   e. Does finance provide the company with a competitive advantage?
3. How well does this corporation’s financial performance compare with that of similar corporations?
4. Are financial managers using accepted financial concepts and techniques to evaluate and improve current corporate and divisional performance? (Consider financial leverage, capital budgeting, ratio analysis, and managing foreign currencies.)
5. Does finance adjust to the conditions in each country in which the company operates?
6. What is the role of the financial manager in the strategic management process?

**Research and Development (R & D) See Section 4.3 on pages 98–101.**

1. What are the organization’s current R & D objectives, strategies, policies, and programs?
   a. Are they clearly stated, or merely implied from performance and/or budgets?
   b. Are they consistent with the organization’s mission, objectives, strategies, policies, and with internal and external environments?
   c. What is the role of technology in corporate performance?
   d. Is the mix of basic, applied, and engineering research appropriate given the corporate mission and strategies?
e. Does R & D provide the company with a competitive advantage?
2. What return is the organization receiving from its investment in R & D?
3. Is the organization competent in technology transfer? Does it use concurrent engineering and cross-functional work teams in product and process design?
4. What role does technological discontinuity play in the company’s products?
5. How well does the organization’s investment in R & D compare with the investments of similar corporations?
6. Does R & D adjust to the conditions in each country in which the company operates?
7. What is the role of the R & D manager in the strategic management process?

**Operations and Logistics See Section 4.3 on pages 101–102.**

1. What are the organization’s current manufacturing/service objectives, strategies, policies, and programs?
   a. Are they clearly stated, or merely implied from performance and/or budgets?
   b. Are they consistent with the organization’s mission, objectives, strategies, policies, and with internal and external environments?
2. What is the type and extent of operations capabilities of the organization? How much is done domestically versus internationally? Is the amount of outsourcing appropriate to be competitive? Is purchasing being handled appropriately?
   a. If product-oriented, consider plant facilities, type of manufacturing system (continuous mass production, intermittent job shop, or flexible manufacturing), age and type of equipment, degree and role of automation and/or robots, plant capacities and utilization, productivity ratings, availability and type of transportation.
   b. If service-oriented, consider service facilities (hospital, theatre, or school buildings), type of operation systems (continuous service over time to same clientele or intermittent service over time to varied clientele), age and type of supporting equipment, degree and role of automation and/or use of mass communication devices (diagnostic machinery, videotape machines), facility capacities and utilization rates, efficiency ratings of professional/service personnel, availability and type of transportation to bring service staff and clientele together.
3. Are manufacturing or service facilities vulnerable to natural disasters, local or national strikes, reduction or limitation of resources from suppliers, substantial cost increases of materials, or nationalization by governments?
4. Is there an appropriate mix of people and machines in manufacturing firms, or of support staff to professionals in service firms?
5. How well does the organization perform relative to the competition? Is it balancing inventory costs (warehousing) with logistical costs (just-in-time)? Consider costs per unit of labour, material, and overhead; downtime; inventory control management and/or scheduling of service staff; production ratings; facility utilization percentages; and number of clients successfully treated by category (if service firm) or percentage of orders shipped on time (if product firm).
   a. What trends emerge from this analysis?
   b. What impact have these trends had on past performance and how will they probably affect future performance?
   c. Does this analysis support the organization’s past and pending strategic decisions?
   d. Does operations provide the company with a competitive advantage?
6. Are operations managers using appropriate concepts and techniques to evaluate and improve current performance? Consider cost systems, quality control and reliability
systems, inventory control management, personnel scheduling, TQM, learning curves, safety programs, and engineering programs that can improve efficiency of manufacturing or of service.

7. Do operations and logistics adjust to the conditions in each country in which the organization has facilities?

8. What is the role of the operations manager in the strategic management process?

**Human Resources Management (HRM) See Section 4.3 on pages 103–105**

1. What are the organization's current HRM objectives, strategies, policies, and programs?
   a. Are they clearly stated, or merely implied from performance and/or budgets?
   b. Are they consistent with the organization's mission, objectives, strategies, policies, and with internal and external environments?

2. How well is the organization's HRM performing in terms of improving the fit between the individual employee and the job? Consider turnover, grievances, strikes, layoffs, employee training, and quality of work life.
   a. What trends emerge from this analysis?
   b. What impact have these trends had on past performance and how will they probably affect future performance?
   c. Does this analysis support the organization's past and pending strategic decisions?
   d. Does HRM provide the company with a competitive advantage?
   e. Do the company's employees (skills, education, knowledge) provide the company with a competitive advantage?

