Integrated Marketing Management
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Lecture – 05
Case Analysis

In this I am going to give you, how to analyze a case or an introduction to case analysis first. What are all the steps that are required, how it is helpful and then I will also tell you taking a particular case how can this case be analyzed?

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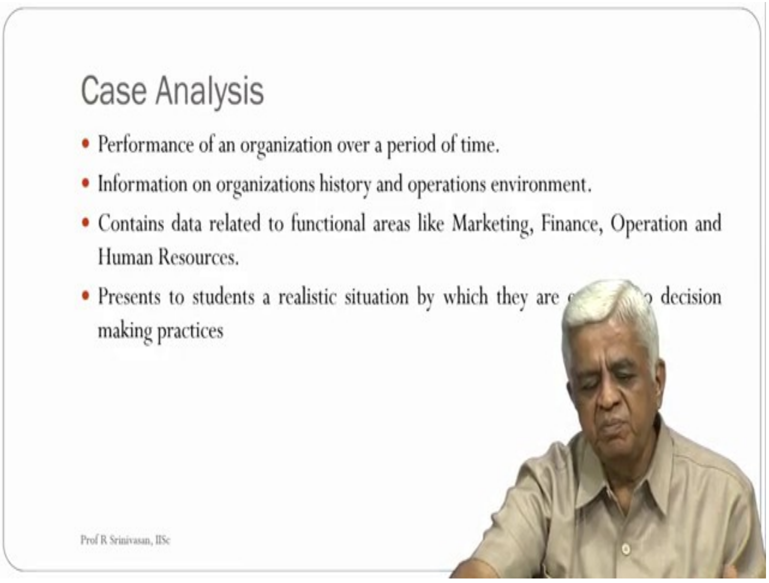

When you look at case analysis, what does it give? Basically, we are looking at an organization; it is performance, over a period of time. When you are looking at the performance of an organization, you should also give the information on the organizations history and the operations environment.

How did this organization come into being and what is the type of environment in which it is operating? A case analysis should essentially contain data with respect to the functional areas like, marketing, finance, operation and human resources. So, it is essential in a case that you looked at the functional areas of management.

By doing this case analysis, what are we trying to give to the student? This case analysis presents to the students, a realistic situation by which they are exposed to decision making practices. In other words as far as possible a case analysis should present a realistic situation that is it must present in real data not a hypothetical data. So, then only the student will be in a position to appreciate, the decision making that is involved in this whole exercise.

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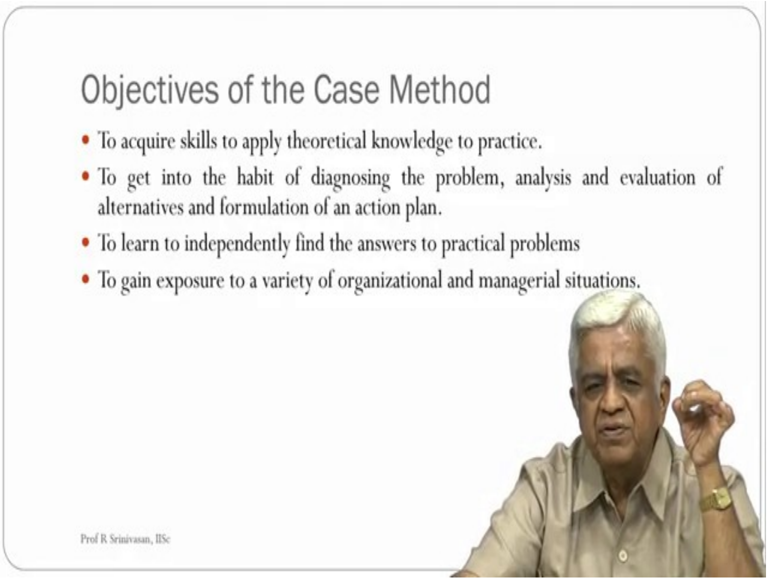

By doing this case analysis and this type of method what are we trying to do? What are we trying to achieve as objectives of this that is with respect to the student. The student will be able to acquire skills to apply theoretical knowledge to practice. So, he has gotten some theoretical knowledge and how does he apply that theoretical knowledge to practice is one of the important factors that he gets through this. The other important aspect, which he gets is he gets into the habit of diagnosing the problem.

