

**“Approaching the Case”
Battle of the Bay at San Jose State University**

Deloitte Consulting LLP and Cisco Systems

Preparing a winning case

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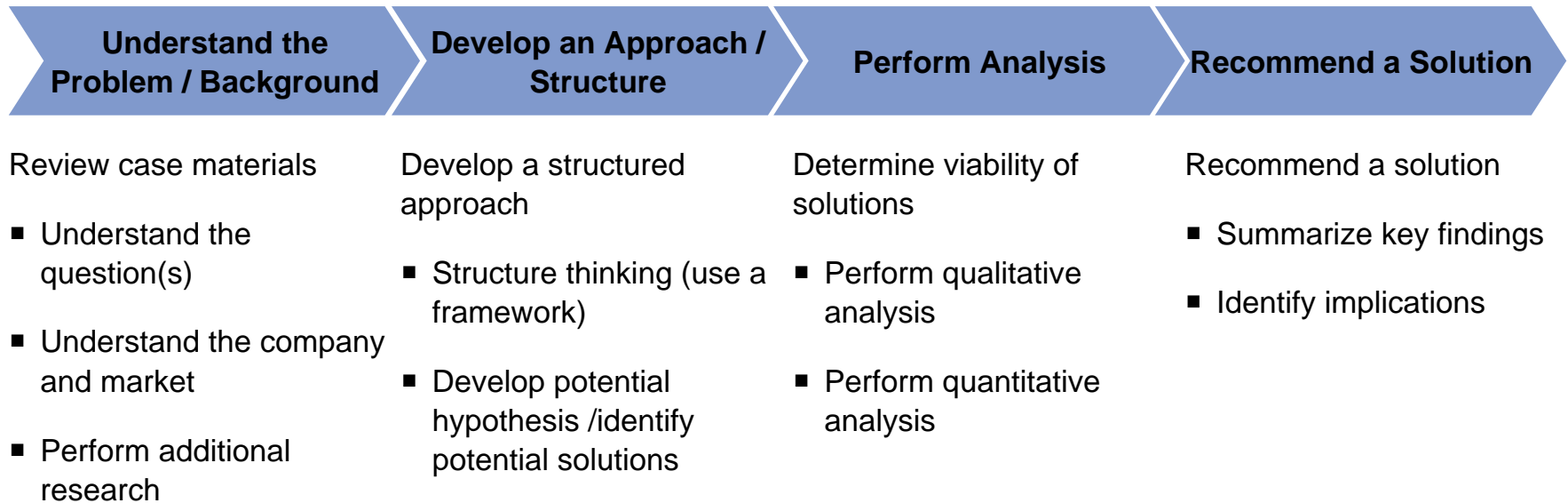
Characteristics of a Winning Team

Creativity	Analytics	Soft Skills
<p>Ability to:</p> <ul style="list-style-type: none">■ Apply a unique perspective to business situations■ See the big picture■ Draw conclusions from partial information■ Make assumptions, see patterns, and generate hypotheses	<p>Ability to:</p> <ul style="list-style-type: none">■ Provide structure to unstructured problems■ Break problems into components■ Apply transparent, logical thinking to each component■ Synthesize discussion into solution	<p>Ability to:</p> <ul style="list-style-type: none">■ Manage time effectively■ Communicate findings and ideas in a succinct and logical fashion■ Work as part of a team■ Perform well under pressure■ Interpersonal skills and personality

Establishing a Strong Foundation

- Play the role stated in the case
- Make a decision and support it
- Make reasonable assumptions
- Support recommendations with detailed qualitative and financial analysis

Approaching the case



Understand the problem / background

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Review the Case

Become familiar with the case

- Understand what information is already included and what additional research is needed
- Determine which information is key to the case and what is superfluous
- Review the questions and determine if there are any other questions to answer
- Understand why the question is important to the audience

Understand the Company and Market

Start with a solid understanding of the company and market

- Who are the customers?
- What are the products?
- How does the company make money?
- Who are the competitors?
- How big is the market?
- Where is the market headed?

