

Strategic Management - The Competitive Edge

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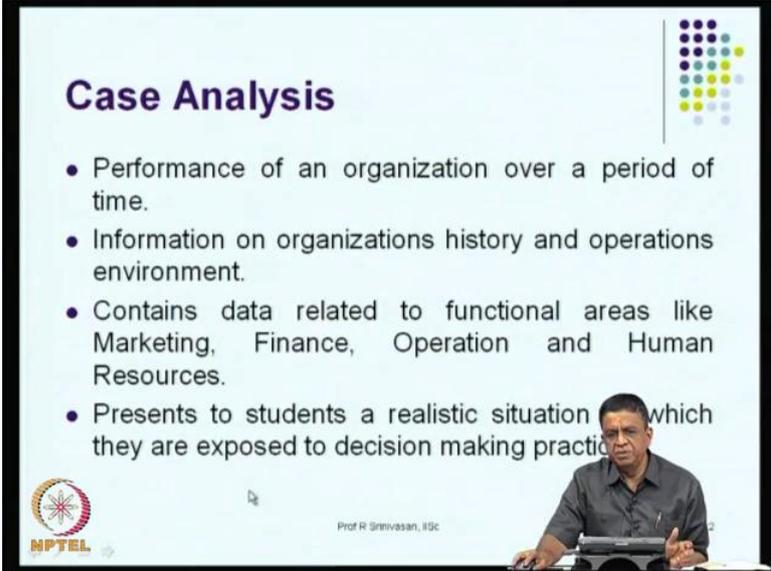
Module No. # 04

Lecture No. # 17

Case Analysis

Welcome to this class. We were discussing how to do case analysis in the last class.

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Case Analysis

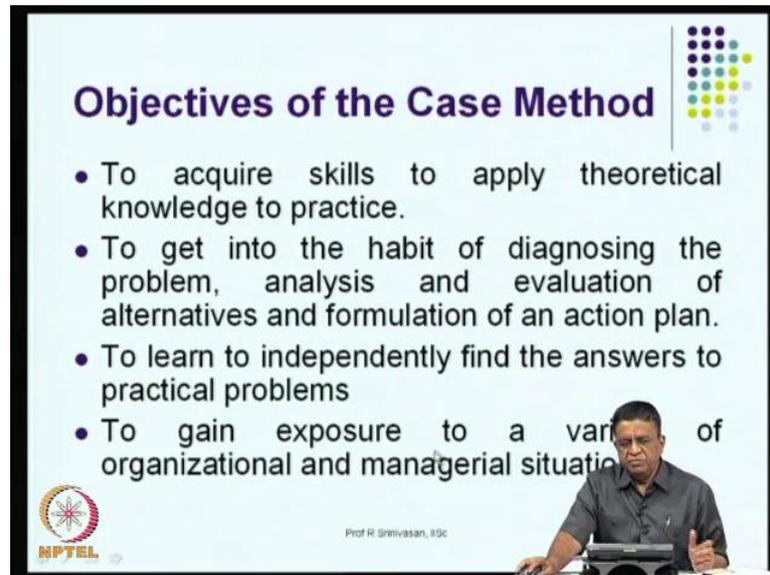
- Performance of an organization over a period of time.
- Information on organizations history and operations environment.
- Contains data related to functional areas like Marketing, Finance, Operation and Human Resources.
- Presents to students a realistic situation which they are exposed to decision making practice.

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Just to refresh your memory, what is case analysis? We said, we are looking at the performance of an organization over a period of time. We tried to gather information on its history and the operations environment. To get data with respect to the functional areas like marketing, finance, operation and human resources. We presented a case study that represents a realistic data. It takes data from a real life situation to that extent. The case will be closer to real life, instead of being hypothetical. So, the student will be able to appreciate or able to understand the problems that an organization might face in real life like, what are the types of decisions he may be involved to take depending on his area of operations.