3. How does this corporation's HRM performance compare with that of similar corporations?

4. Are HRM managers using appropriate concepts and techniques to evaluate and improve corporate performance? Consider the job analysis program, performance appraisal system, up-to-date job descriptions, training and development programs, attitude surveys, job design programs, quality of relationship with unions, and use of autonomous work teams.

5. How well is the company managing the diversity of its workforce? What is the company's position and record on human rights?

6. Does HRM adjust to the conditions in each country in which the company operates? Does the company have a code of conduct for HRM in developing nations? Are employees receiving international assignments to prepare them for managerial positions?

7. What is the role of the HRM manager in the strategic management process?

**Information Systems (IS) See Section 4.3 on pages 105–106**

1. What are the organization's current IS objectives, strategies, policies, and programs?
   a. Are they clearly stated, or merely implied from performance and/or budgets?
   b. Are they consistent with the organization's mission, objectives, strategies, policies, and with internal and external environments?

2. How well is the organization's IS performing in terms of providing a useful database, offering internet access and websites, automating routine clerical operations, assisting managers in making routine decisions, and providing information necessary for strategic decisions?
   a. What trends emerge from this analysis?
   b. What impact have these trends had on past performance and how will they probably affect future performance?
   c. Does this analysis support the organization's past and pending strategic decisions?
   d. Does IS provide the company with a competitive advantage?
3. How does this corporation’s IS performance and stage of development compare with that of similar corporations? Is it appropriately using the internet?

4. Are IS managers using appropriate concepts and techniques to evaluate and improve corporate performance? Do they know how to build and manage a complex database, establish websites with firewalls, conduct system analyses, and implement interactive decision-support systems?

5. Does the company have a global IS and internet presence? Does it have difficulty with getting data across national boundaries?

6. What is the role of the IS manager in the strategic management process?

D. Summary of Internal Factors

Which of these factors are core competencies? Which are distinctive competencies? Which of these factors are the most important to the organization and to the industries in which it competes at the present time? Which of these factors will be important in the future?

V. ANALYSIS OF STRATEGIC FACTORS (SWOT)

A. Situational Analysis See Sections 5.1 and 5.2 on pages 116–118

What are the most important internal and external factors (Strengths, Weaknesses, Opportunities, Threats) that strongly affect the organization’s present and future performance? The most important strategic factors?

B. Review of Mission and Objectives See Section 5.2 on page 118

1. Are the current mission and objectives appropriate in light of the key strategic factors and problems?

2. Should the mission and objectives be changed? If so, how?

3. If changed, what will be the effects on the firm?

VI. STRATEGIC ALTERNATIVES AND RECOMMENDED STRATEGY


1. Can the current or revised objectives be met by the simple, more careful implementation of those strategies presently in use (that is, by fine-tuning the strategies)?

2. What are the major feasible alternative strategies available to this organization? What are the advantages and disadvantages of each? Can corporate scenarios be developed and agreed upon? (Alternatives must fit societal environment, industry, and company for next three to five years.)

   a. Consider cost leadership and differentiation as business strategies.

   b. Consider stability, growth, and retrenchment as corporate strategies.

   c. Consider any functional strategic alternatives that might be needed for reinforcement of an important corporate or business strategic alternative.

B. Recommended Strategy See Sections 7.3 and 7.4 on pages 183–190

1. Specify which of the strategic alternatives you are recommending for the corporate, business, and functional levels of the organization. Do you recommend different business or functional strategies for different units of the organization?
2. Justify your recommendation in terms of its ability to resolve both long- and short-term problems and effectively deal with the strategic factors.

3. What policies should be developed or revised to guide effective implementation?

4. What is the impact of recommended strategy on the company's core and distinctive competencies?

VII. IMPLEMENTATION SEE CHAPTERS 8 AND 9.

A. What kinds of programs (for example, restructuring the organization or instituting TQM) should be developed to implement the recommended strategy?

1. Who should develop these programs?

2. Who should be in charge of these programs?

B. Are the programs financially feasible? Can pro forma budgets be developed and agreed upon? Are priorities and timetables appropriate to individual programs?

C. Will new standard operating procedures need to be developed?

VIII. EVALUATION AND CONTROL SEE CHAPTER 10.

A. Is the current information system capable of providing sufficient feedback on implementation activities and performance? Can it measure strategic factors?