Conduct additional research

Potential Topics

- Market conditions
 - Emerging products
 - New entrants
 - Recent M&A activity
- Company financials
 - Historical data
 - Profitability
 - Liquidity
 - Cash position
- Competitor information
 - Financials
 - Business Strategies

Sources

- Company website
 - Investor Relations
 - Products / Services
- Recent news releases
- Hoover's
- Competitor websites

Develop an approach / structure

Develop an approach / structure

Structure Your Thinking

Use a framework to structure your thinking

- Frameworks are used to help guide and present analysis in a logical fashion
- There is no exhaustive list of frameworks or analytical tools
- Frameworks can be expanded and changed
- Not all frameworks can be applied to all situations
- The key is to understand which framework works best with the situation in question
- Sample Frameworks:
 - Profit Tree
 - SWOT Analysis
 - Porter's Five Forces
 - Four P's
 - Product Lifecycle

Determine Potential Hypotheses

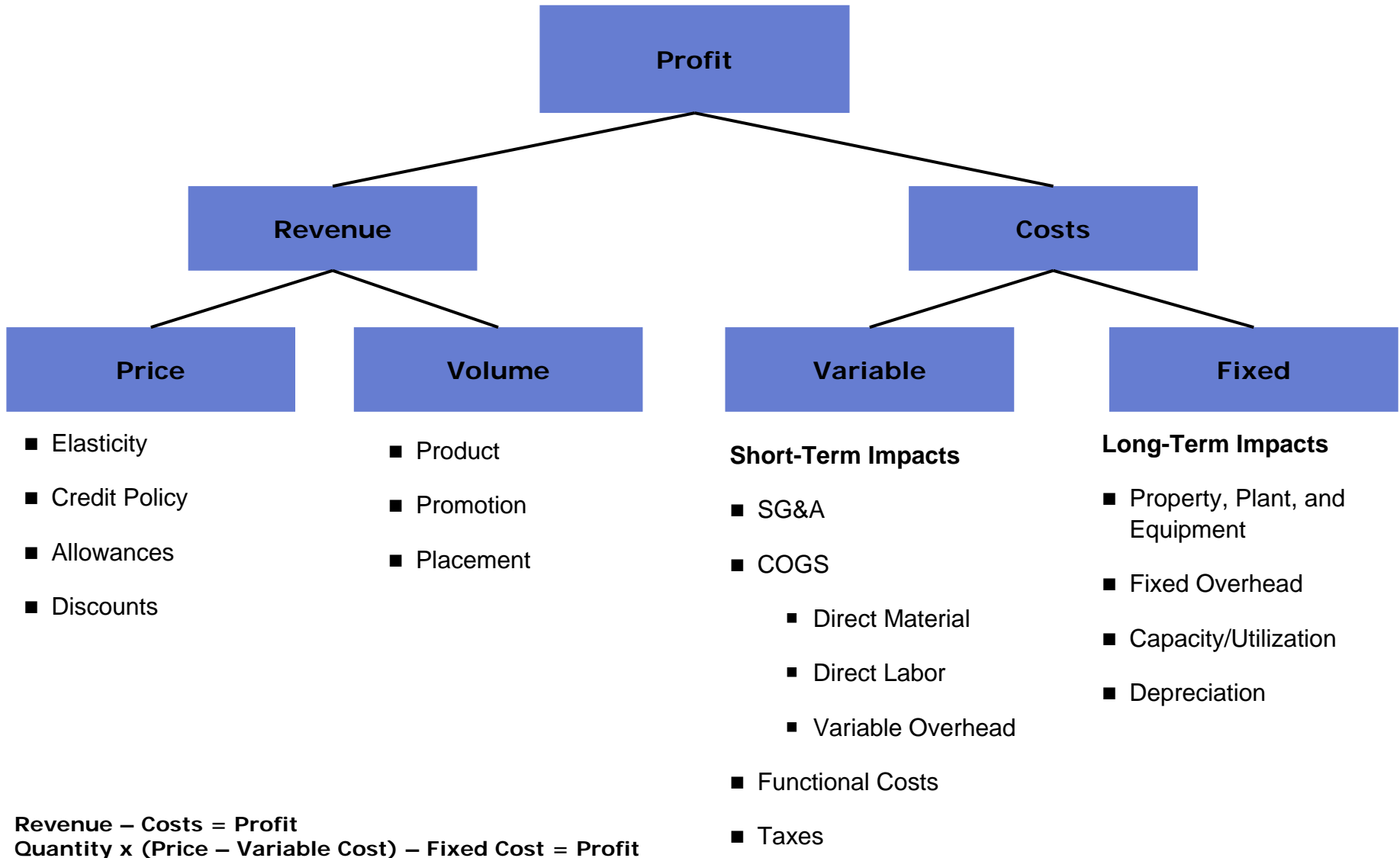
Identify potential solutions / hypotheses

