Case 6: the financial detective

Case 6 : The Financial Detective Financial data is the most crucial information in describing any sort of business, but this information is also useful in differentiating between different types of businesses. In any specific industry, many key players are present, yet their strategies and implementations of business vary greatly. Two firms may achieve the same earned profit, yet go about securing this profit in radically different ways .

A close analysis of financial data for each business can be used to understand and explain these different strategies employed by a given company and how that strategy affects the financial performance of each company. This case calls for the examination of two different companies within the same field and, through analysis of selected financial information, determining which set of data belongs to which company based on the different characteristics and strategies employed by each company. The results of this analysis are as follows. HealthProducts The two companies listed here manufacture and market health care products.

The first is the world's largest prescription-pharmaceutical company containing a broad pipeline of ethical pharmaceuticals backed by significant research and development, which has recently divested many of its non-related business holdings and is considered the partner of choice in terms of licensing agreements. The second company is a diversified health-products company that manufactures and mass markets a broad line of pharmaceuticals, over-the-counter drugs, health and beauty products and medical devices. Brand development and management is key to this company.

Company A is the more diversified company, while Company B is the world's largest pharmaceutical company. A major signifier here is the intangible assets owned by Company B, 46. 1 vs. 22. 2, which would explain the patents and licensing deals mentioned in the company description, as well as the robust research and development budget. Another major clue here is in the inventory turnover. Company A, well-diversified with a mass-market strategy, turns over their inventory 3. 8 times vs. . 93 of company B, which is to be expected of a mass-market company intent of volume sales to consumers.

Beer Two brewers of beer are described here, the first being a national brewer of mass-market consumer beers sold under a variety of brand names who also owns a number of beer-related businesses and several major theme parks. The second is a smaller brewery with smaller production volume and higher prices that outsources most of its brewing activity. The firm is also mentioned to be financially conservative and has recently undergone major cost-saving initiatives. Company C is the national brewer while company D is the small market brewery.

A major key here is understanding that company D is described as financially conservative, which helps explain the large amount of cash and short-term investments (55. 6) that they keep on hand, while also holding no long-term debt. A large, national company like C would be expected to carry some debt in order tofinancesuch large operations. Also, as C operates an extensive network of breweries and distributorships, while also owning beer-related businesses and theme parks, it would follow that their net fixed assets would be quite large (54. 7) compared to the relatively smaller D (16).

Computers The two companies described here sell computers and related equipment. One company focuses exclusively on mail-order sales of built-to-order PCs and devices and is an assembler of PC components manufactured by suppliers. The other company sells a highly differentiable line of computers and accessories and has recently begun to recover from a dramatic decline in its market share. The firm has an aggressive retail strategy intended to drive traffic through its stores and expand its installed base of customers. Company E is the online retailer, while Company F is the retailer.

As E is an assembler of parts supplied by a manufacturer, their manufacturing is essentially outsourced, which accounts for the higher cost of goods sold (81) as well as the higher amount of accounts payable, as they consume more supplies in order to assemble their products. As well, since company F is a bricks & mortar retailer as opposed to an online vendor, F has had to adopt and aggressive retail strategy that requires advertising their products and stores and employees in which to sell their products, which accounts for the relatively higher SGA expense (23. 1). Books andMusic

Of the two companies profiled here, the first focuses its sales based on a vast retail-store presence. This company is the leader of traditional book retailing, and also maintains an online presence and owns a publishing imprint. The other company sells books and music solely through its web site. Media is the majority of their sales, but they also sell electronics and other merchandise, and the company has only recently become profitable

due to an aggressive strategy of acquiring related online businesses. Company G is the online retailer while company H is the traditional seller.

G reaches customers solely through the internet, and besides various warehouses used for shipping it would have no need to keep large fixed assets, which explains why their net fixed assets (7. 6) are significantly lower than the traditional seller (24. 4), who requires the retail outlets needed to reach their customers. Along these lines, as H is a traditional seller of goods, their inventories (38. 6) are bound to be much higher, as their retail outlets need to remain stocked rather than ordering as needed like G would.

This explains G's higher cost of goods sold due to not needing to buy in bulk. Paper The companies listed here are both paper manufacturers. The first company is the world's largest maker of paper and paper products, who also owns timberland, numerous paper-related facilities and a paper-distribution network. The company has spent the last few years closing inefficient mills, implementing cost-containment initiatives and selling nonessential assets. The other firm is a small producer of specialty papers as well as towel and tissue products.

Most of the company's products are marketed under branded labels and the company purchases the wood fiber used in the paper making process. Company I is the larger firm while company J is the smaller firm. The first clue to this conclusion is the amount of long-term debt company I is carrying (41. 3) compared to company J (18. 3). As we know that the larger firm has spent the last few years reorganizing and attempting to cut costs, it would make sense that these initiatives were taken because of high company debt.

Along this line, I's total debt/total assets is much higher (42. 8), which would also help to explain the cost-containment initiatives needed. Also, I's cost of goods sold (75. 3) is lower than J's (82. 9), most likely due to their ownership of supply companies and J's decision to buy theor wood fiber on the open market. Hardware and Tools These two companies manufacture and sell hardware and tools. The first company is a global manufacturer and marketer of power tools and power-tool accessories that sells primarily to retailers and distributors with the branded products intended to reach the average consumer.

The other company manufactures and markets high-quality tools for professional users, offering a broad range of products sold through its own technical representatives and mobile franchise dealers. The company also provides financing for franchisees and customers' large purchases. Company K is the global manufacturer while company L is the professional tool manufacturer. The first major hint here is the SGA expense for each company. Company L's expense (38. 9) is significantly higher because of their use of technical representatives and mobile franchises that they themselves provide financing for. As well, company L's gross profit (48.) is significantly higher, most likely due to the higher prices they are able to charge due to the precision and quality of their professional-minded tools. Retailing These two companies are both large discount retailers. The first firm carries a wide variety of nationally advertised general merchandise and is known for low prices and its volume-orientated strategy. Most of its stores are leased near the company's network of distribution centers and the company plans to expand. The second company is a rapidly growing chain of

upscale discount stores that attempts to match other retailers' prices and offers deep discounts.

The company has partnerships with many leading designers and offers credit to qualified customers. Company M is the general merchandiser while company N is the upscale discount store. As mentioned in the description, company N is known for providing credit to boost sales, and thus this extended credit appears in their receivables (17), as opposed to M (1. 4). Also, company N's gross profit and profit margins are higher, as their strategy isn't based on volume sales (make smaller profit but sell way more) like company M is. Newspapers The companies listed here both own newspapers.

The first is a diversified media company that generates most of its revenues through newspapers sold throughout the country and around the world. The company has large central controls and competes fiercely for subscribers and advertising revenues. The company also recently built a large office building for its headquarters. The second company owns a number of small community newspapers throughout the south and mid-west. The firm essentially holds a portfolio of small local monopolies and has a significant amount of goodwill on its balance sheet.

The company's success is hinged on decentralized decision making and administration. Company O is the Midwestern Company, while Company P is the well-diversified company. The description mentions how company P is forced to fiercely compete, which would surely raise their SGA expense (39. 7) as compared to company O (23). This is also true considering company

O’s emphasis on decentralized management and administration, which affects the SGA expense. Also, P recently built and owns a large office building, which would add to their net fixed assets (34. 6) compared to company O’s (14. 1).