Strategic Management

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Suggestions for Case Analysis

A note from Wheelen

Howard Schilit, founder of the Center for Financial Research & Analysis (CFRA), works with a staff of 15 analysts to screen financial databases and analyze public financial filings of 3,600 companies, looking for inconsistencies and aggressive accounting methods. Schilit calls this search for hidden weaknesses in a company's performance forensic accounting. "I'm like an investigative reporter," explains Schilit. "I'm interested in finding companies where the conventional wisdom is that they're very healthy, but if you dig a bit deeper, you find the emperor is not wearing the clothes you thought."1 He advises anyone interested in analyzing a company to look deeply into its financial statements. For example, when the CFRA noticed that Kraft Foods made $122 million in acquisitions in 2002, but claimed $539 million as "goodwill" assets related to the purchases, it concluded that Kraft was padding its earnings with one-time gains. According to Schilit, unusually high goodwill gains related to recent acquisitions is a red flag that suggests an underlying problem.

Schilit proposes a short checklist of items to examine for red flags:

1. Cash flow from operations should exceed net income: If cash flow from operations drops below net income, it could mean that the company is propping up its earnings by selling assets, borrowing cash, or shuffling numbers. Says Schilit, "You could have spotted the problems at Enron by just doing this."2
2. Accounts receivable should not grow faster than sales: A firm facing slowing sales can make itself look better by inflating accounts receivable with expected future sales and by making sales to customers who are not credit worthy. "It's like mailing a contract to a dead person and then counting it as a sale," says Schilit.3
3. Gross margins should not fluctuate over time: A change of more than 2% in either direction from year to year is worth a closer look. It could mean that the company is using other revenue, such as sales of assets or write-offs to boost profits. Sunbeam reported an increase of 10% in gross margins just before it was investigated by the SEC.
4. Examine carefully information about top management and the board:When Schilit learned that the chairman of Checkers Restaurants had put his two young sons on the board, he warned investors of nepotism. Two years later, Checkers' huge debt caused its stock to fall 85% and all three family members were forced out of the company.
5. Footnotes are important: When companies change their accounting assumptions to make the statements more attractive, they often bury their rationale in the footnotes. Schilit dislikes companies that extend the depreciable life of their assets. "There's only one reason to do that—to add a penny or two to earnings—and it makes me very mistrustful of management."4

Schilit makes his living analyzing companies and selling his reports to investors. Annual reports and financial statements provide a lot of information about a company's health, but it's hard to find problem areas when management is massaging the numbers to make the company appear more attractive than it is. That's why

Michelle Leder created her Web site, www.footnoted.org. She likes to highlight "the things that companies bury in their routine SEC filings."5 This type of in-depth, investigative analysis is a key part of analyzing strategy cases. This chapter provides various analytical techniques and suggestions for conducting this kind of case analysis.

12.1 The Case Method

The analysis and discussion of case problems has been the most popular method of teaching strategy and policy 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 corporation. Cases present actual business situations and enable you to examine both successful and unsuccessful corporations. 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 face making and implementing strategic decisions.

12.2 Researching the Case Situation

You should not restrict yourself only to the information written in the case unless your instructor states otherwise. You should, if possible, undertake outside research about 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. 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 about the industry will provide insights into its competitive activities. Important Note: Don't go beyond the decision date of the case in your research unless directed to do so by your instructor. Use computerized company and industry information services such as Compustat, Compact Disclosure, and CD/International, available on CD-ROM or online at the library. On the Internet, Hoover's OnLine Corporate Directory (www.hoovers.com) and the Security Exchange Commission's Edgar database (www.sec.gov) provide access to corporate annual reports and 10-K forms. This background will give you an appreciation for the situation as it was experienced by the participants in the case. Use a search engine such as Google to find additional information about the industry and the company. Acompany's annual report and SEC 10-K form from the year of the case can be very helpful. According to the Yankelovich Partners survey firm, 8 out of 10 portfolio managers and 75% of security analysts use annual reports when making decisions.6 They 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. 10-K forms include detailed information not usually available in an annual report. SEC 10-Q forms include quarterly financial reports. SEC 14-A forms include detailed information on members of a company's board of directors and proxy statements for annual meetings. Some resources available for research into the economy and a corporation's industry are suggested in Appendix 12.A. A caveat: Before obtaining additional information about the company profiled in a particular case, ask your instructor if doing so is appropriate for your class assignment. Your strategy instructor may want you to stay within the confines of the case information provided in the book. In this case, it is usually acceptable to at least learn more about the societal environment at the time of the case.

12.3 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. Areview of key financial ratios can help you assess a 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 12–1 lists some of the most important financial ratios, which are (1) liquidity ratios, (2) profitability ratios, (3) activity ratios, and (4) leverage ratios.