1. Can performance results be pinpointed by area, unit, project, or function?

2. Is the information timely?

B. Are adequate control measures in place to ensure conformance with the recommended strategic plan?

1. Are appropriate standards and measures being used?

2. Are reward systems capable of recognizing and rewarding good performance?

3. Who takes corrective action?

C. Are there adequate governance structures to ensure good strategic control?

1. Who are the directors, and what are their backgrounds?

2. What do they contribute to the organization in terms of knowledge, skills, background, and connections?

3. What stakeholder interests do they represent?

4. What is their level of involvement in the strategic management of the organization?
There is no one best way to analyze or present a case report. Each instructor has personal preferences for format and approach. Nevertheless, we suggest an approach for both written and oral reports later in this appendix, which provides a systematic method for successfully attacking a case. This approach is based on the strategic audit, which is presented at the end of this appendix. We find that this approach provides structure and is very helpful for the typical student who may be a relative novice in case analysis. Regardless of the format chosen, be careful to include a complete analysis of key environmental variables—especially of trends in the industry and of the competition. Look at international developments as well.

If you choose to use the strategic audit as a guide to the analysis of complex strategy cases, you may want to use the strategic audit worksheet in Figure 1. This is one example of what a case analysis in outline form may look like.

Case discussion focuses on critical analysis and logical development of thought. A solution is satisfactory if it resolves important problems and is likely to be implemented successfully. How the corporation actually dealt with the case problems has no real bearing on the analysis because management might have analyzed its problems incorrectly or implemented a series of flawed solutions.

### Figure 1 Strategic Audit Worksheet

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<tr>
<th>Strategic Audit Heading</th>
<th>Analysis (+) Factors</th>
<th>Analysis (-) Factors</th>
<th>Comments</th>
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<tr>
<td>I. Current Situation</td>
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<td>A. Past Corporate Performance Indexes</td>
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<td>B. Strategic Posture: Current Mission</td>
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<td>SWOT Analysis Begins:</td>
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<td>II. Corporate Governance</td>
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<td>A. Board of Directors</td>
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<td>B. Top Management</td>
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<td>III. External Environment (EFAS): Opportunities and Threats (SWOT)</td>
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<td>A. Societal Environment</td>
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<td>B. Task Environment (Industry Analysis)</td>
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<td>IV. Internal Environment (IFAS): Strengths and Weaknesses (SWOT)</td>
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<td>A. Corporate Structure</td>
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<td>B. Corporate Culture</td>
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APPENDIX CASE ANALYSIS

Analysis

Note: See the complete Strategic Audit on pages 319–326. It lists the pages in the book that discuss each of the eight headings.


C. Corporate Resources

1. Marketing
2. Finance
3. Research and Development
4. Operations and Logistics
5. Human Resources
6. Information Systems

V. Analysis of Strategic Factors (SFAS)

A. Key Internal and External Strategic Factors (SWOT)
B. Review of Mission and Objectives

SWOT Analysis Ends. Recommendation Begins:

VI. Alternatives and Recommendations

A. Strategic Alternatives—pros and cons
B. Recommended Strategy

VII. Implementation

VIII. Evaluation and Control

Figure 1 Strategic Audit Worksheet (continued)

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<td>C. Corporate Resources</td>
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<td>6. Information Systems</td>
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6 Impact of the Internet on Case Analysis

The internet is an excellent source of information about industries as well as individual companies. It can be especially useful if your instructor gives you the assignment to either update a case or to research an industry. To begin, you only need access to the internet and a browser like Netscape Navigator or Microsoft’s Internet Explorer. When surfing the net, you will be amazed by the amount of information (much of it worthless) you can find. A word of caution: Beware of getting caught by an online confidence game. (See the Internet Issue feature for the top 10 internet scams.)

FINDING A COMPANY’S WEBSITE

If you are looking for information about a particular company, you can first try using a simplified version of the firm’s name to directly get to the firm’s home (primary) webpage. For example, first type in the protocol, the standard first part of the URL (uniform resource
locator)—http://www. Don’t capitalize any letters in the URL. Then type in a likely name for the firm, such as maytag, ibm, toyota, hp (Hewlett-Packard), ti (Texas Instruments), or pearsoned (Pearson Education Canada). This is referred to as the company’s server name. Follow this name with the suffix .com. This is called a domain. In the United States, most business URLs still end with the domain name .com. Many Canadian organizations end in .ca. The same is true for other URLs, such as .edu for schools and colleges in America, .gov for government agencies, and .org for non-profit organizations. Outside the United States each country has its own suffix, such as .uk for Great Britain, .au for Australia, .de for Germany. This string of words and letters usually completes the URL. For example, try typing http://www.maytag.com in the location line of your internet browser and tap the Enter key. This takes you directly to Maytag’s homepage. In some instances, the URL may also contain a more specific webpage beyond the company’s homepage. In this case, the .com is followed by /xxxx.html (xxxx can be anything). This indicates that this is another webpage that uses the HTML (hypertext markup language) of the World Wide Web.