- Brainstorm potential solutions
- Rationalize options
- Choose a few solutions to pursue moving forwards



Frameworks

Profit Tree



SWOT Analysis

Strengths

- Sustainable distinctive competitive competency
- Acknowledged market leader
- Adequate financial resources
- Cost advantages
- Brand

Weaknesses

- Obsolete facilities, products or services
- High debt, low equity
- Lack of management depth
- High fixed costs

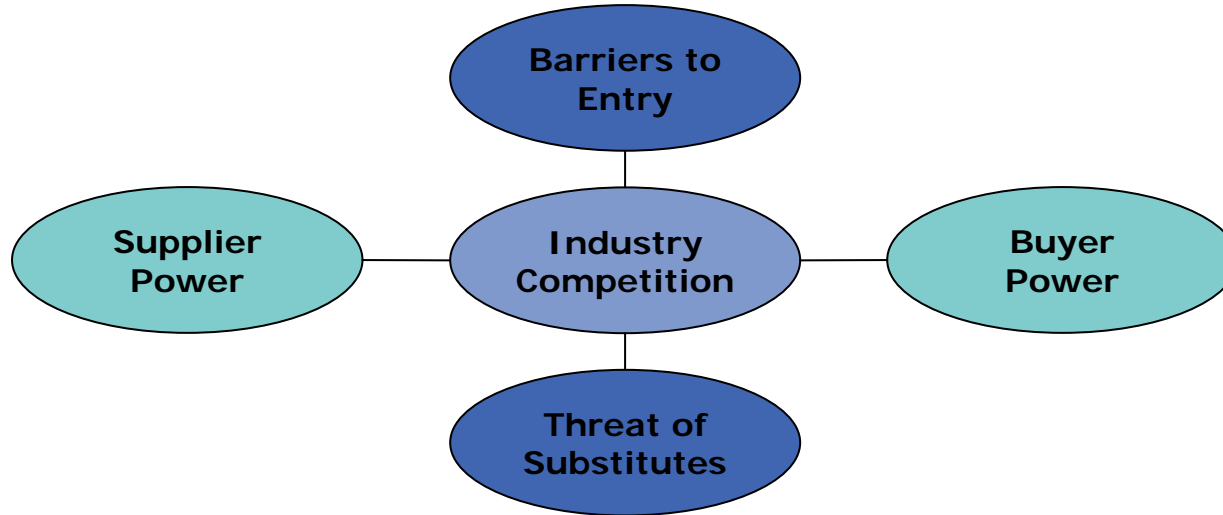
Opportunities

- Changing consumer trends
- Economic upturn
- Potential to enter new markets

Threats

- Market saturation
- Inflation or recession
- Threat of national security
- Natural disaster