TABLE 12–1 Financial Ratio Analysis

	Formula	How Expressed	Meaning
1. Liquidity Ratios			
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Decimal	A short-term indicator of the company's ability to pay its short-term liabilities from short-term assets; how much of current assets are available to cover each dollar of current liabilities.
Quick (acid test) ratio	$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$	Decimal	Measures the company's ability to pay off its short-term obligations from current assets, excluding inventories.
Inventory to net working capital	$\frac{\text{Inventory}}{\text{Current assets} - \text{Current liabilities}}$	Decimal	A measure of inventory balance; measures the extent to which the cushion of excess current assets over current liabilities may be threatened by unfavorable changes in inventory.
Cash ratio	$\frac{\text{Cash} + \text{Cash equivalents}}{\text{Current liabilities}}$	Decimal	Measures the extent to which the company's capital is in cash or cash equivalents; shows how much of the current obligations can be paid from cash or near-cash assets.
2. Profitability Ratios			
Net profit margin	$\frac{\text{Net profit after taxes}}{\text{Net sales}}$	Percentage	Shows how much after-tax profits are generated by each dollar of sales.
Gross profit margin	$\frac{\text{Sales} - \text{Cost of goods sold}}{\text{Net sales}}$	Percentage	Indicates the total margin available to cover other expenses beyond cost of goods sold and still yield a profit.
Return on investment (ROI)	$\frac{\text{Net profit after taxes}}{\text{Total assets}}$	Percentage	Measures the rate of return on the total assets utilized in the company; a measure of management's efficiency, it shows the return on all the assets under its control, regardless of source of financing.
Return on equity (ROE)	$\frac{\text{Net profit after taxes}}{\text{Shareholders' equity}}$	Percentage	Measures the rate of return on the book value of shareholders' total investment in the company.
Earnings per share (EPS)	$\frac{\text{Net profit after taxes} - \text{Preferred stock dividends}}{\text{Average number of common shares}}$	Dollars per share	Shows the after-tax earnings generated for each share of common stock.
3. Activity Ratios			
Inventory turnover	$\frac{\text{Net sales}}{\text{Inventory}}$	Decimal	Measures the number of times that average inventory of finished goods was turned over or sold during a period of time, usually a year.
Days of inventory	$\frac{\text{Inventory}}{\text{Cost of goods sold} \div 365}$	Days	Measures the number of one day's worth of inventory that a company has on hand at any given time.

continued

TABLE 12–1 Financial Ratio Analysis, (continued)

	Formula	How Expressed	Meaning
Net working capital turnover	$\frac{\text{Net sales}}{\text{Net working capital}}$	Decimal	Measures how effectively the net working capital is used to generate sales.
Asset turnover	$\frac{\text{Sales}}{\text{Total assets}}$	Decimal	Measures the utilization of all the company's assets; measures how many sales are generated by each dollar of assets.
Fixed asset turnover	$\frac{\text{Sales}}{\text{Fixed assets}}$	Decimal	Measures the utilization of the company's fixed assets (i.e., plant and equipment); measures how many sales are generated by each dollar of fixed assets.
Average collection period	$\frac{\text{Accounts receivable}}{\text{Sales for year} \div 365}$	Days	Indicates the average length of time in days that a company must wait to collect a sale after making it; may be compared to the credit terms offered by the company to its customers.
Accounts receivable turnover	$\frac{\text{Annual credit sales}}{\text{Accounts receivable}}$	Decimal	Indicates the number of times that accounts receivable are cycled during the period (usually a year).
Accounts payable period	$\frac{\text{Accounts payable}}{\text{Purchases for year} \div 365}$	Days	Indicates the average length of time in days that the company takes to pay its credit purchases.
Days of cash	$\frac{\text{Cash}}{\text{Net sales for year} \div 365}$	Days	Indicates the number of days of cash on hand, at present sales levels.
4. Leverage Ratios Debt to asset ratio	$\frac{\text{Total debt}}{\text{Total assets}}$	Percentage	Measures the extent to which borrowed funds have been used to finance the company's assets.
Debt to equity ratio	$\frac{\text{Total debt}}{\text{Shareholders' equity}}$	Percentage	Measures the funds provided by creditors versus the funds provided by owners.
Long-term debt to capital structure	$\frac{\text{Long-term debt}}{\text{Shareholders' equity}}$	Percentage	Measures the long-term component of capital structure.
Times interest earned	$\frac{\text{Profit before taxes} + \text{Interest charges}}{\text{Interest charges}}$	Decimal	Indicates the ability of the company to meet its annual interest costs.
Coverage of fixed charges	$\frac{\text{Profit before taxes} + \text{Interest charges} + \text{Lease charges}}{\text{Interest charges} + \text{Lease obligations}}$	Decimal	A measure of the company's ability to meet all of its fixed-charge obligations.
Current liabilities to equity	$\frac{\text{Current liabilities}}{\text{Shareholders' equity}}$	Percentage	Measures the short-term financing portion versus that provided by owners.

TABLE 12–1 Financial Ratio Analysis, (continued)

	Formula	How Expressed	Meaning
5. Other Ratios Price/earnings ratio	$\frac{\text{Market price per share}}{\text{Earnings per share}}$	Decimal	Shows the current market's evaluation of a stock, based on its earnings; shows how much the investor is willing to pay for each dollar of earnings.
Divided payout ratio	$\frac{\text{Annual dividends per share}}{\text{Annual earnings per share}}$	Percentage	Indicates the percentage of profit that is paid out as dividends.
Dividend yield on common stock	$\frac{\text{Annual dividends per share}}{\text{Current market price per share}}$	Percentage	Indicates the dividend rate of return to common shareholders at the current market price.

NOTE: In using ratios for analysis, calculate ratios for the corporation and compare them to the average and quartile ratios for the particular industry. Refer to Standard & 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.