**USING A SEARCH ENGINE**

If typing in an obvious company name doesn’t work, use a search engine. This is especially the case if you are investigating a non-US corporation like AB Electrolux of Sweden. Search engines are services that act like a library’s card file to help you find information on a topic. Type in http://www, followed by the search engine’s URL. Some of the common search engines are Yahoo! (www.yahoo.ca), Alta Vista (www.altavista.com), lycos (www.lycos.ca), Google (www.google.ca), Excite (www.excite.com) and Copernic (free download from www.copernic.com). These URLs will take you to the search engine’s webpage where you can type in the name of a company. The search engine finds any references to that firm. One of these references should include the company’s URL. Use it to get to the company’s homepage.

**FINDING MORE INFORMATION**

Getting to the company’s home webpage does not necessarily mean that you now have access to the firm’s financials. If the website does include a link to a webpage containing the company’s financials, that page will probably have only financials for the most recent year or two. In that case, try related business directories such as Hoover’s Online (www.hoovers.com). If the company’s stock is publicly traded and listed on one of the major stock exchanges, these business directories should get you to the database containing the latest annual reports and quarterly reports. Here are some other sites offering valuable information relating to business firms:

- Annual Report Gallery (www.reportgallery.com)
- Web 100 (www.w100.com)
- Toronto Stock Exchange (www.tse.com)
- CEO Express (www.ceoexpress.com)
- Wall Street Research Net (www.wsrn.com)
- Companies Online (www.companiesonline.com)
- Corporate Financials Online (www.cfonews.com)
- Corporate Information (www.corporateinformation.com)
- Kompass International (www.kompass.com)
- CorpTech Database of Technology Companies (www.corptech.com)
- ZDNet Company Finder (www.companyfinder.com)
Note that websites constantly change. Just because a particular URL works one time does not mean that it will work a year or two later. If the company is doing a good job of managing its websites, it will leave a message on its abandoned webpage sending you to a new page. If nothing works, simply go to one of the search engines and begin again. Good luck!

### Internet Issue

**Top 10 Internet Scams**

The US Federal Trade Commission reports the following list of most popular internet-related complaints regarding confidence games being played on unsuspecting visitors to the information highway:

- **Auctions** (45%): Buyer pays but gets wrong item or none at all.
- **Internet Access** (21%): Supposedly “free” internet access has hidden charges and high cancellation fees.
- **Credit Card Fraud** (9%): Adult-only sites ask for credit card data to verify age—resulting in unauthorized charges.
- **Personal Website** (5%): Offers free website for 30 days but charges via the phone bill.
- **Modem Scam** (5%): Download a “free” dialler to access adult sites but high charges soon follow.
- **Home Business** (3%): Pay a fee but earn nothing.
- **Travel Bargains** (2%): Inexpensive trip is either not what was promised or is non-existent.
- **Sell Special Products** (2%): Sells product at low price, but there are no buyers.
- **Invest Now** (1%): Promises stock appreciation, but little actually happens after stock purchase.
- **Health Products** (1%): Miracle medicines sold as internet “snake oil” to solve all problems.

The modem scam is especially ingenious. A pornographic website offers to download a special “viewer” or “dialler” program to see nude photos. When the file is downloaded, the internet connection is disconnected and the program makes the computer dial a phone number to a small island in the southwest Pacific called Vanuatu (formerly the New Hebrides) at a rate of $2 to $7 per minute. Few people report this scam because they don’t want others to know they were visiting pornographic websites.