Porter's Five Forces



Industry Competition

- Rivalry among competitors

Barriers to Entry

- Threat of new entrants entering the market and stealing share

Buyer Power

- Bargaining power of customers

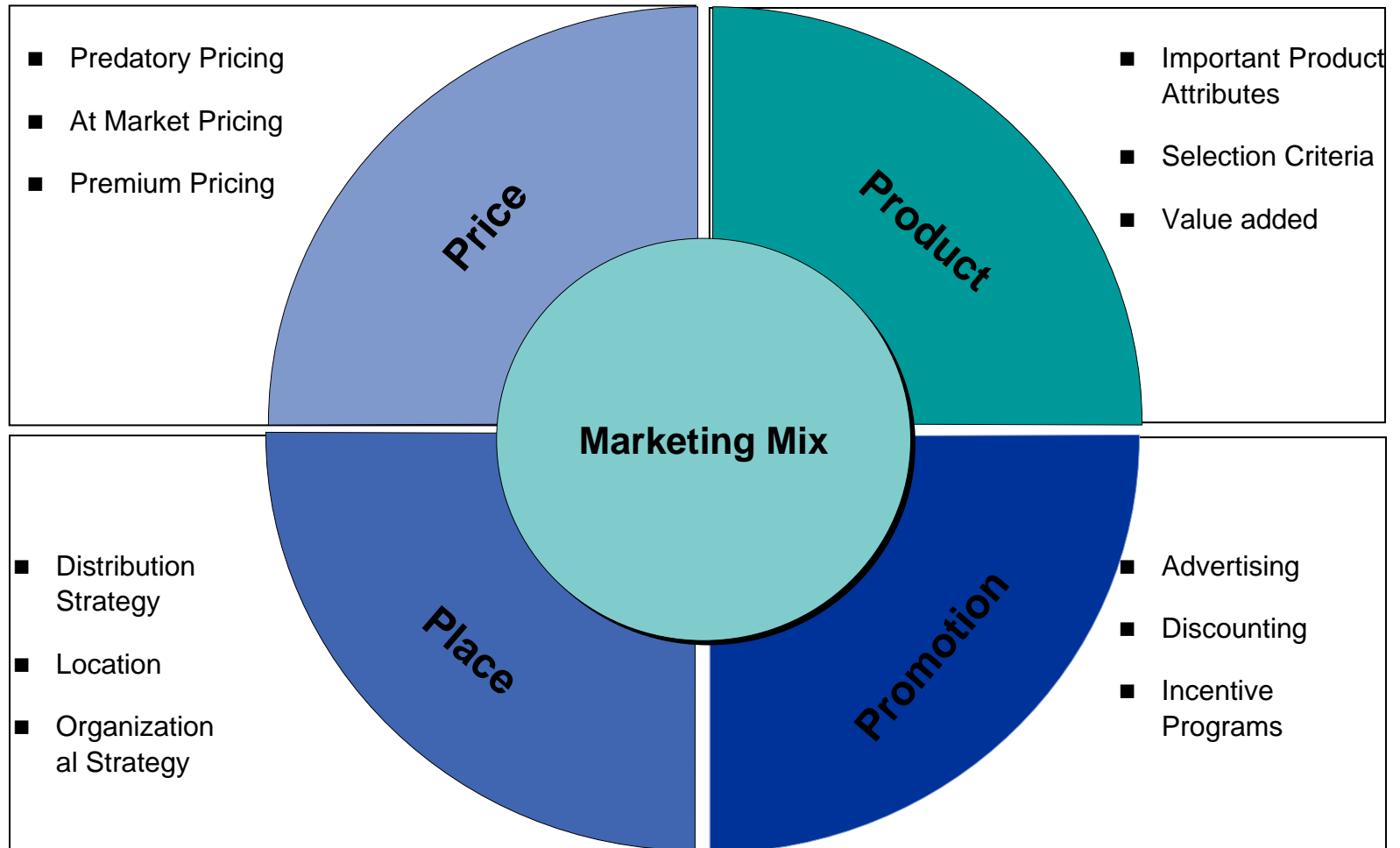
Threat of Substitutes

- Threat of substitute products and services stealing share

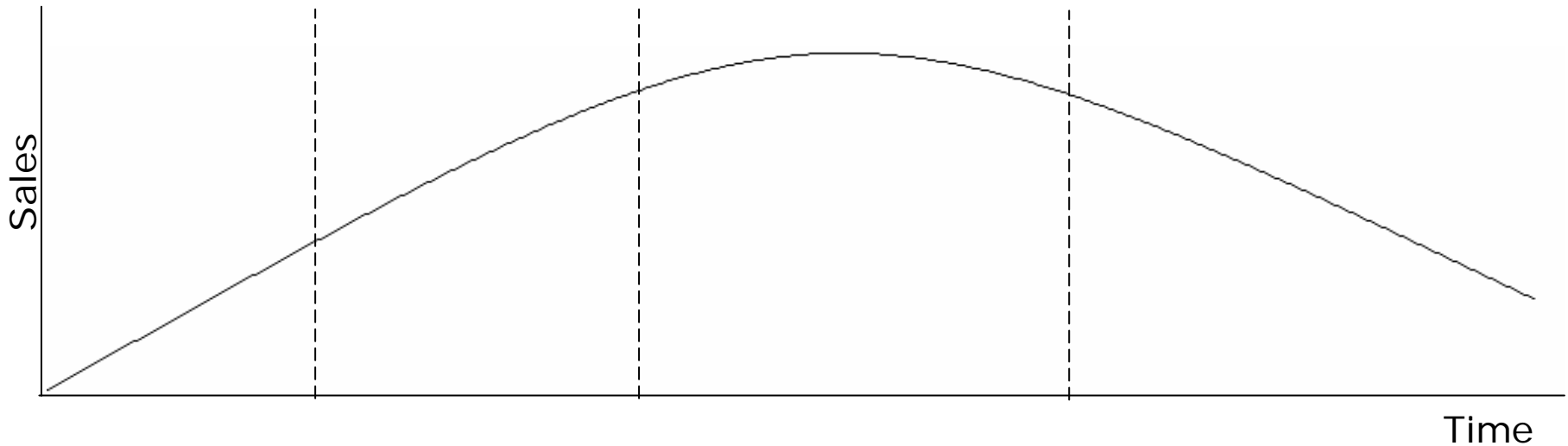
Supplier Power

- Leverage of suppliers over buyers

The Marketing Mix: Four P's



The Product Life Cycle



Introduction

- Definition of users and uses
- Low competition
- High risk
- High investment
- Technical period

Growth

- Strategies are defined
- Increased competition
- Medium risk
- High profits
- Dynamic period

Maturity

- Manufacturing economics and marketing are key
- Well established competitors
- Profits level/decline
- Companies begin to merge
- Stable period

Decline

- Products perceived as commodities
- Sales decline
- Eroding profits
- Mergers continue
- Market exit



Perform analysis

Perform analysis

Qualitative Analysis

Assess possible hypotheses/solutions to identify their impact on the company

- Determine what the non-financial impact of a scenario would be
- Determine how much time is needed for implementation
- Determine who the key stakeholders are
- Evaluate alternative solutions

Quantitative Analysis

Develop financial support for hypotheses

- Review company and competitor financials to determine financial strength
- Determine financial impact of possible scenarios