ANALYZING FINANCIAL STATEMENTS

In your analysis, do not simply make an exhibit that includes all the ratios (unless your instructor requires you to do so), but 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. Annual and quarterly industry ratios can be found in the library or on the Internet. (See the resources for case research inAppendix 12.A.) In the years to come, expect to see financial entries for the trading of CERs (Certified Emissions Reductions). This is the amount of money a company earns from reducing carbon emissions and selling them on the open market. To learn how carbon trading is likely to affect corporations, see the Environmental Sustainability Issue.

Atypical financial analysis of a firm would include a study of the operating statements for five or so years, including atrend analysis of sales, profits, earnings pershare, debt-to-equityratio, return on investment, and so on, plus a ratio study comparing the firm under study with industry standards.As a minimum, undertake the following five steps in basic financial analysis.

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

Examination of this information may reveal developing trends. 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'stock. 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 "good will"). 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.7

COMMON-SIZE STATEMENTS

Common-size statements are income statements and balance sheets in which the dollar figures have been converted into percentages. These statements are used to identify trends in each of the categories, such as cost of goods sold as a percentage of sales (sales is the denominator). For the income statement, net sales represent 100%: calculate the percentage for 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 with total assets as the denominator. (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 to the company's historical figures. To get a proper picture, however, you need to make comparisons with industry data, if available, to see whether 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. If ratios are not available for the industry, calculate the ratios for the industry's best and worst firms and compare them to the firm you are analyzing. 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 AND INDEX OF SUSTAINABLE GROWTH

If the corporation being studied appears to be in poor financial condition, use Altman's Z-Value Bankruptcy Formulato calculate its likelihood of going bankrupt. The Z-valueformula combines five ratios by weighting them according to their importance to a corporation's financial strength. The formula is:

$$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

where:

x_1 = Working capital/Total assets (%)

x_2 = Retained earnings/Total assets (%)

x_3 = Earnings before interest and taxes/Total assets (%)

x_4 = Market value of equity/Total liabilities (%)

x_5 = Sales/Total assets (number of times)

A score below 1.81 indicates significant credit problems, whereas a score above 3.0 indicates a healthy firm. Scores between 1.81 and 3.0 indicate question marks.8 The Altman Z model has achieved a remarkable 94% accuracy in predicting corporate bankruptcies. Its accuracy is excellent in the two years before financial distress, but diminishes as the lead time increases.9 The index of sustainable growth is useful to learn whether 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. The formula is:

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

where:

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

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-equity ratio, or reduce assets through renting or leasing arrangements.10

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 dollarsare dollars adjusted for inflation to make them comparable over various years. One way to adjust for inflation in the United States is to use the Consumer Price Index (CPI), as given in Table 12–2. Dividing sales and net income by the CPI factor for that year will change the figures to 1982–1984 U.S. constant dollars (when the CPI was 1.0). Adjusting for inflation is especially important for companies operating in the emerging economies, like China and Russia, where inflation in 2008 rose to 6.6%, the highest in 10 years. In that same year, Zimbabwe's inflation rate was the highest in the world at 2.2 million%!11 Another helpful analytical aid provided in Table 12–2is 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. Adecision to borrow money to build a new plant would have been a good one in 2003 at 4.1% but less practical in 2007 when the average rate was 8.1%.

TABLE 12–2

U.S. Economic Indicators

Year	GDP (in $ billions) Gross Domestic Product	CPI (for all items) Consumer Price Index	PIR (in %) Prime Interest Rate
1980	2,789.5	.824	.15.27
1985	4,220.3	1.076	9.93
1990	5,803.1	1.307	10.01
1995	7,397.7	1.524	8.83
1996	7,816.9	1.569	8.27
1997	8,304.3	1.605	8.44
1998	8,747.0	1.630	8.35
1999	9,268.4	1.666	7.99
2000	9,817.0	1.722	9.23
2001	10,128.0	1.771	6.92
2002	10,469.6	1.799	4.68
2003	10,960.8	1.840	4.12
2004	11,685.9	1.889	4.29
2005	12,421.9	1.953	6.10
2006	13,178.4	2.016	7.94
2007	13,807.5	2.073	8.08
2008	14,280.7	2.153	5.21

NOTES: Gross Domestic Product (GDP) in Billions of Dollars; Consumer Price Index for All Items (CPI) (1982–84 = 1.0); Prime Interest Rate (PIR) in Percentages.

SOURCES: Gross Domestic Product (GDP) from U.S. Bureau of Economic Analysis, National Economic Accounts (www.bea.gov). Consumer Price Index (CPI) from U.S. Bureau of Labor Statistics (www.bls.gov). Prime Interest Rate (PIR) from www.moneycafe.com.

In preparing a scenario for your pro forma financial statements, you may want to use the gross domestic product (GDP) from Table 12–2. 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. For other economic information, see the resources for case research in Appendix 12.A.