### 7 Resources for Case Research

#### COMPANY INFORMATION

1. Annual reports
2. Moody’s Manuals on Investment (a listing of companies within certain industries that contains a brief history and a five-year financial statement of each company)
3. Securities and Exchange Commission Annual Report Form 10-K (annually) and 10-Q (quarterly)
4. Standard and Poor’s Register of Corporations, Directors, and Executives
5. Value Line’s Investment Survey
6. COMPUSTAT, Compact Disclosure, CD/International, and Hoover’s Online Corporate Directory (computerized operating and financial information on thousands of publicly held corporations)
7. Shareholders’ meeting notices
ECONOMIC INFORMATION
1. Regional statistics and local forecasts from large banks
2. Chase Econometric Associates' publications
3. Canadian census data publications on population, income, education, employment, and culture
4. Economic Indicators (from Statistics Canada) on business, construction, manufacturing, national accounts, and prices
5. Economic Analysis and Statistics of Industries (by Industry Canada)
7. Statistical Yearbook (United Nations)
8. World Trade Annual (United Nations)
10. The World Factbook (US CIA)

INDUSTRY INFORMATION
1. Analyses of companies and industries by investment brokerage firms
2. Business information by sector and company directories (from Industry Canada)
3. Business Week (provides weekly economic and business information, and quarterly profit and sales rankings of corporations)
4. Fortune (each April publishes listings of financial information on corporations within certain industries)
5. Canadian Business Resource (an interactive source for contact information, officers' and directors' names, brief company descriptions, financial data, SIC codes, direct links to email and website addresses, press releases, stock analysis, and investment information.)
6. Industry Survey (published quarterly by Standard and Poor's Corporation)
7. Industry Week (late March/early April issue provides information on 14 industry groups)
8. Forbes (mid-January issue provides performance data on firms in various industries)
9. Inc. (May and December issues give information on fast-growing entrepreneurial companies)
10. The Information Catalogue (a listing by MarketResearch.com of more than 11,000 studies conducted by leading research firms)

DIRECTORY AND INDEX INFORMATION ON COMPANIES AND INDUSTRIES
1. CBCA (Canadian Business and Current Affairs), available by computer in most university libraries
2. Directory of National Trade Associations
3. Encyclopedia of Associations
4. Funk and Scott's Index of Corporations and Industries
5. Thomas's Register of American Manufacturers
6. Wall Street Journal Index

RATIO ANALYSIS INFORMATION
1. Almanac of Business and Industrial Financial Ratios (Prentice Hall)
2. Annual Statement Studies (Robert Morris Associates)
8 Suggested Case Analysis Methodology Using the Strategic Audit

1. READ CASE

First Reading of the Case

- Develop a general overview of the company and its external environment.
- Begin a list of the possible strategic factors facing the company at this time.
- List the research information you may need on the economy, industry, and competitors.

2. READ THE CASE WITH STRATEGIC AUDIT

Second Reading of the Case

- Read the case a second time using the strategic audit as a framework for in-depth analysis. You may want to make a copy of the strategic audit worksheet to use to keep track of your comments as you read the case.
- The questions in the strategic audit parallel the strategic decision making process shown in Figure 1–6.
- The audit provides you with a conceptual framework to examine the company’s mission, objectives, strategies, and policies as well as problems, symptoms, facts, opinions, and issues.
- Perform a financial analysis of the company using ratio analysis (see Table 1) and do the calculations necessary to convert key parts of the financial statements to a common-size basis.
3. DO OUTSIDE RESEARCH (IF REQUIRED BY INSTRUCTOR)

Library and Online Computer Services
- Each case has a decision date indicating when the case actually took place. Your research should be based on the time period for the case.
- Use resources for case research discussed earlier in this appendix. Your research should include information about the environment at the time of the case. Find average industry ratios. You may also want to obtain further information regarding competitors and the company itself (such as annual reports). This information should help you conduct an industry analysis. Check with your instructor to see what kind of outside research is appropriate for your assignment.
- Don’t try to learn what actually happened to the company discussed in the case. What management actually decided may not be the best solution. It will certainly bias your analysis and will probably cause your recommendation to lack proper justification.

4. BEGIN SWOT ANALYSIS:

External Environmental Analysis
- Analyze the major societal forces to see what trends are likely to affect the industry or industries in which the company is operating.
- Conduct an industry analysis using Porter’s competitive forces from Chapter 3.
- Generate a list of external factors. These should be the most important opportunities and threats facing the company at the time of the case.
- Suggestion: Rank the external factors from most to least important. Start by grouping the top factors and then the bottom factors.

Internal Organizational Analysis
- Generate a list of internal factors. These should be the most important strengths and weaknesses of the company at the time of the case.
- Suggestion: Rank the internal factors from most to least important. Start by grouping the top factors and then the bottom factors.

5. WRITE YOUR STRATEGIC AUDIT (PARTS I TO IV)

First Draft of Your Strategic Audit
- Write Parts I to IV of the strategic audit. Remember to include the factors from your internal and external analysis in your audit.