Qualitative analysis

Solution Scenario Analysis

Additional Factors / Criteria to Consider

Companies must consider all factors, not just the bottom line when evaluating hypotheses / solutions

- What is the goal?
- How risk adverse is the company?
- What are the contingency plans?
- What is the timeline?

Evaluating Alternate Solutions

After considering all factors, companies should select an outcome which fits all required criteria

- Meets financial targets
- Fits with corporate culture
- Has acceptable risk levels
- Meets timeline requirements

Best outcome	Expected outcome	Worst outcome
<ul style="list-style-type: none"> ■ Robust economy 	<ul style="list-style-type: none"> ■ Business as usual 	<ul style="list-style-type: none"> ■ Poor economy
<ul style="list-style-type: none"> ■ High market adoption 	<ul style="list-style-type: none"> ■ Expected market adoption 	<ul style="list-style-type: none"> ■ Poor market adoption
<ul style="list-style-type: none"> ■ Weak, decreasing competition 	<ul style="list-style-type: none"> ■ Expected competition 	<ul style="list-style-type: none"> ■ Strong, evolved competition
<ul style="list-style-type: none"> ■ No delays, quick implementation 	<ul style="list-style-type: none"> ■ Expected possible delays 	<ul style="list-style-type: none"> ■ Multiple delays
<ul style="list-style-type: none"> ■ High revenue growth 	<ul style="list-style-type: none"> ■ Expected revenue growth 	<ul style="list-style-type: none"> ■ Poor revenue growth