12.4 Format for Case Analysis:The Strategic Audit

There is no one best way to analyze or present a case report. Each instructor has personal preferences for format and approach. Nevertheless, in Appendix 12.Bwe suggest an approach for both written and oral reports that provides a systematic method for successfully attacking a case. This approach is based on the strategic audit, which is presented at the end of Chapter1 inAppendix 1.A). 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 worksheetinFigure 12–1. Print a copy of the worksheet to use to take notes as you analyze a case. See Appendix 12.Cfor an example of a completed student-written analysis of a 1993 Maytag Corporation case done in an outline form using the strategic audit format. 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. Asolution 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 12–1
Strategic Audit Worksheet

Strategic Audit Heading	Analysis (+) Factors	Analysis (–) Factors	Comments
I. Current Situation			
A. Past Corporate Performance Indexes			
B. Strategic Posture: Current Mission, Current Objectives, Current Strategies, Current Policies			
SWOT Analysis Begins:			
II. Corporate Governance			
A. Board of Directors			
B. Top Management			
III. External Environment (EFAS): Opportunities and Threats (SWOT)			
A. Natural Environment			
B. Societal Environment			
C. Task Environment (Industry Analysis)			
IV. Internal Environment (IFAS): Strengths and Weaknesses (SWOT)			
A. Corporate Structure			
B. Corporate Culture			
C. Corporate Resources			
1. Marketing			
2. Finance			
3. Research and Development			
4. Operations and Logistics			
5. Human Resources			
6. Information Technology			
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			

NOTE: See the complete Strategic Audit on pages 34–41. It lists the pages in the book that discuss each of the eight headings.

SOURCE: T. L. Wheelen and J. D. Hunger, "Strategic Audit Worksheet." Copyright © 1985, 1986, 1987, 1988, 1989, 2005, and 2009 by T. L. Wheelen. Copyright © 1989, 2005, and 2009 by Wheelen and Hunger Associates. Revised 1991, 1994, and 1997. Reprinted by permission. Additional copies available for classroom use in Part D of *Case Instructors Manual* and on the Prentice Hall Web site (www.prenhall.com/wheelen).

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 & Poor's Register of Corporations, Directors, and Executives
5. Value Line's Investment Survey
6. Findex's Directory of Market Research Reports,Studies and Surveys(a listing by Find/SVPof more than 11,000 studies conducted by leading research firms)
7. Compustat, Compact Disclosure, CD/International, and Hoover's Online Corporate Directory (computerized operating and financial information on thousands of publicly held corporations)
8. Shareholders meeting notices in SEC Form 14-A(proxy notices)

Economic Information

1. Regional statistics and local forecasts from large banks
2. Business Cycle Development (Department of Commerce)
3. Chase Econometric Associates'publications
4. U.S. Census Bureau publications on population, transportation, and housing
5. Current Business Reports (U.S. Department of Commerce)
6. Economic Indicators (U.S. Joint Economic Committee)
7. Economic Report of the President to Congress
8. Long-Term Economic Growth (U.S. Department of Commerce)
9. Monthly Labor Review (U.S. Department of Labor)
10. Monthly Bulletin of Statistics (United Nations)
11. Statistical Abstract of the United States (U.S. Department of Commerce)
12. Statistical Yearbook (United Nations)
13. Survey of Current Business (U.S. Department of Commerce)
14. U.S. Industrial Outlook (U.S. Department of Defense)
15. World Trade Annual (United Nations)
16. Overseas Business Reports (by country, published by the U.S. Department of Commerce)

Industry Information

1. Analyses of companies and industries by investment brokerage firms
2. Business Week(provides weekly economic and business information, as well as quarterly profit and sales rankings of corporations)
3. Fortune (each April publishes listings of financial information on corporations within certain industries)
4. Industry Survey (published quarterly by Standard & Poor's)
5. Industry Week (late March/early April issue provides information on 14 industry groups)
6. Forbes (mid-January issue provides performance data on firms in various industries)
7. Inc. (May and December issues give information on fast-growing entrepreneurial companies)

Directory and Index Information on Companies and Industries

1. Business Periodical Index (on computers in many libraries)
2. Directory of National Trade Associations
3. Encyclopedia of Associations
4. Funk and Scott's Index of Corporations and Industries
5. Thomas'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 (Risk Management Associates; also Robert Morris Associates)
3. Dun's Review (Dun & Bradstreet; published annually in September–December issues)
4. Industry Norms and Key Business Ratios (Dun & Bradstreet)

Online Information

1. Hoover's Online—financial statements and profiles of public companies (www.hoovers.com)
2. U.S. Securities and Exchange Commission—official filings of public companies in Edgar database (www.sec.gov)
3. Fortune 500—statistics for largest U.S. corporations (www.fortune.com)
4. Dun & Bradstreet's Online—short reports on 10 million public and private U.S. companies (smallbusiness.dnb.com)
5. Ecola's 24-Hour Newsstand—links to Web sites of 2,000 newspapers, journals, and magazines (www.ecola.com)
6. Competitive Intelligence Guide—information on company resources (www.fuld.com)
7. Society of Competitive Intelligence Professionals (www.scip.org)
8. The Economist—provides international information and surveys (www.economist.com)
9. CIA World Fact Book—international information by country (http://www.cia.gov)
10. Bloomberg—information on interest rates, stock prices, currency conversion rates, and other general financial information (www.bloomberg.com)
11. The Scannery—information on international companies (www.thescannery.com)
12. CEOExpress—links to many valuable sources of business information (www.ceoexpress.com)
13. Wall Street Journal—business news (www.wsj.com)
14. Forbes—America's largest private companies (http://www.forbes.com/lists/)
15. CorporateInformation.com—subscription service for company profiles (www.corporateinformation.com)
16. Kompass International—industry information (www.kompass.com)
17. CorpTech—database of technology companies (www.corptech.com)
18. ADNet—information technology industry (www.companyfinder.com)
19. CNN company research—provides company information (http://money.cnn.com/news/crc/)
20. Paywatch—database of executive compensation (http://www.aflcio.org/corporatewatch/paywatch/)