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Objectives of the Case Method

- To acquire skills to apply theoretical knowledge to practice.
- To get into the habit of diagnosing the problem, analysis and evaluation of alternatives and formulation of an action plan.
- To learn to independently find the answers to practical problems
- To gain exposure to a variety of organizational and managerial situations

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What are the objectives of this case method? As I mentioned, the idea is to apply your theoretical knowledge to practice, whatever knowledge you have obtained by theory. How useful is this theoretical knowledge to practice? Most importantly, this case analysis says how to diagnose a problem for a given particular situation. What is the type of analysis that you can do for that type of a problem? What are the types of alternatives or the solutions that you can think of, given this type of a problem scenario? Then formulate an action plan.

It will help you to independently find answers to these practical problems. It will also help you to gain exposure to a variety of organizational and managerial situations. Depending on the type of organization, you are studying. It may be a manufacturing organization, it may be a marketing organization and it may be an organization in financial services.

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Benefits of the case method

- Clear thinking in complex situations
- Devising consistent, rational and creative action plans
- Application of quantitative knowledge
- Recognizing the value of information
- Group communication
- Better written communication
- Applying personal values to the decision making process

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You get a wide variety of skills to analyze these types of complex situations. So, in other words, what are you likely to benefit from? It is possible that your thinking process will get sharpened and you will have clear thinking even in complex situations. You are likely to be consistent, rational and creative. When you drop action plans, it will help you to apply the quantitative knowledge to practice and help you to understand the value of information. It helps you to communicate better in a group and also communicate well in writing as well. In addition to all these, while making the decision process, it gives a certain personal value to the decision. You can apply some personal values to the decision.

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Developing a case study

Should have the following aspects

- *Origin/History and growth of company over time*
- *Organizational analysis*
- *Nature of external environment*
- *Strength Weakness Opportunities Threats (SWOT) Analysis*
- *Present corporate strategy*
- *Present business strategy*
- *Organizational structure and control system*
- Recommendations*

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Now, how do you develop a case study is the next question and you should try to attempt the case study. You can do it with respect to an organization of your choice. It should necessarily have the following aspects: origin or history and growth of company over time. Do an organizational analysis, what is organizational analysis? It is do the analysis of the strengths and weaknesses. It does not have to be extraordinarily elaborate of whatever you can make out. In a nut shell, tell the nature of organizational environment in which the company operates and then the nature of the external environment. It tells you about both together.

What is the type of strength, weaknesses, opportunities and threats that the organization faces or has to face? In short, you do what we call the SWOT analysis. He should present the corporate strategy of the company, present the business strategy with reference to a particular strategic business unit. You are considering the organizational control structure, control systems of that business unit and what is the type of recommendations that you are giving with respect to a particular situation.

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Key Financial Ratios

Profitability ratios	Leverage Ratios
1. Gross profit margin	1. Debts to assets
2. Operating profit margin	2. Debt to equity
3. Net profit margin	3. Long-term debt to equity ratio
4. Return on total assets	4. Times interest earned
5. Return on stock holders equity	5. Fixed charge coverage
6. Return on common equity	
7. Earnings per share	

NPTEL logo and Prof R Srinivasan, IISc are visible at the bottom of the slide.

In order to do this some of the financial measures of performance, which become extremely helpful. I will just read from this book on Strategic Management. I am reading from my book on Strategic Management, table 9 1. These are very important tables, which you may have a closer look. One is return on investment that is ROI.

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Handwritten notes on a whiteboard:

- EFA summary: opportunities, threats
- IFA summary: strengths, weaknesses
- $$ROI = \frac{\text{Net Income (bet. taxes)}}{\text{Tot. Assets}}$$
- $$EPS = \frac{\text{Net Earnings}}{\text{Common Stock}}$$

The whiteboard is shown within a Windows Journal application window.