Stakeholder Analysis

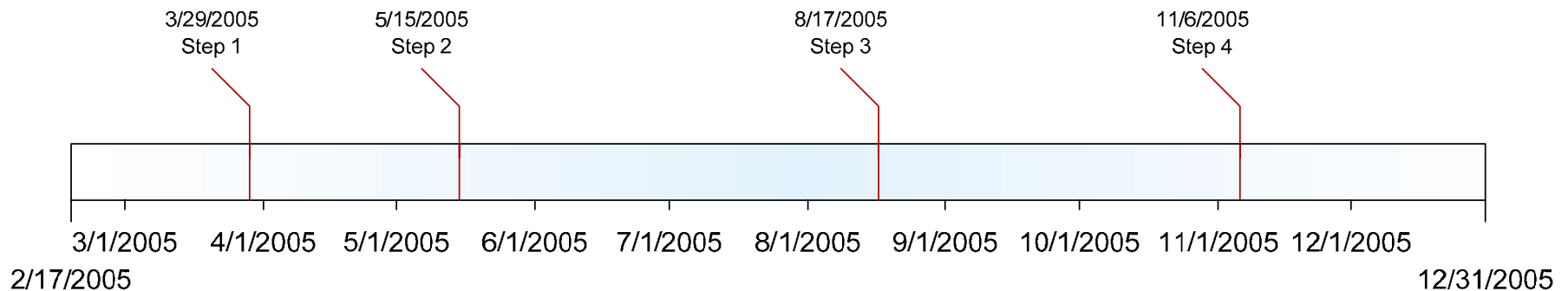
Examples of Stakeholders

- Shareholders
- Executive Management
- Board of Directors
- Employees
- Strategic Partners
- Consumers
- Investors/Banks/Rating Agencies
- Suppliers/Buyers

In making your strategic decisions, consider all of your stakeholders :

- Is the stakeholder part of the decision making?
- How influential is the stakeholder?
- How does your strategy affect the stakeholder?
- How does the stakeholder affect your strategy?
- Is the stakeholder a possible supporter or a possible hurdle?
- What do you need to achieve with the stakeholder to make sure your strategy is a success?

Implementation Timeline



Your strategy should be accompanied by a realistic timeline

- What kind of a time scale does it take to implement your strategy?
 - 6 months, 1 year, 2 years, 5 years, etc.
- What happens at each milestone?
- How realistic is your implementation milestones? What kind of research have you put in to your estimates?
- How much money is required for each step?



Quantitative analysis

There are three key financial statements

Income Statement

Reflects the financial results of an entity over a period of time, typically one year