Suppose you are presenting to him a situation, he will try to find out what is a problem that the organization is facing. Then make his own analysis and evaluations of alternatives and he forms an action plan. So, he gets into the habit of diagnosing the problem, analysis and evaluation of alternatives and formulation of an action plan. The third most important thing which the student gets is he will try to analyze a case independently. Do not go to what has happened, what is the type of decision taken?.

Instead suppose it was you who are to take the decision, then how would you have taken the decision given this particular situation? So, he tries to learn to independently find answers to practical problems. In this wonderful process he gets exposure to a variety of organizational and managerial situations. Having done this five objectives, that is getting exposed to this five objects through the case method. The student is a for better informed person kindly appreciate the with respect to a realistic situation. He can intently diagnose the problem and take decisions.

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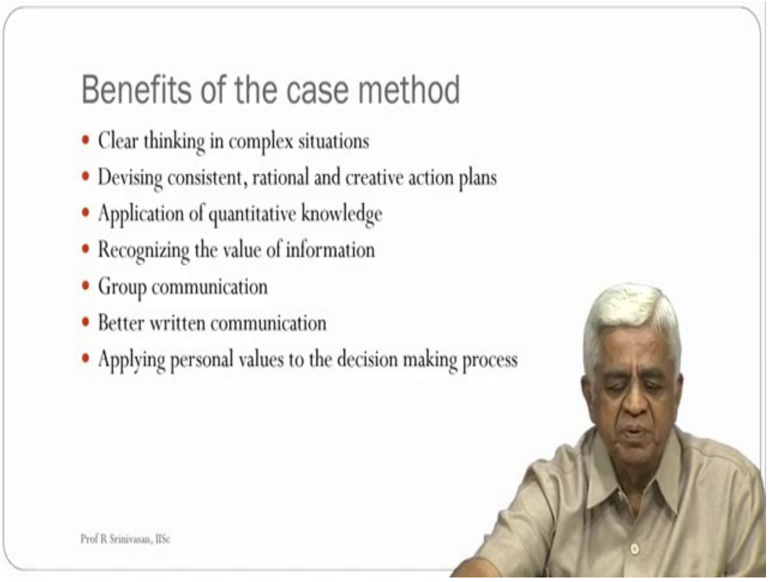

Suppose a similar situation were to present in his work place later on he will be in a far more better position to take decisions using this case analysis. In other words what is a type of benefits he is going to get? He gets clear thinking in complex situations. Normally, organizations present a myriad data. Many times one does not know whether this much of data is required for a particular situation.

Now, it becomes the responsibility of the student to call out that particular extract of data, which will be useful for him in taking decisions. A case study might give lot of unwanted data also so, he has to read out that unwanted data and take that particular data which will be useful for him to analyze a situation. So, in other words his thinking ability is going to get drastically improved, then what is a second benefit is likely to get he becomes consistent, he becomes rational, he becomes creative.

So, he would try to devise a consistent rational and creative actional action plans that is what a realistic case study provides a student with it is a wonderful scenario, where a student gets to know through the case studies what is really happening in real life. He has over his theoretical knowledge gained a lot of quantity abilities.

The case method provides for him a wonderful opportunity to apply this quantitative knowledge. So, this application of quantitative knowledge is one of the key benefits is going to give get through this case analysis. What he gets more importantly in a case is recognizing the value of information?

Kindly note that data by itself may not be able to give you much, when you start working on this data; the raw data, you will get information. The raw data when it is converted to get information, the student is in a better position to recognize this value of information. Normal cases or handled in groups that is students will work in groups, they will try to analyze different aspects come out with different viewpoints with respect to a situation.

So, how does this help? It helps them with their communication ability. So, group communication becomes an important tool, which the student gets. After this group communication a student has to write down what happened, what transferred in the group? In the whole process he gets better written communication skills also. A student might be having lot of personal values in a bring to the tables so many personal values ethics. And, he may like to apply this values to the decision making process. So, this case analysis provides for him a wonderful opportunity to apply personal values to the decision making process.