6. WRITE YOUR STRATEGIC AUDIT (PART V)

Strategic Factor Analysis Summary
- Condense the list of factors from those identified in the previous sections to only the eight to ten most important factors.
- Select the most important external and internal factors.
- Analyze strategic factors from your final list of top internal and external environmental factors. Assess management’s performance on each factor.
- This is a good time to re-examine what you wrote earlier in Parts I to IV. You may want to add to or delete some of what you wrote. Ensure that each one of the strategic factors you
have included in your analysis is discussed in the appropriate place in Parts I to IV. Part V of the audit is not the place to mention a strategic factor for the first time.

- Write Part V of your strategic audit. This completes your SWOT analysis.
- This is the place to suggest a revised mission statement and a better set of objectives for the company. The SWOT analysis and any revised mission and objectives for the company set the stage for the generation of strategic alternatives.

7. WRITE YOUR STRATEGIC AUDIT (PART VI)

Strategic Alternatives and Recommendation

A. Alternatives

- Develop at least three mutually exclusive strategic alternatives. If appropriate to the case you are analyzing, you might propose one alternative for growth, one for stability, and one for retrenchment. Within each corporate strategy, you should probably propose an appropriate business/competitive strategy. You may also want to include some functional strategies where appropriate.
- Construct a scenario for each alternative. Use the data from your outside research to project general societal trends (GDP, inflation, etc.) and industry trends. Use these as the basis of your assumptions to write pro forma financial statements (particularly income statements) for each strategic alternative for the next five years.
- List advantages and disadvantages for each alternative based on your scenarios.

B. Recommendations

- Specify which one of your alternative strategies you recommend. Justify your choice in terms of dealing with the strategic factors you listed in Part V of the audit.
- Develop policies to help implement your strategies.

8. WRITE YOUR STRATEGIC AUDIT (PART VII)

Implementation

- Develop programs to implement your recommended strategy.
- Specify who is to be responsible for implementing each program and how long each program will take to complete.
- Refer to the pro forma financial statement you developed earlier for your recommended strategy. Do the numbers still make sense? If not, this may be a good time to rethink the budget numbers to reflect your recommended programs.

9. WRITE YOUR STRATEGIC AUDIT (PART VIII)

Evaluation and Control

- Specify the type of evaluation and controls that you need to ensure that your recommendation is carried out successfully. Specify who is responsible for monitoring these controls.
- Indicate whether sufficient information is available to monitor how the strategy is being implemented. If not, suggest a change to the information system.

10. PROOF AND FINE-TUNE YOUR AUDIT

Final Draft of Your Strategic Audit

- Check to ensure that your audit is within the page limits provided by your instructor. You may need to cut some parts and expand others.
- Make sure that your recommendation clearly deals with the strategic factors.
- Attach exhibits such as ratio analysis and pro forma statements. Label them as numbered exhibits and refer to each of them within the body of the audit.
- Proofread your work for errors. If on a computer, use a spell checker (although this does not catch all errors).

Depending on your assignment, it is relatively easy to use the strategic audit you have just developed to write a written case analysis in essay form or to make an oral presentation. The strategic audit is just a detailed case analysis in an outline form and can be used as the basic framework for any sort of case analysis and presentation.

### Strategic Practice Exercise

Nike, Inc. designs, develops, and markets quality footwear, apparel, athletic equipment, and accessories worldwide. The company sells its products to approximately 25,000 retail accounts in North America and through a mix of independent distributors, licensees, and subsidiaries in approximately 110 countries around the world.

Reebok International Ltd. designs and markets sports, fitness, and casual-use footwear and apparel. The company has four major brands: Reebok, Greg Norman (clothing), Rockport (shoes), and the Ralph Lauren Footwear Company. Financial statements for Nike and Reebok are shown below.

1. Using the information in the financial statements, calculate the following financial ratios for fiscal 1999 for each company. Values for 1998 have already been computed.

2. Use the results of the ratio analysis to identify similarities and differences in the profitability, liquidity, and long-term solvency of the two firms. How would these findings be incorporated into a strategic analysis of these firms?