How is the return on investment calculated? The return on investment is calculated by using this formula: ROI is net income before taxes divided by total assets. Similarly, what does this ROI give you? This is the question, which you have to answer. Try to

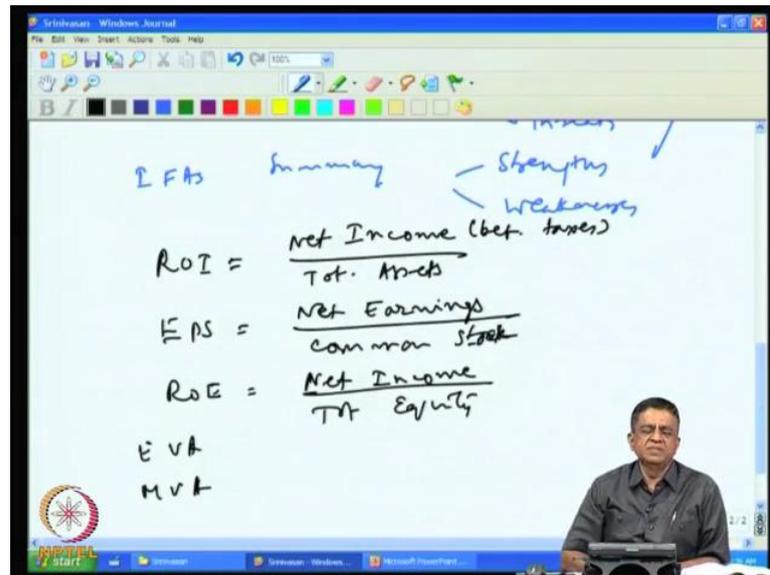
think rationally before looking at what is the type of ROI. Suppose, you put your money in a fixed deposit in a bank, what is the type of interest you may get? You may get around 6 to 7 percent per annum interest.

Subject to tax deduction at source, let us say you want to make investment of a company's money that is resources in some project or in some activity. What is the return on investment that you expect? You expect invest on return, which is at least more than this return, which you would have got if the money had been put as a fixed deposit in another bank. So, it is nothing wrong in expecting that type of return.

Even in educational institutions, the other day, the top functionary of the institute of science himself was telling that I am getting confronted by questions on ROI by economists. They come and ask me, what is your ROI? Even the field of education sector has not been spared. So, it means to say that the questions are being asked as how much is the investment into the institution? So, what is the return on this investment? In other words, even in education sector, return on investment is asked and this is what he was trying to say.

Sometimes, he used to say that these things are intangible. We really cannot measure like as you do in a corporate company or an organization. In other words, this return on investment is becoming very important with respect to any corporate venture. So, whatever is the investment that you are making, what is the return that you are getting. So, you expect at least that return to be more than the return you would have got had the money been kept in a fixed deposit in a bank. Now, how do you calculate this return? This is the way of calculating this return that is dividing the net income before taxes by the total assets. The next indicator or the measure of financial performance is called as the EPS.

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The formula for EPS is divide the net earnings by the amount of common stock. Find out what is the total earnings that the company has made per year. What is the stock and that is the number of shares and you will get the earnings per share. You will get an idea of how much your 10 rupees investment has earned. So, many times this is the one which tells you what is the dividend that is declared. For example, a company like Infosys declares 200 percent dividend. What do you mean by 200 percent dividend 10 rupees? Let us say, the face value of the share, 200 percent dividend means - for 1 share of 10 rupees, you are getting 20 rupees as the dividend during that year.

It may be another aspect that this 10 rupees share was bought at 2000 or 3000 rupees in a market place. Now, Infosys share has been split into rupees 5 and only 10 rupees share has been split into two shares of rupees 5. Suppose, you want to buy that rupees 5 share, it is upwards of some 2000 3000 rupees. So, you pay for taking 1 share of rupees 5 of Infosys. It has more than 2300 rupees in the open market, suppose you held that share of 5 rupees for 1 year. By the time the company declares the dividend, the share is in your name and the company says I am declaring 200 percent dividend on this share. What does that mean? It means that the company is giving for 5 rupees and you are holding 10 rupees as dividend.