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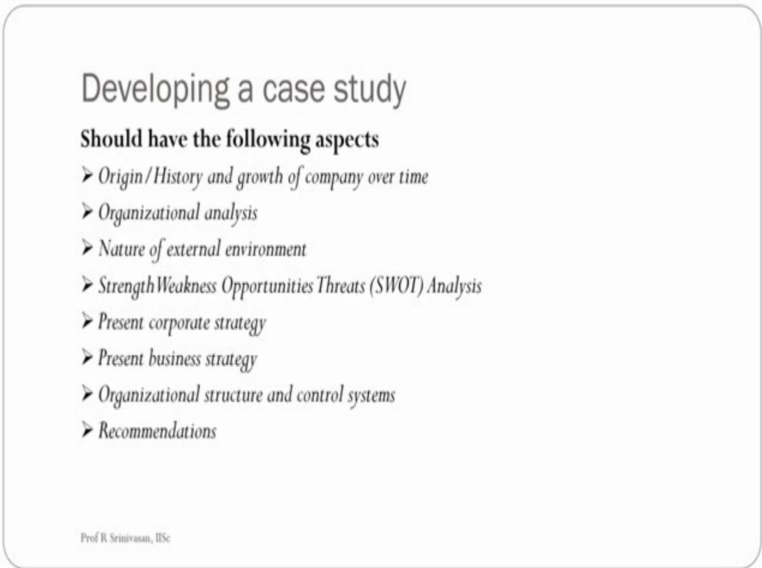

Suppose, we have to develop a case study, how do we go about it, that is as a student or as a professional also you have to develop a case study, then how will you go about it?

These are the following aspects that one should dwell on while developing a case study. One is give the origin history and growth of company over time.

So, it might be a 50 year old company, when it is a 50 year old company you give a small history of the organization, then at least for the last 5 years you trace how this company has grown, over the last 5 years what is the type of products or product lines, how they have performed in a market? This is one of the essential aspects that you have to dwell on that is you should not immediately come to the present year; you have to go back in time and slowly bring it to the present year old.

So, this origin or the history and the growth of company over time firms the first aspect of developing a case study. The second aspect is when you are looking at an organization, you should give to the student who is reading this case an organizational analysis, that is how is this organization structured?.

And, who are all the decision making players in this organization? And, at what level are this decisions being made, whether it is being made at the supervisory level, or the managerial level, or at the top management level, or is it just getting peculated from the top management down to the supervisory level, or is there a consultative process which goes on before any decision takes place.

All these aspects have to be brought out in the organizational analysis. The third aspect which has to be dwelt upon is what is the nature of the external environmental? Is this organization a monopoly? If you look at the present day Indian business environment, you will find it very difficult to categorized an organization as monopoly. Perhaps some organizations like the Indian railways you can call them operating in monopoly market.

Earlier you use to have many organizations like, the Indian airlines, a posts and telegraphs department, never did one think that these organizations will also be affected by the changes. So, if you look at posts and telegraphs you have for them a very stiff competition coming to the posts and telegraphs department through private players, you have so many carriers. They can also do this speed post, which the Indian post do and they can give you many times better tracking of how your are post is going to the destination.

So, in other words the environment in which the organizations are operating they have undergone a thorough change. After giving this external environment, you have to give or you should attempt to give at least a SWOT analysis for the organization, that is strengths, weaknesses, opportunities and threats, that is you should present to the student this four aspects.

This is what we refer to normally as what? This what analysis of the organization? Sometimes a case study may not specifically give the SWOT, but ask the student to develop a SWOT. The next aspect which the student has to be presented in a case is what is the present corporate strategy? By saying corporate strategy we are referring to the entire organization, we are not just referring to one particular product line, or business unit.

First this case has to give the strategy for the entire organization, second when it comes to the particular business unit you also have to present the business strategy of that particular unit. Can be it is a consumer durable, can be it is a perishable product, whatever it might be it might be of it might be coming to the market through a business unit and that business units strategy has to be delineated.

By doing all this what are you trying to give in the case, you are giving lot of food for thought to the case analyzer, that is the student, you will the student will think oh is this organization has this organization gone in the right direction has it been is it going according to the plan, which it envisaged.

After, this aspect is touched you also have to present to the student. The structure of this organization and the type of control systems that this organization has with respect to a situation, decision making situation. So, how does this whole process of decision making peculate down the layers in an organization? All this will help you to make recommendations on the different aspects of the problem that is touched upon in the particular case.