21. Global Edge Global Resources—international resources (http://globaledge.msu.edu/resourceDesk/)
22. Google Finance—data on North American stocks (http://finance.google.com/finance)
23. World Federation of Exchanges—international stock exchanges (www.world-exchanges.org/)
24. SEC International Registry—data on international corporations (http://www.sec.gov/divisions/ corpfin/internatl/companies.shtml)
25. Yahoo Finance—data on North American companies (http://finance.yahoo.com)

Suggested Case Analysis Methodology Using the Strategic Audit

1. READ CASE, First Reading of the Case
   a) Develop a general overview of the company and its external environment.
   b) Begin a list of the possible strategic factors facing the company at this time.
   c) List the research information you may need on the economy, industry, and competitors.
2. READ THE CASE WITH THE STRATEGIC AUDIT, Second Reading of the Case
   a) Read the case a second time, using the strategic audit as a framework for in-depth analysis. (See Appendix 1.A on pages 34–41.)
   b) You may want to make a copy of the strategic audit worksheet (Figure 12–1) 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 1–5 (pages 28–29).
   c) 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.
   d) Perform a financial analysis of the company, using ratio analysis (see Table 12–1), and do the calculations necessary to convert key parts of the financial statements to a common-size basis.
3. DO OUTSIDE RESEARCH, Library and Online Computer Services
   a) 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.
   b) SeeAppendix 12. Afor resources for case research. 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 (10-K forms and 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.
   c) 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: EFAS
   a) Analyze the natural and societal environments to see what general trends are likely to affect the industry(s) in which the company is operating.

b) Conduct an industry analysis using Porter's competitive forces from Chapter 4.Develop an Industry Matrix (Table 4–4 on page 119).
c) Generate 8 to 10 external factors. These should be the most importantopportunities and threats facing the company at the time of the case.
d) Develop an EFAS Table, as shown in Table 4–5(page 126), for your list of external strategic factors.
e) Suggestion: Rank the 8 to 10 factors from most to least important. Start by grouping the 3 top factors and then the 3 bottom factors.

Internal Organizational Analysis: IFAS

a) Generate 8 to 10 internal factors. These should be the most important strengths and weaknesses of the company at the time of the case.
b) Develop an IFAS Table, as shown in Table 5–2(page 164), for your list of internal strategic factors.
c) Suggestion: Rank the 8 to 10 factors from most to least important. Start by grouping the 3 top factors and then the 3 bottom factors.

5. WRITE YOUR STRATEGIC AUDIT: PARTS I TO IV, First Draft of Your Strategic Audit
   a) Review the student-written audit of an old Maytag case in Appendix 12.C for an example.
   b) Write Parts I to IVof the strategic audit. Remember to include the factors from your EFAS and IFAS Tables in your audit.
6. WRITE YOUR STRATEGIC AUDIT: PART V, Strategic Factor Analysis Summary: SFAS
   a) Condense the list of factors from the 16 to 20 identified in your EFAS and IFAS Tables to only the 8 to 10 most important factors.
   b) Select the most important EFAS and IFAS factors. Recalculate the weights of each. The weights still need to add to 1.0.
   c) Develop a SFAS Matrix, as shown in Figure 6–1 (page 178), for your final list of strategic factors. Although the weights (indicating the importance of each factor) will probably change from the EFAS and IFAS Tables, the numeric rating (1 to 5) of each factor should remain the same. These ratings are your assessment of management's performance on each factor. This is a good time to reexamine 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 SFAS Matrix is discussed in the appropriate place in Parts I to IV.
   d) Part Vof the audit is not the place to mention a strategic factor for the first time. Write Part V of your strategic audit.
   e) This completes your SWOT analysis. This is the place to suggest a revised mission statement and a better set of objectives for the company. T
   f) he SWOTanalysis coupled with 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

   a) Developaroundthreemutuallyexclusivestrategicalternatives.Ifappropriatetothe caseyouareanalyzing, 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.

b) Construct a corporate scenario for each alternative.
c) Use the data from your outside research to project general societal trends (GDP, inflation, and 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 pros and cons for each alternative based on your scenarios.

B. Recommendation

a) 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 strategic audit.
b) 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 statements you developed earlier for your recommended strategy. Use common-size historical income statements as the basis for the pro forma statement. 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

a) Check to ensure that your audit is within the page limits of your professor. You may need to cut some parts and expand others.
b) Make sure that your recommendation clearly deals with the strategic factors.
c) Attach your EFAS and IFAS Tables, and SFAS Matrix, plus your ratio analysis and pro forma statements. Label them as numbered exhibits and refer to each of them within the body of the audit.
d) Proof your work for errors. If on a computer, use a spell checker.

SPECIALNOTE: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.

EXAMPLE OF STUDENT WRITTEN OF STRATEGIC AUDIT

I. Current Situation

A. Current Performance

Poor financials, high debt load, first losses since 1920s, price/earnings ratio negative.

a) First loss since 1920s.
b) Laid off 4,500 employees at Magic Chef.
c) Hoover Europe still showing losses.