The other fact is that you have paid 2300 and odd rupees to take that particular share. Now, how do you benefit by that? You got a dividend, which is very nominal on the 5

rupees. How will the person trading or holding this, talk? What does he do? He may try to find out the best time to dispose of the shares. Suppose, he bought it at 2300 rupees, he may find that the market is in upswing and the Infosys share goes up from 2300 to 2500. Giving you some rough figures, you may say I bought it at 2300.

Now, I am getting per share margin of 200 rupees that is the profit of 200 rupees. Why can't I make this profit? Suppose, he had bought some 100 shares, this 100 into 200 and that is the type of money which he would make from the stock market on this. This is a measure of the types of financial performance that you are getting. The other measure is called as the return on equity.

What do you mean by return on equity? Divide your net income that is how much have you got after your taxes and dividend total equity that is number of equity shares held. The total equity of the company will give you the idea of what is the type of thing, which you may get. What is the return on equity you may get for the company?

There are two more indicators of performance. These are called as the economic value added. This economic value added is the difference between pre strategy and post strategy value for business. We are looking at strategy and kindly note that. So, before strategy, what is the value of your share, post strategy? It will give an idea of what is the economic value added for the business because of the strategic decisions that you have taken. The other aspect is called the market value added. What is market value added? It measures the stock market estimate of the net present value of a firm's past and expected capital investment project. So, it tells you how much can you value this company.

Let us say, you take a software company and you want to buy a software company. How will you buy this company? Find out, what is the type of projects, which the company is in? What is the type of investments, what is the type of future projects the company is likely to get or what are the firm orders of the company? So, depending on all that you make a market valuation that says this company is worth this much, the human capital, then the work that the company has got in a market place, all these will give you an idea of what is the value of this particular company. These are broadly known as the financial measures and that is ROI, EPS, ROE, economic value added and then the MVA. In addition to this, there are stockholder measures.

What are these stockholder measures? Who is a stockholder? How do you measure this? How do you get this stockholder measures? So, these measures are concerned with issues relating to customers, suppliers, financial community, employees, government, local community and the environmentalists. So, keep all these groups in mind when you say stockholder measures.

So, this is this is what you are likely to encounter. One is your customers. What does a customer look for? What is the possible near term measure with reference to a customer? A customer will be happy... Suppose, you record a higher sales in a particular quarter, you call as dx. Your sales would jump by some 5 percent in the first quarter and then you report that the customers are likely to feel happy. You are likely to feel happy, when you are able to get new customers for your company. So, you tell them what are the types; how many new customers you received for the quarter and what are the types of needs of these new customers that you were able to satisfy or meet. This is possible in near term measures; that is short term measures. Now, in the present competitive era, we are looking at situations from a shorter time frame. We are not looking from a very long time frame. So, when we are doing, you look at our situation from a shorter time frame.

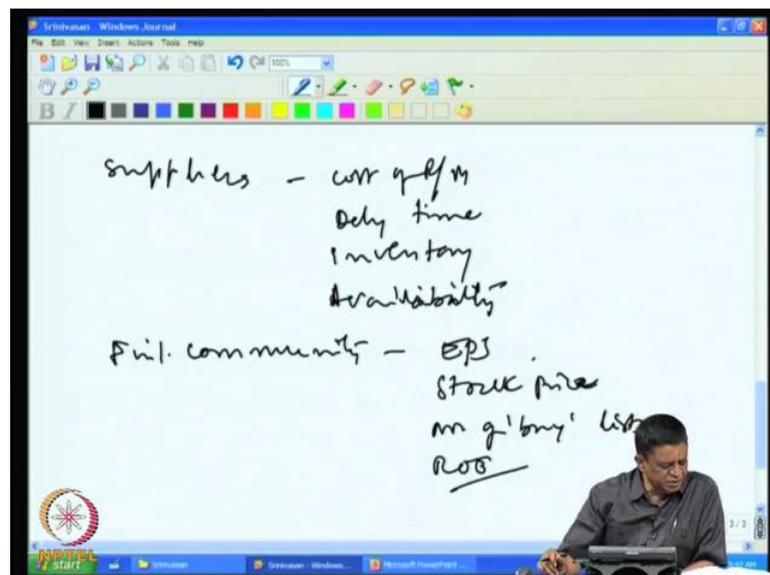
A customer will be happy, when you say this is the number of new customers I added. This is a type of performance, which I reported with respect to sales and that is increased sales. This is how I could meet the needs of the new customers. So, he will feel very happy about that. What is the type of long term measures? Suppose, you project to him that the sales of the company has been growing over the last 2 to 3 years continuously, it does not dip. Similarly, the customer base has a good turn and the ability to control price is reflected. So, your cost of the final product has not jacked up like anything or it has not gone beyond the controls of the company. You have been able to have good control and it is very important for a manufacturing firm.