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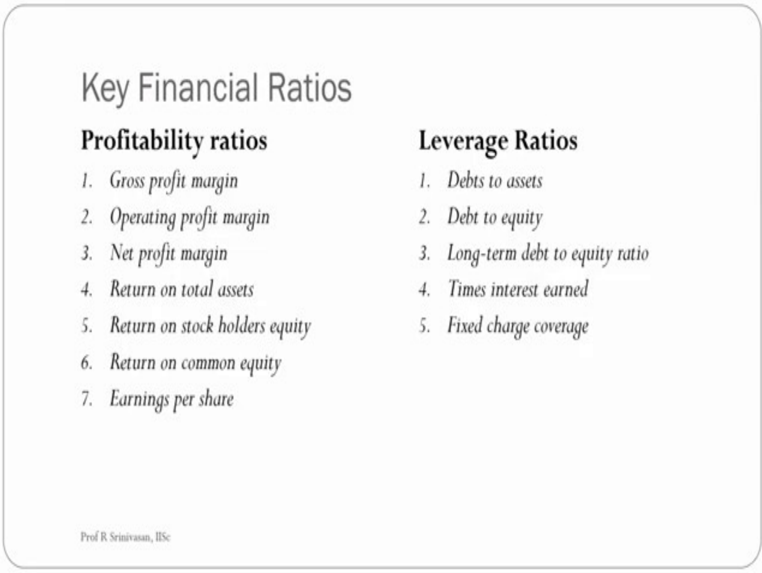

When look at any case for that matter, you have to look at 4 key financial ratios, that is 4 key financial ratios you can look at more. What are these financial ratios which you have to look at? One of the things which you look at with respect to an organization is the profitability ratios. I have uploaded a PDF on this key financial ratios how it can help you?.

The gross profit margin with respect to an organization, kindly refer to that particular article that upload and try to understand, how these different ratios can be helpful? For example, this gross profit margin what does it give you? It provides for you an indication, an indication of the total margin available to cover operating expenses and yield profit.

What does the operating profit margin give you? It provides for you any indication of the firm's profitability, from current operations, without regard to the interest charges, accruing from the capital structure. So, what is the difference between the gross profit margin and the operating profit margin? If you look at the gross profit margin, you are looking at the sales minus the cost of goods sold in the numerator, when you look at the operating profit margin; you are looking at profit before taxes and interest in the numerator.

When you come down to the net profit margin, you are deducting the taxes from that is it will be profit after tax in the numerator. So, you are getting with respect to the sales revenue, what is the type of gross profit margin the organization is making? What is the type of operate operating profit margin the organization is making and the net profit organize margin it is making with respect to the organization in that particular year? So, you are analyzing with respect to a particular year the operations.

So, you are looking at profit and loss accounts and it is with respect to a particular year, then the fourth ratio that you are looking at is the return on total assets, in order to set up an organization you make a lot of investment and this investment whether it is coming from your side, or different organizations side, or different financial institutions side whatever it may be. These stake holders expect there will be some return on the assets that is created.

So, this return on total assets it should not be as zero profit type of scenario for any organization, because an organization is operating in a business environment, a business environment entails that you make profits through business. There is in other words nothing wrong if a business thinks that it should make profits no business would like to make losses.

Now, when it makes profit only you can compensate the stockholders, they would have put money on the equity shares of the company. So, they could be a return on the stockholders equity that is this stock holder can be a preference shareholder, or an investor all those types of things, or you can be a very common retail equity holder also.

So, you first make provision for return on the stock holder’s equity from the profits, then the return on the common equity from the remaining profits. Suppose, your shares are listed which normally happens, we calculate what is called in earnings per share, what does the earnings per share give you, the earnings per share shows the earnings available to the owners of the common stock?

So, how do you calculate these earnings per share? Is earnings per share referred to profits after tax minus be preferred stockholders divided by the number of shares of the common stock outstanding, that is you take care of the stockholders, that is a preference shareholders, first from the profits, then the remaining profits you try to find out how much dividend can be, how much return can be made on this common equity?.

The second one which you are going to look at is what is called the leverage ratios? In these leverage ratios, we will be looking at debt to assets an organization might take loans for carrying out it is operations. Suppose hypothetically, let us say a you have invested one rupee in an organization. How much loan or debt can you comfortable cover, that is what is the maximum debt on this 1 rupee you can make.

Normally, we say it can be double what you have invested? That is suppose you have invested 1 rupee you can take a debt of 2 rupees not beyond that. If you are within this rupee margin you are in a better position to service these assets. Suppose your organization is faced with a challenge or a situation calling for these assets to be serviced that is the debts sundry assets.