B. Strategic Posture

1. Mission
   a) Developed in 1989 for the Maytag Company: "To provide our customers with products of unsurpassed performance that last longer, need fewer repairs, and are produced at the lowest possible cost."
   b) Updated in 1991: "Our collective mission is world class quality." Expands Maytag's belief in product quality to all aspects of operations.
2. Objectives
   a) "To be profitability leader in industry for every product line Maytag manufactures." Selected profitability rather than market share.
   b) "To be number one in total customer satisfaction." Doesn't say how to measure satisfaction.
   c) "To grow the North American appliance business and become the third largest appliance manufacturer (in unit sales) in North America."
   d) To increase profitable market share growth in North American appliance and floor care business, 6.5% return on sales, 10% return on assets, 20% return on equity, beat competition in satisfying customers, dealer, builder and endorser, move into third place in total units shipped per year. Nicely quantified objectives.
3. Strategies
   a) Global growth through acquisition, and alliance with Bosch-Siemens.
   b) Differentiate brand names for competitive advantage.
   c) Create synergy between companies, product improvement, investment in plant and equipment.
4. Policies
   a) Cost reduction is secondary to high quality.
   b) Promotion from within.
   c) Slow but sure R&D: Maytag slow to respond to changes in market

II. Strategic Managers

A. Board of Directors

1. Fourteen members—eleven are outsiders.
2. Well-respected Americans, most on board since 1986 or earlier.
3. No international or marketing backgrounds.
4. Time for a change?

B. Top Management

1. Top management promoted from within Maytag Company. Too inbred?
2. Very experienced in the industry.
3. Responsible for current situation.
4. May be too parochial for global industry. May need new blood.

III. External Environment

A. Natural Environment

1. Growing water scarcity
2. Energy availability a growing problem

B. Societal Environment

1. Economic

a. Unstable economy but recession ending, consumer confidence growing—could increase spending for big ticket items like houses, cars, and appliances. (O)
b. Individual economies becoming interconnected into a world economy. (O)

2. Technological
a. Fuzzy logic technology being applied to sense and measure activities. (O)
b. Computers and information technology increasingly important. (O)

3. Political–Legal
a. NAFTA, European Union, other regional trade pacts opening doors to markets in Europe, Asia, and Latin America that offer enormous potential. (O)
b. Breakdown of communism means less chance of world war. (O)
c. Environmentalism being reflected in laws on pollution and energy usage. (T)

4. Sociocultural
a. Developing nations desire goods seen on TV. (O)
b. Middle-aged baby boomers want attractive, high-quality products, like BMWs and Maytag. (O)
c. Dual-career couples increases need for labor-saving appliances, second cars, and day care. (O)
d. Divorce and career mobility means need for more houses and goods to fill them. (O)

C.Task Environment

1. North American market mature and extremely competitive—vigilant consumers demand high quality with low price in safe, environmentally sound products. (T)
2. Industry going global as North American and European firms expand internationally. (T)
3. European design popular and consumer desire for technologically advanced appliances. (O)
4. Rivalry High. Whirlpool, Electrolux, GE have enormous resources & developing global presence. (T)
5. Buyers'Power Low. Technology and materials can be sourced worldwide. (O)
6. Power of Other Stakeholders Medium. Quality, safety, environmental regulations increasing. (T)
7. Distributors'Power High. Super retailers more important: mom and pop dealers less. (T)
8. Threat of Substitutes Low. (O)
9. Entry Barriers High. New entrants unlikely except for large international firms. (T)

IV. Internal Environment (IFAS Table;see Exhibit 2)

A.Corporate Structure

1. Divisional structure: appliance manufacturing and vending machines. Floor care managed separately. (S)
2. Centralized major decisions by Newton corporate staff, with a time line of about three years. (S)

B.Corporate Culture

1. Quality key ingredient—commitment to quality shared by executives and workers. (S)

2. Much of corporate culture is based on founder F. L. Maytag's personal philosophy, including concern for quality, employees, local community, innovation, and performance. (S)
3. Acquired companies, except for European, seem to accept dominance of Maytag culture. (S)

C.Corporate Resources

1. Marketing
    a. Maytag brand lonely repairman advertising successful but dated. (W)
    b. Efforts focus on distribution—combining three sales forces into two, concentrating on major retailers. (Cost $95 million for this restructuring.) (S) c.
    c. Hoover's well-publicized marketing fiasco involving airline tickets. (W)
2. Finance (see Exhibits 4 and 5)
    a. Revenues are up slightly, operating income is down significantly. (W)
    b. Some key ratios are troubling, such as a 57% debt/asset ratio, 132% long-term debt/equity ratio. No room for more debt to grow company. (W)
    c. Net income is 400% less than 1988, based on common-size income statements. (W)
3. R&D
    a. Process-oriented with focus on manufacturing process and durability. (S)
    b. May tag becoming atechnology follower, taking to olong to get product innovations to market (competitors put out more in last 6 months than prior 2 years combined), lagging infuzzylogi can do ther technological areas. (W)
4. Operations
    a. Maytag's core competence. Continual improvement process kept it dominant in the U.S. market for many years. (S)
    b. Plants aging and may be losing competitiveness as rivals upgrade facilities. Quality no longer distinctive competence? (W)
5. Human Resources
    a. Traditionally very good relations with unions and employees. (S)
    b. Labor relations increasingly strained, with two salary raise delays, and layoffs of 4,500 employees at Magic Chef. (W)
    c. Unions express concern at new, more distant tone from Maytag Corporation. (W)
6. Information Systems
    a. Not mentioned in case. Hoover fiasco in Europe suggests information systems need significant upgrading. (W)
    b. Critical area where Maytag may be unwilling or unable to commit resources needed to stay competitive. (W)

V. Analysis of Strategic Factors

A.Situational Analysis (SWOT) (SFAS Matrix; see Exhibit 3)

1. Strengths
    a. Quality Maytag culture.
    b. Maytag well-known and respected brand.
    c. Hoover's international orientation.
    d. Core competencies in process R&D and manufacturing.
2. Weaknesses
    a. Lacks financial resources of competitors.

b. Poor global positioning. Hoover weak on European continent. C
c. Product R&D and customer service innovation areas of serious weakness.
d. Dependent on small dealers.
e. Marketing needs improvement.