Let us say, an automotive firm all of a sudden starts rising the price of your automotive cars. It is likely to really affect your customer base. Now, if you want to call it as the company's ill luck, the other competitors do not want to raise the price. These are all strategic moves, which companies do take in the prevailing market situations. While one company might raise and the other company may wait for some more time before it raises the price. So, the latest example is Maruti. Maruti is saying that we are going to raise the price of all car models, whether it is 800 or to the latest ATsx4. An upward

raise of 10,000 rupees minimum is predicted, but the other car manufactures have not yet raised the price of their cars. Whereas, Maruti has made this announcement, what is likely to happen? The customer is likely to go into evaluation mode. So, Maruti 800 is going to cost me so much. What will a corresponding Tata car cost me? Is it better or what will a corresponding Hyundai or whatever it is... The evaluation what you are telling is that financially he may be better off by going to this brand or other brand. He may be advised to stay with Maruti also because it is not going to greatly affect the whole scenario.

The next stockholder measure which you should consider after the customer is the supplier. What do you mean by the suppliers? They are the suppliers of your raw material that is the raw material for the company comes from them. What could be near term measure? The cost of the raw material could be one of the near term measures. What price was he supplying to the company? Has the price been under check or has the price not increased too much? Suppose, the raw material prices go up, what is the impact that you expect? The final product's price also go up and that will have an impact on the sales of the company. This is the type of impacts that is going to have. He is the supplier supplying on time and that is the delivery on time.

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What is the type of inventory you are forced to have? Can you just look at an inventory of zero level. Now, most of the companies are looking at different systems of inventory.

They call it by different names as just in time or **kanban**, whatever the Japanese names having low inventories or zero inventories.

You order for the particular raw material, when it is required and it is ready for you. Suppose, you want an order tomorrow and you order today evening, tomorrow morning by the time your assembly line or the production line starts working, the material is supplied. So, this is the way many of the Japanese automotive companies are used to functioning, especially a company like Toyota. This is considered to be good for the company and that is not to hold this high inventory. If you hold it, you have to pay holding cost of this inventory. So, all these things will be good for them. What does that mean? It means that your raw material, the supplier should be able to have the availability of this raw material at any time.

He just cannot say that at this point of time, when you wanted this raw material that it is not available. So, you wanted a raw material from him. He should be able to get this raw material immediately. In other words, the supplier's confidence that is the confidence of the company in the suppliers should be very high. So, an example can be given for some of the companies, which are operating even in India. One of the companies is the MicoBosch. So, most of its raw material suppliers, supply the raw material on a phone request to the company immediately. The availabilities of the raw material is not in doubt at any point of time for the company. So, it is made available and the production line is not in any way hampered or its operations are not in any way brought to some halt or whatever it is that does not happen.