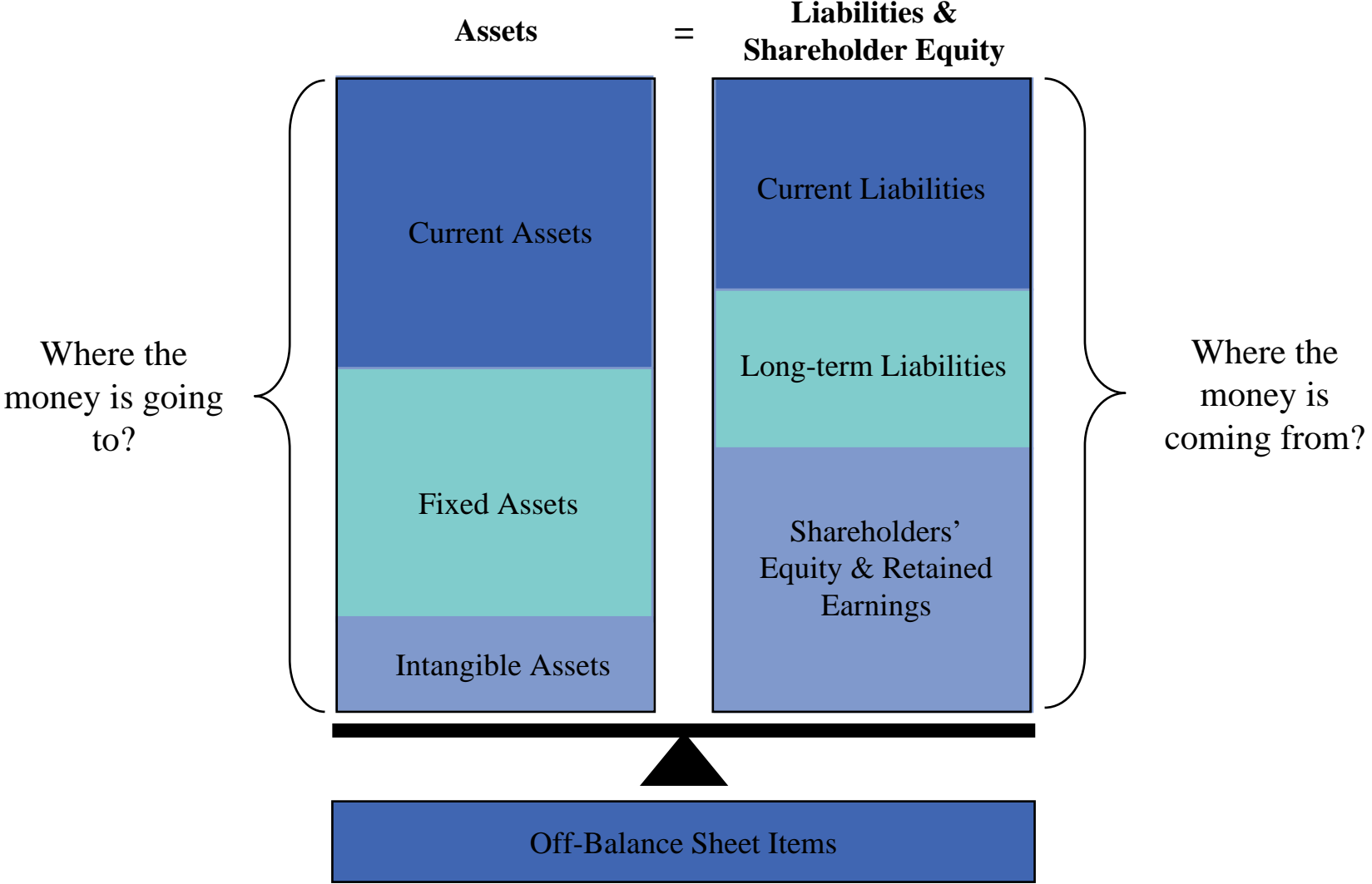
Balance Sheet

A snapshot of assets and liabilities at a given point in time

Cash Flow Statement

Reflects the flow of funds received and paid out over a period of time, typically one year

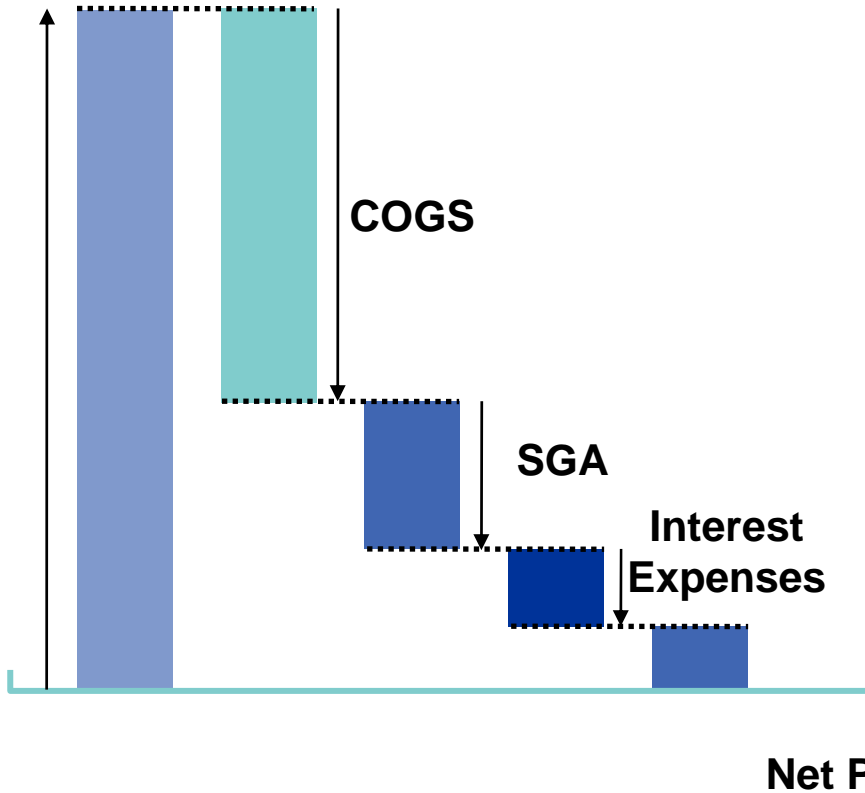
The Balance Sheet is a snapshot *at a given point in time*