3. Opportunities
    a. Economic integration of European Community.
    b. Demographics favor quality.
    c. Trend to superstores.
4. Threats
    a. Trend to superstores.
    b. Aggressive rivals—Whirlpool and Electrolux.
    c. Japanese appliance companies—new entrants?

B.Review of Current Mission and Objectives
1. Current mission appears appropriate.
2. Some of the objectives are really goals and need to be quantified and given time horizons.

VI. Strategic Alternatives and Recommended Strategy

A.Strategic Alternatives
1. Growth through Concentric Diversification: Acquire a company in a related industry such as commercial appliances.
    a. [Pros]: Product/market synergy created by acquisition of related company.
    b. [Cons]: Maytag does not have the financial resources to play this game.
2. Pause Strategy: Consolidate various acquisitions to find economies and to encourage innovation among the business units.
    a. [Pros]: Maytag needs to get its financial house in order and get administrative control over its recent acquisitions.
    b. [Cons]:Unless it can grow through a stronger alliance with Bosch-Siemens or some other backer, Maytag is a prime candidate for takeover because of its poor financial performance in recent years, and it is suffering from the initial reduction in efficiency inherent in acquisition strategy.
3. Retrenchment: Sell Hoover's foreign major home appliance businesses (Australia and UK) to emphasize increasing market share in North America.
    a. [Pros]: Divesting Hoover improves bottom line and enables Maytag Corp. to focus on North America while Whirlpool, Electrolux, and GE are battling elsewhere.
    b. [Cons]: Maytag may be giving up its only opportunity to become a player in the coming global appliance industry.

B.Recommended Strategy
1. Recommend pause strategy, at least for a year, so Maytag can get a grip on its European operation and consolidate its companies in a more synergistic way.
2. Maytag quality must be maintained, and continued shortage of operating capital will take its toll, so investment must be made in R&D.

3. Maytag may be able to make the Hoover UK investment work better since the recession is ending and the EU countries are closer to integrating than ever before.
4. Because it is only an average competitor, Maytag needs the Hoover link to Europe to provide a jumping off place for negotiations with Bosch-Siemens that could strengthen their alliance.

VII. Implementation

A. The only way to increase profitability in North America is to further involve Maytag with the superstore retailers; sure to anger the independent dealers, but necessary for Maytag to compete.

B. Board members with more global business experience should be recruited, with an eye toward the future, especially with expertise in Asia and Latin America.

C. R&D needs to be improved, as does marketing, to get new products online quickly.

VIII. Evaluation and Control

A. MIS needs to be developed for speedier evaluation and control. While the question of control vs. autonomy is "under review," another Hoover fiasco may be brewing.

B. The acquired companies do not all share the Midwestern work ethic or the Maytag Corporation culture, and Maytag's managers must inculcate these values into the employees of all acquired companies.

C. Systems should be developed to decide if the size and location of Maytag manufacturing plants is still correct and to plan for the future. Industry analysis indicates that smaller automated plants may be more efficient now than in the past.

EXHIBIT 1 EFAS Table for Maytag Corporation 1993

External Factors	Weight	Rating	Weighted Score	Comments
1	2	3	4	5
Opportunities				
■ Economic integration of European Community	.20	4.1	.82	Acquisition of Hoover
■ Demographics favor quality appliances	.10	5.0	.50	Maytag quality
■ Economic development of Asia	.05	1.0	.05	Low Maytag presence
■ Opening of Eastern Europe	.05	2.0	.10	Will take time
■ Trend to "Super Stores"	.10	1.8	.18	Maytag weak in this channel
Threats				
■ Increasing government regulations	.10	4.3	.43	Well positioned
■ Strong U.S. competition	.10	4.0	.40	Well positioned
■ Whirlpool and Electrolux strong globally	.15	3.0	.45	Hoover weak globally
■ New product advances	.05	1.2	.06	Questionable
■ Japanese appliance companies	.10	1.6	.16	Only Asian presence in Australia
Total Scores	1.00		3.15	

EXHIBIT 2 IFAS Table for Maytag Corporation 1993

Internal Factors	Weight	Rating	Weighted Score	Comments
1	2	3	4	5
Strengths				
■ Quality Maytag culture	.15	5.0	.75	Quality key to success
■ Experienced top management	.05	4.2	.21	Know appliances
■ Vertical integration	.10	3.9	.39	Dedicated factories
■ Employer relations	.05	3.0	.15	Good, but deteriorating
■ Hoover's international orientation	.15	2.8	.42	Hoover name in cleaners
Weaknesses				
■ Process-oriented R&D	.05	2.2	.11	Slow on new products
■ Distribution channels	.05	2.0	.10	Superstores replacing small dealers
■ Financial position	.15	2.0	.30	High debt load
■ Global positioning	.20	2.1	.42	Hoover weak outside the United Kingdom and Australia
■ Manufacturing facilities	.05	4.0	.20	Investing now
Total Scores	1.00		3.05	