Similarly, what is the type of long term measures? When you look at the long term measures, it can be growth rates of the raw material, cost, how has this material supplier supplied? Has he supplied at reasonably the same value or has he supplied by increasing the value of the raw materials? The other could be what is the delivery time schedules that he is keeping up? Is he good on the delivery schedules? Is he falling back on the delivery schedules? That is going to impinge the performance of your production lines.

Similarly, what is the type of inventory he expects you to keep? Does he expect you always to keep the inventory of his products in stock? So, do not just ask him at the last moment to supply the raw material. So, many times, some of the suppliers tell the companies as do not ask me at the nth moment to supply this raw material and I am not

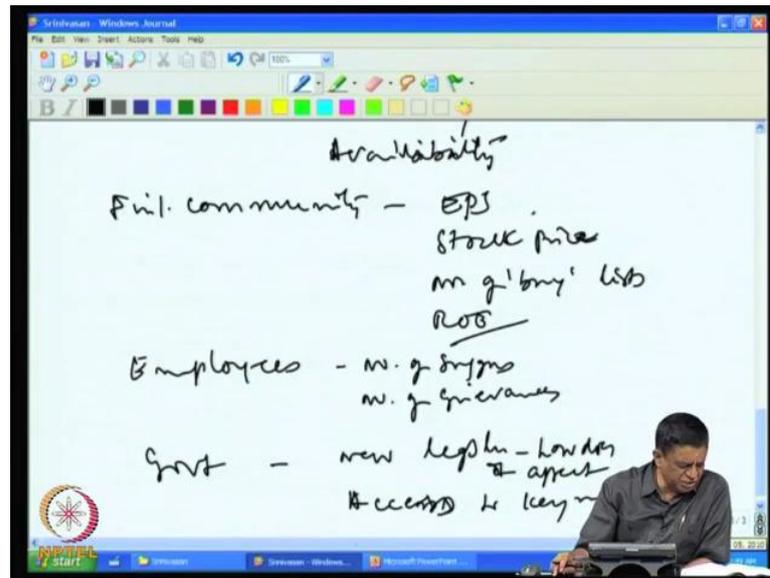
going to supply. I require at least minimum 1 week lead time; you keep the stock of raw materials for minimum 1 week in your stores. So, 1 week I want to supply the raw material to you. All these are some of the conditions, which many of the suppliers also put to the company's consent.

Now, look at the financial community. The next one which are concerned is the financial community. Who are these financial communities? These are the peoples who might have invested directly with you. It can be individual investors, institutional investors or the people who have lent loan to you. All these types of people comes under this financial community. They are concerned in the near term measures with respect to the EPA; the earnings per share. How is your stock performing in the market place? The stock price is going up or coming down and all those types of things. So, this is very helpful to evaluate a firm. Suppose, you find that there is turbulence in the stock market and to what extent, the company can absorb this turbulence in the stock market. These are some of the questions, which the financial community would like to know.

The other one is the number of buy list and that is how many people are interested in buying the company's shares or the products that is the number of people who are interested in this. Then the return on equity, how much is your equity share going to get in the market place? In the long term analysis, what is the financial community looking at? It is the ability to convince analysts with strategy. Suppose, you are looking for investments from these financial institutions or financial community at large, you should be able to convince them with your strategy. They should get convinced with the market returns of your strategy. So, kindly note that everything that you do is a link with market that is the company wants to do a link with market.

Suppose, they do not really bring adequate returns in the market, then the company's name or the company's ability to attract or to sustain interest from the financial community will be dented. So, this is the type of things which can happen. The growth in ROE is return on equity is another aspect. How is it growing? Is it something standing still over the years or is it growing from year to year? You calculate it using this y on y that is year on year. Say, my return on equity is going up and this is what the financial community is concerned with.

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There are employees and what are they concerned with. So, kindly note, we were looking at stockholder measures. We looked at customers, suppliers, financial community. Now, who could be the other stockholder? Employees and What is this employee concerned with? What is the type of near term measures that he is concerned with? What is the type of suggestions that you give for the improvement of the performance? He may be giving number of suggestions for improving the performance and that is the productivity suggestions. How many of them is the company taking into account? Many of these well known multinational companies keep on coding the employees. You have seen the power production line; you have seen the measures the companies are taking.