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>2.07</td>
<td>2.22</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>1.25</td>
<td>1.35</td>
</tr>
<tr>
<td>Accounts receivable turnover</td>
<td>5.57</td>
<td>5.97</td>
</tr>
<tr>
<td>Days receivables outstanding</td>
<td>61.1</td>
<td>65.5</td>
</tr>
<tr>
<td>Inventory turnover</td>
<td>6.84</td>
<td>6.03</td>
</tr>
<tr>
<td>Days of inventory</td>
<td>82.2</td>
<td>98.4</td>
</tr>
<tr>
<td>Accounts payable turnover</td>
<td>9.63</td>
<td>10.16</td>
</tr>
<tr>
<td>Accounts payable period</td>
<td>37.9</td>
<td>35.9</td>
</tr>
<tr>
<td>Days of cash</td>
<td>4.15</td>
<td>20.38</td>
</tr>
<tr>
<td>Return on assets</td>
<td>9.7%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Return on equity</td>
<td>12.25%</td>
<td>4.56%</td>
</tr>
<tr>
<td>Times interest earned</td>
<td>11.88</td>
<td>1.59</td>
</tr>
<tr>
<td>Long-term debt to assets</td>
<td>7.0%</td>
<td>31.9%</td>
</tr>
<tr>
<td>Asset turnover</td>
<td>1.78</td>
<td>1.84</td>
</tr>
</tbody>
</table>
### Reebok International Ltd.
#### Consolidated Statements of Income

<table>
<thead>
<tr>
<th>(US$ in thousands)</th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>$2,899,872</td>
<td>$3,224,592</td>
<td>$3,643,599</td>
</tr>
<tr>
<td><strong>Other income (expenses)</strong></td>
<td>(8,635)</td>
<td>(19,167)</td>
<td>(6,158)</td>
</tr>
<tr>
<td><strong>Cost and expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>1,783,914</td>
<td>2,037,465</td>
<td>2,294,049</td>
</tr>
<tr>
<td>Selling, general, and administrative expenses</td>
<td>61,625</td>
<td>35,000</td>
<td>58,161</td>
</tr>
<tr>
<td>Special charges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of intangibles</td>
<td>5,183</td>
<td>3,432</td>
<td>4,157</td>
</tr>
<tr>
<td>Minority interest</td>
<td>6,900</td>
<td>11,78</td>
<td>10,476</td>
</tr>
<tr>
<td>Interest expense</td>
<td>49,691</td>
<td>60,671</td>
<td>64,366</td>
</tr>
<tr>
<td>Interest income</td>
<td>9,159</td>
<td>(11,372)</td>
<td>(10,810)</td>
</tr>
<tr>
<td><strong>2,870,099</strong></td>
<td><strong>3,169,573</strong></td>
<td><strong>3,489,832</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>21,138</td>
<td>35,852</td>
<td>147,609</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>10,093</td>
<td>11,925</td>
<td>12,490</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$11,045</td>
<td>$23,927</td>
<td>$135,119</td>
</tr>
</tbody>
</table>

### Nike, Inc.
#### Consolidated Statements of Income

<table>
<thead>
<tr>
<th>(US$ in thousands)</th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>$8,776,900</td>
<td>$9,553,100</td>
<td>$9,186,500</td>
</tr>
<tr>
<td><strong>Cost and expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>5,493,500</td>
<td>6,065,500</td>
<td>5,503,000</td>
</tr>
<tr>
<td>Selling and administrative expenses</td>
<td>2,426,600</td>
<td>2,623,800</td>
<td>2,303,700</td>
</tr>
<tr>
<td>Interest expense</td>
<td>44,100</td>
<td>60,000</td>
<td>52,300</td>
</tr>
<tr>
<td>Other (income) expense (net)</td>
<td>21,500</td>
<td>20,900</td>
<td>32,300</td>
</tr>
<tr>
<td>Restructuring charges</td>
<td>45,100</td>
<td>129,900</td>
<td>0</td>
</tr>
<tr>
<td><strong>8,030,800</strong></td>
<td><strong>8,900,100</strong></td>
<td><strong>8,391,300</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>246,100</td>
<td>653,000</td>
<td>1,295,200</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>294,700</td>
<td>253,400</td>
<td>499,400</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$451,400</td>
<td>$399,600</td>
<td>$795,800</td>
</tr>
</tbody>
</table>
Reebok International Ltd.
Consolidated Balance Sheets

(US$ in thousands) 1999 1998

### Assets

**Current assets**

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$281,744</td>
<td>$180,070</td>
</tr>
<tr>
<td>Accounts receivable (net)</td>
<td>417,404</td>
<td>517,830</td>
</tr>
<tr>
<td>Inventories</td>
<td>414,616</td>
<td>535,168</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>88,127</td>
<td>78,419</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>41,227</td>
<td>50,309</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>1,243,118</strong></td>
<td><strong>1,361,796</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and equipment (net)</td>
<td>178,111</td>
<td>172,585</td>
</tr>
<tr>
<td>Intangibles (net)</td>
<td>68,892</td>
<td>68,648</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>43,868</td>
<td>99,212</td>
</tr>
<tr>
<td>Other</td>
<td>30,139</td>
<td>37,383</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>1,564,128</strong></td>
<td><strong>1,739,624</strong></td>
</tr>
</tbody>
</table>