EXHIBIT 5

Common Size Income Statements for Maytag Corporation 1993

	1992	1991	1990
Net Sales	100.0%	100.0%	100.0%
Cost of Sales	76.92	75.88	75.50
Gross Profit	23.08	24.12	24.46
Selling, general/admin. expenses	17.37	17.67	16.90
Reorganization Expenses	.031	—	—
Operating Income	.026	.064	.075
Interest Expense	(.025)	(.025)	(0.26)
Other-net	.001	.002	.009
Income before accounting changes	.002	.042	.052
Income taxes	.005	.015	.020
Income before accounting changes	(.002)	.026	.032
Effect of accounting changes for post-retirement benefits other than pensions and income taxes	(.101)	—	—
Total Operating Costs and Expenses	74.9	76.0	76.3
Net Income	**(.104)**	**.026**	**.032**

EXHIBIT 6 Implementation, Evaluation, & Control Plan for Maytag Corporation 1993

Strategic Factor	Action Plan	Priority System (1–5)	Who Will Implement	Who Will Review	How Often Review	Criteria Used
Quality Maytag culture	Build quality in acquired units	1	Heads of acquired units	Manufacturing VP	Quarterly	Number defects & customer satisfaction
Hoover's international orientation	Identify ways to expand sales	2	Head of Hoover	Marketing VP	Quarterly	Feasible alternatives generated
Financial position	Pay down debt	1	CFO	CEO	Monthly	Leverage ratios
Global positioning	Find strategic alliance partners	2	VP of Business Development	COO	Quarterly	Feasible alternatives generated
EU economic integration	Grow sales throughout EU	3	Hoover UK Head	Marketing VP	Annually	Sales growth
Demographics favor quality	Simplify controls	3	Manufacturing VP	COO	Annually	Market research user satisfaction
Trend to super stores	Market through Sears	1	Marketing VP	CEO	Monthly	Sales growth
Whirlpool & Electrolux	Monitor competitor performance	1	Competition committee	COO	Quarterly	Competitor sales & new products
Japanese appliance companies	Monitor expansion	4	Head of Hoover Australia	Competition committee	Semi-annually	Sales growth outside Japan

Ending Case for Part Five IN THE GARDEN

Walking with my watering can underneath the cherry tree, the apricot tree, the plum tree, and the nectarine tree, strawberry vines and raspberry canes at my feet, I gazed at my hedge and thought what would it take to avoid disease in the garden this year? I was amazed how this garden, so similar and different from previous seasons, had evolved from two saplings, purchased by chance, placed by happenstance, but planted with care. Now I wondered at the wild order.

Was this the fruit I should be growing? How could I end up with the sweetest fruit, and what about the most fruit and the largest fruit? How would I set myself up for more success next year, and what of the years after that? And, I sadly thought, what shall I do with the wonderful apple tree I climbed as a child that now yielded so little fruit? All these thoughts I had walking with my watering can under the cherry tree, the apricot tree, the plum tree, and the nectarine tree, strawberry vines and raspberry canes at my feet.

EXHIBIT 3 SFAS Matrix for Maytag Corporation 1993

1	2	3	4	Duration		5	6
Strategic Factors (Select the most important opportunities/threats from EFAS, Table 4–5 and the most important strengths and weaknesses from IFAS, Table 5–2)	Weight	Rating	Weighted Score	SHORT	INTERMEDIATE	LONG	Comments
S1 Quality Maytag culture (S)	.10	5.0	.50			X	Quality key to success
S5 Hoover's international orientation (S)	.10	2.8	.28	X	X		Name recognition
W3 Financial position (W)	.10	2.0	.20	X	X		High debt
W4 Global positioning (W)	.15	2.2	.33		X	X	Only in N.A., U.K., and Australia
O1 Economic integration of European Community (O)	.10	4.1	.41			X	Acquisition of Hoover
O2 Demographics favor quality (O)	.10	5.0	.50		X		Maytag quality
O5 Trend to super stores (O + T)	.10	1.8	.18	X			Weak in this channel
T3 Whirlpool and Electrolux (T)	.15	3.0	.45	X			Dominate industry
T5 Japanese appliance companies (T)	.10	1.6	.16			X	Asian presence
Total Scores	1.00		3.01				

EXHIBIT 4

Ratio Analysis for Maytag Corporation 1993

	1990	1991	1992	1993
1. LIQUIDITY RATIOS				
Current	2.1	1.9	1.8	1.6
Quick	1.1	1.0	1.1	1.0
2. LEVERAGE RATIOS				
Debt to Total Assets	61%	60%	76%	57%
Debt to Equity	155%	151%	317%	254%
3. ACTIVITY RATIOS				
Inventory turnover—sales	5.7	6.1	7.6	6.9
Inventory Turnover—cost of sales	4.3	4.6	5.8	6.5
Avg. Collection Period—days	57	55	56	0
Fixed Asset Turnover	3.9	3.6	3.6	3.6
Total Assets Turnover	1.2	1.2	1.2	1.1
4. PROFITABILITY RATIOS				
Gross Profit Margin	24%	24%	23%	5%
Net Operating Margin	8%	6%	3%	5%
Profit Margin on Sales	3%	3%	−0%	2%
Return on Total Assets	4%	3%	−0%	2%
Return on Equity	10%	8%	−1%	8%