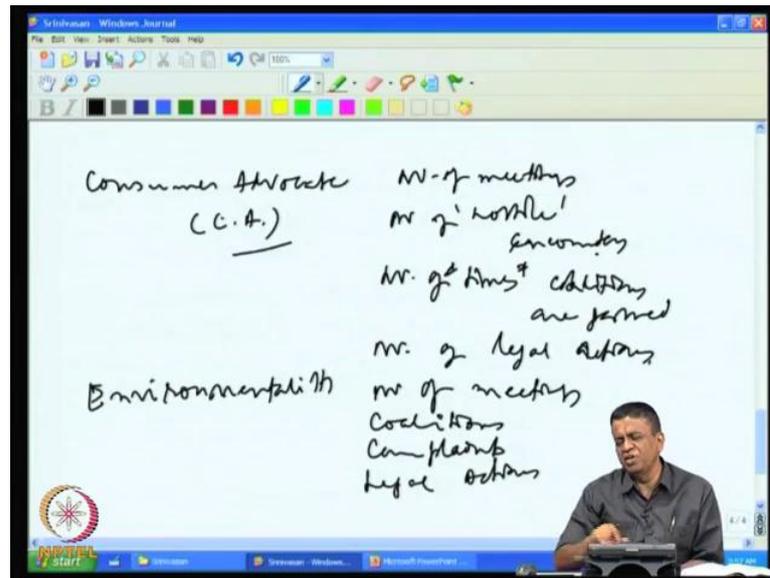
Now, you suggest any improvements, which you want to give or which you think are going to result in substantial gains to the company. So, you have to quantify gains, may be a particular process was taking 7 days. Suppose, by your suggestion, the time of the process has come down by to 5 days and 2 days is the gain that the company makes by implementing the suggestion. Suppose, the company were to implement this suggestion given by you, you are likely to be rewarded. Many times, most of these multinational companies give their employees rewards, an upward of minimum 500 dollars. So, this is the way employees also benefit and they also sustain interest in the company that is what is the company's real operations. So, they always think of methods to see how the performance of the company can always be improved.

The other thing, which the employees are concerned, is what is the type of grievances they are making and the number of grievances? Suppose, there are no grievances against the management that means to say generally a large number of employees that is a large percentage of employees to the company are happy with the policies of the company. So, no grievances or the number of grievances is very less. They are fairly happy and now, what is the long term measure? The long term measure could be your turnover rate of the employees and that is what you normally say as attrition in the present software context. Many times they say with respect to any software company, the attrition rate in this particular company is very high. What does that mean? That means you find the turnover of employees or the percentage is fairly high. Many people are leaving the job with respect to the company. So, this could be one of the types of things, which can come. What is the other thing, which they may be concerned? It is the type of internal promotions they are getting over the years. How many promotions are they able to get over the years?

The other stockholder, of whom we should be concerned, is the government. What does the government concerned with? You are concerned with the new legislations, which the government might enact. How does it affect? This is your first is measures new legislations and see how does it affect the performance of the company? The second thing, which you might be concerned with, is the access of the government and that is the key, it is government servants or employees or whatever. So, the key government functionaries are to key members and staff of the company that is the access to key members and staff of the company. So, this is what you may be concerned with. Is the company capable enough to get to the top of the government at a short notice?

Suppose, something is affecting the company, how soon that the company is in a position to get it corrected or rectified all these types of things? What could be the long term measures over 3 to 5 years or 1 to 3 years? You may be looking at how many legislation have been enacted by the government, which is affecting this industry. Then what is the ratio of cooperative versus competitive encounters that is with the government. So, government has been very cooperative with the company. Whenever some grievance or some problems were brought to the notice of the government, the government has taken action to see that these are addressed. So these are some of the long term measures

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The next one which you are concerned with respect to the stock holder is what is called the consumer advocate; consumer advocate or CA in short. What do you mean by this consumer advocate? You talk directly to the customers and that is the company talks to the customers. It keeps meeting the customers depending on the types of accounts. So, you categorize your accounts into a category or category b or category c. You decide on the number of meeting that you want to have. These can be your near term measure.