Income Statement

Reflects the financial results of a an entity over a period of time, typically one year

Revenues



Sample Income Statement for 2006

	2006
Sales	\$900,000
COGS	<u>(250,000)</u>
Gross Profit on Sales	650,000
Operating Expenses	(120,000)
Depreciation Expense	<u>(30,000)</u>
Operating Income	500,000
Other Income	<u>50,000</u>
EBIT	550,000
Interest Expense	<u>(30,000)</u>
Taxes	<u>(50,000)</u>
Net Income	<u>\$470,000</u>

Net Present Value

NPV is a quantitative way to evaluate strategic choices.

$$PV = \frac{FV}{(1+r)^n}$$

PV = Present Value, FV = Future Value, r = discount rate, n = time in years

$$NPV = FV_0 + \frac{C_1}{(1+r)^1} + \frac{C_2}{(1+r)^2} + \dots$$

FV_0 = Initial Investment, C = Cash Flow, r = discount rate

Perpetuity: $\frac{C}{r}$

C = Cash Flow, r = discount rate

Note: First payment is one year from today, not today.

NPV and Payback Example

NPV Example:

	Year 0 (today)	End of Year 1	End of Year 2	End of Year 3	End of Year 4	End of Year 5
Initial Investment	10,000	0	0	0	0	0
Annual Operations Cash Flow	0	4,000	4,000	2,500	2,000	2,000
Total Cash Flow	(10,000)	4,000	4,000	2,500	2,000	2,000
PV Factor = $1/(1+i)^n$	1.00	0.87	0.76	0.66	0.57	0.50
Total PV annual cash flow	(10,000)	3,478	3,024	1,644	1,144	994









Assume 15% discount rate

NPV = \$285

Year	Annual Cash Flow	Cumulative Cash Balance
0 (Today)	(\$10,000)	(\$10,000)
1	\$4,000	(\$6,000)
2	\$4,000	(\$2,000)
2.8 = Payback	\$2,000	\$0
3	\$2,500	\$500

Ratio Analysis

The following are some common ratios used to analyze a company's financial health

Ratio	Calculation	Desired Value
Return on Investment	$\frac{\text{Net Income}}{\text{Avg Total Equity}}$	
Return on Assets	$\frac{\text{Net Income}}{\text{Avg Assets}}$	
Net Profit Margin	$\frac{\text{Net Income}}{\text{Sales}}$	
Total Asset Turnover	$\frac{\text{Sales}}{\text{Avg Total Assets}}$	
Inventory Turnover	$\frac{\text{COGS}}{\text{Avg Inventory}}$	
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	
Earnings Per Share (EPS)	$\frac{\text{Net Income} - \text{Pfd Div}}{\text{Avg \# Shares}}$	
P/E Ratio	$\frac{\text{Mkt Value}}{\text{EPS}}$	

Recommend a solution

Recommend a solution

Summarize Key Findings

Provide an answer to the questions the case posed

- Identify the recommendation
- Provide logical support for the recommendation
- Keep the audience in mind

Identify Implications

Summarize how the solution will impact the company

- Identify financial impact
- Identify organizational impacts
- Identify next steps

Top 7 things to DO

- Tell a story; develop a logical flow
- Answer the questions stated in the case
- Tie your strategy back to your problem statement
- Be realistic, given the constraints of money, customer readiness, and technology limitations
- Summarize your slides
- Manage your time
- Leverage visuals to bring out your points

Top 7 things NOT to do

- Recommend something that the company has already done
- Try to force-fit a framework to the problem
- Label your frameworks
- Hide from the details or numbers
- Forget what question you're trying to answer
- Crowd your slides
- Panic

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