### Liabilities and Stockholders’ Equity

**Current liabilities**

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable to bank</td>
<td>$27,614</td>
<td>$48,070</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>185,167</td>
<td>86,640</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>153,998</td>
<td>203,144</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>248,822</td>
<td>191,833</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>8,302</td>
<td>82,597</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>623,903</strong></td>
<td><strong>612,284</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt (net)</td>
<td>370,302</td>
<td>554,432</td>
</tr>
<tr>
<td>Minority interest</td>
<td>41,107</td>
<td>31,972</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>934,312</strong></td>
<td><strong>998,258</strong></td>
</tr>
</tbody>
</table>

**Outstanding redemption value of equity put options**

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>–0–</td>
<td>16,559</td>
</tr>
</tbody>
</table>

**Shareholders’ equity**

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>930</td>
<td>933</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,170,885</td>
<td>1,156,739</td>
</tr>
<tr>
<td>Treasury stock</td>
<td>(617,620)</td>
<td>(617,620)</td>
</tr>
<tr>
<td>Unearned compensation</td>
<td>–0–</td>
<td>(26)</td>
</tr>
<tr>
<td>Accumulated comprehensive income</td>
<td>(25,379)</td>
<td>(15,649)</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td><strong>528,816</strong></td>
<td><strong>524,377</strong></td>
</tr>
</tbody>
</table>

**Total liabilities and shareholders’ equity**

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>1,564,128</strong></td>
<td><strong>1,739,624</strong></td>
</tr>
</tbody>
</table>
# Nike, Inc.
## Consolidated Balance Sheets

<table>
<thead>
<tr>
<th>(US$ in thousands)</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$198,000</td>
<td>$108,600</td>
</tr>
<tr>
<td>Accounts receivable (net)</td>
<td>$1,541,000</td>
<td>$1,674,400</td>
</tr>
<tr>
<td>Inventories</td>
<td>$1,199,300</td>
<td>$1,396,600</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>$120,600</td>
<td>$156,800</td>
</tr>
<tr>
<td>Income tax receivable</td>
<td>$15,900</td>
<td>$0</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>$129,000</td>
<td>$196,200</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$3,264,900</td>
<td>$3,532,600</td>
</tr>
<tr>
<td><strong>Property and equipment (net)</strong></td>
<td>$1,264,800</td>
<td>$1,153,100</td>
</tr>
<tr>
<td><strong>Identifiable intangible assets and goodwill</strong></td>
<td>$426,600</td>
<td>$435,800</td>
</tr>
<tr>
<td><strong>Deferred income taxes</strong></td>
<td>$290,400</td>
<td>$275,900</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$5,247,700</td>
<td>$4,397,400</td>
</tr>
<tr>
<td><strong>Liabilities and Stockholders’ Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>$1,000</td>
<td>$1,600</td>
</tr>
<tr>
<td>Notes payable</td>
<td>$419,100</td>
<td>$480,200</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$373,200</td>
<td>$584,600</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>$653,600</td>
<td>$608,500</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>$0</td>
<td>$28,900</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>$1,446,900</td>
<td>$1,703,800</td>
</tr>
<tr>
<td><strong>Long-term debt (net)</strong></td>
<td>$386,100</td>
<td>$379,400</td>
</tr>
<tr>
<td><strong>Deferred income taxes and other liabilities</strong></td>
<td>$79,800</td>
<td>$52,300</td>
</tr>
<tr>
<td><strong>Redeemable preferred stock</strong></td>
<td>$300</td>
<td>$300</td>
</tr>
<tr>
<td><strong>Shareholders’ equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, Class A convertible</td>
<td>$200</td>
<td>$200</td>
</tr>
<tr>
<td>Common stock, Class B</td>
<td>$2,700</td>
<td>$2,700</td>
</tr>
<tr>
<td>Capital in excess of stated value</td>
<td>$334,100</td>
<td>$262,500</td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>$(68,900)</td>
<td>$(47,200)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>$3,066,500</td>
<td>$3,043,400</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>$3,334,600</td>
<td>$3,261,600</td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td>$5,247,700</td>
<td>$5,397,400</td>
</tr>
</tbody>
</table>

## Notes