Suppose, he is a very important client, you put him under a category. So, you may like to meet him at least once in a quarter and find out what is happening. What is the type of hostile encounter? Suppose, you find that some of these are hostile encounters, you are not able to address the issues, which are raised by the consumer and he is an important client. What is the number of times collisions are formed? How many times these collisions have occurred? Number of times these collisions have occurred and that is number of times the coalitions are formed instead of the collisions.

Let us say, you meet these people and instead of going on a collision course, you go into a coalition course. So, collision is always hostile and you start sorting out the problem with them. You convert this hostile encounter and that is the collision encounters into coalitions. So, you are able to address the consumers' problems much better. The other thing could be what is the number of legal actions, which are required or forced on the company? How many cases you are forced to really fight with respect to these

consumers? So, these are the type of long term measures that might result for the company. Suppose, the company had to take too many legal actions, it might force the company to have a relook into many of the policy issues. **This might result in number of changes in policies due to this consumer advocate.** Many times, these consumer advocates have initiated calls for help. All these are long term measures from the consumer advocate side.

This is the other stock holder measure; the last one, which is of interest to us in the present day circumstances of the stock holder and it is called the environmentalist. These people or this group is becoming more and more vocal. They are the voices of the companies, who are concerned with environment and whose products are likely to affect the environment. They cannot really gloss over. So, what is this type? When you are producing some products, these products might be starting from a room freshener; a simple product. Is it going to affect the ozone layer? How is it going to affect the ozone layer? Sometimes, how many of the types of perfumes that you are going to use are affecting the environment? All these types of issues are there.

The next thing is you look at India only; the type of soft drink companies. How they have affected not only the consumer's health, but also the environment? So, release of pollutants has happened in one of our neighboring states with respect to a well known company into a river affecting its marine products or marine cultivation. Environmentalist is really concerned about all these types of issues. Now, how do you address this? Again, you have to meet these environmentalist, you have to keep on meeting them and address these issues. How many times your firm have meetings with them? It is number of meetings.

Similarly, how we are able to form coalitions through these meetings? You are able to get into this coalition mode of working, instead of this confrontationist mode. So, many number of times, you are able to convert this hostile encounters to coalitions, whether they have taken your company to some environmental boards for action. Many times, many of these companies, like the company, which I just quoted for you reported to the Environmental Pollution Control Board. The Environmental Pollution Control Board initiated action on the company saying this percentage of pollutants is harming the marine culture or marine growth or the marine life in the river.

Such types of complaints are registered against the company. What is the type of legal actions? You are forced to take too many legal actions because of this, the legal actions initiated by these environmental pollution control board against the company. What is going to happen? This is again going to look at the long term measures. It is likely to result in changes in policy from the company's side. It is also likely to result in probably going to cost the company, in order to address the demand of these environmentalists.

The company might have to deploy some of its resources to address these issues. Number of times these environmentalists or the environmentalist groups call for help and they keep on calling the company saying that such and such a thing has happened. Now, you have not addressed this issue. The company is really put on the defensive or put on the back foot. These are the types of issues, which you might be looking. These are the stockholders, which you are concerned with. When you say stockholders, you can put them in the category of consumers, suppliers, financial community, employees, government, consumer advocates and environmentalist. All these people are linked to the company in one way or the other. How they are linked to the company? How do you measure the corporate performance with respect to the stockholders? This could be the near term measures and this could be the far term or the long term measures.

In the next class, we will look at some of the key financial ratios, which you should consider with respect to a case on how you should calculate them and what do they show with respect to the company. Thank you.