So, it is debts can be easily serviced by this margin which you have, but if it becomes too height heavy a margin or too high a margin, then it becomes difficult to service this assets, then the second ratio that you are going to look at is debt to equity. Suppose an organization operates only an debt, it is very difficult to provide return to the equity holders.

So, in other words the equity holders most of the times in a debt ridden organization will be left high and dry. This is what happened to many of the textile units in India? Earlier the textile units, where providing or where giving dividends to their equity holders, but since the operational cost kept on increasing, they found it very difficult to service this debts and when it became so, difficult the equity holders became almost a nonexistent portion of this whole scenario.

The third aspect of this is the long term debt. A financial institution might be giving a long term debt to an organization. And, what is the interest of this financial institution? The interest of the financial institution is that this organization must serve or service this long term debt it must make the payment of installments regularly. So, this long term debts it is a widely used measure of the balance between debt and equity in the firms long term capital structure.

So, many large financing companies provide long term debts to organizations. So, how do they provide this they make this calculation of long term debt to equity ratio, before extending further credits to this organization. The fourth ratio that you are looking at is the times interest earned, what is this times interest earned? It is calculated by the formula profit before interest and taxes divided by the total interest charges. What does this give you?.

It measures the extent to which earnings can decline without the firm becoming unable to meet the annual interest cost. Any debt which is given to an organization carries with it interest. Suppose an organization is not able to service the interest of the loan itself then the question of servicing the loan does not arise. So, in many of our defaulting public sector units also this was the type of situation. Many times they were not able to service the interest portion only.

So, question of servicing the principal was a little beyond the ability of this organization. So, this is where you find in the present day setup many of the public sector units going out on off the screen, why did they go out of the screens? This is because of this leverage ratios, which worked against them, because it worked against them, they found that sustaining the business was a very big challenge and many of them went off the screen.

If you look at HMT this is one classic case, the tagline of HMT was timekeepers to the nation. It is very hard to believe that timekeepers to the nation, itself has become extinct. So, they have not been able to keep time to their organization only, how they can keep time to the nation that was the type of questions which the market was asking. The next ratio which you look at with respect to leverage ratios is what is called the fixed charge coverage? What is this fixed charge coverage it is a more inclusive indication of the firm’s ability to meet all it is fixed charges obligation.

So, how is it calculated? It is calculated taking the profit before interest and taxes plus the lease obligations divided by the total interest charges plus lease obligations. All these formulae to calculate this is given to you in this uploaded PDF on introduction to case analysis. Kindly refer to this it helps you to know how you should calculate these ratios and also, what is the type of indications these ratios can give to an organization?

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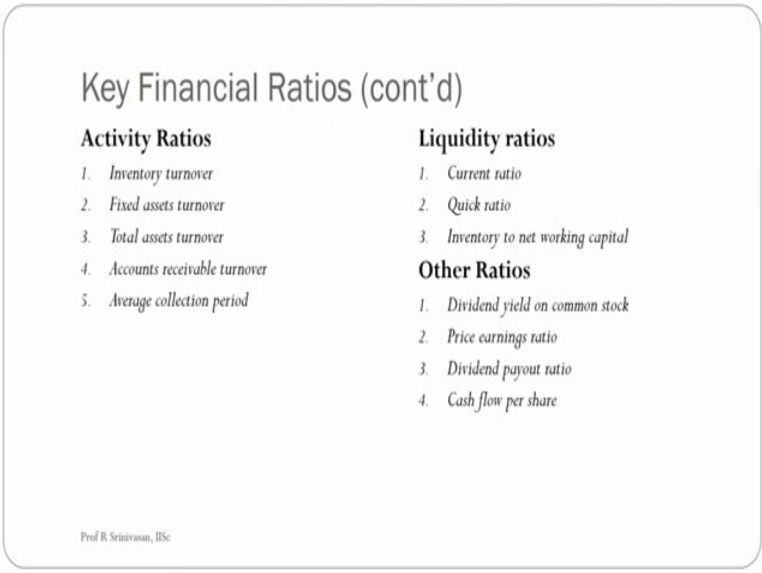

The third ratio with which we are interested is what is called the activity ratios? So, we will stop here we will continue in the next lecture the activity ratios.

Thank you.