THE FINANCIAL DETECTIVE, 2005

Financial characteristics of companies vary for many reasons. The two most prominent drivers are industry economics and firm strategy.

Each industry has a financial norm around which companies within the industry tend to operate. An airline, for example, would naturally be expected to have a high proportion of fixed assets (airplanes), while a consulting firm would not. A steel manufacturer would be expected to have a lower gross margin than a pharmaceutical manufacturer because commodities such as steel are subject to strong price competition, while highly differentiated products like patented drugs enjoy much more pricing freedom. Because of unique economic features of each industry, average financial statements will vary from one industry to the next.

Similarly, companies within industries have different financial characteristics, in part, because of the diverse strategies that can be employed. Executives choose strategies that will position their company favorably in the competitive jockeying within an industry. Strategies typically entail making important choices in how a product is made (e.g., capital intensive versus labor intensive), how it is marketed (e.g., direct sales versus the use of distributors), and how the company is financed (e.g., the use of debt or equity). Strategies among companies in the same industry can differ dramatically. Different strategies can produce striking differences in financial results for firms in the same industry.

The following paragraphs describe pairs of participants in a number of different industries. Their strategies and market niches provide clues as to the financial condition and performance that one would expect of them. The companies' common-sized financial statements and operating data, as of early 2005, are presented in a standardized format in Exhibit 1. It is up to you to match the financial data with the company descriptions. Also, try to explain the differences in financial results across industries.
Health Products

Companies A and B manufacture and market health-care products. One firm is the world's largest prescription-pharmaceutical company. This firm has a very broad and deep pipeline of ethical pharmaceuticals, supported by a robust research and development budget. In recent years, the company has divested several of its nonpharmaceutical businesses, and it has come to be seen as the partner of choice for licensing deals with other pharmaceutical and biotechnology firms.

The other company is a diversified health-products company that manufactures and mass markets a broad line of prescription pharmaceuticals, over-the-counter remedies (i.e., nonprescription drugs), consumer health and beauty products, and medical diagnostics and devices. For its consumer segment, brand development and management are a major element of this firm’s mass-market-oriented strategy.

Beer

Of the beer companies, C and D, one is a national brewer of mass-market consumer beers sold under a variety of brand names. This company operates an extensive network of breweries and distribution systems. The firm also owns a number of beer-related businesses, such as snack and aluminum-container manufacturing, and several major theme parks.

The other company produces seasonal and year-round beers with smaller production volume and higher prices. This company outsources most of its brewing activity. The firm is financially conservative, and has recently undergone a major cost-savings initiative to counterbalance the recent surge in packaging and freight costs.

Computers

Companies E and F sell computers and related equipment. One company focuses exclusively on mail-order sales of built-to-order PCs, including desktops, laptops, notebooks, servers, workstations, printers, and handheld devices. The company is an assembler of PC components manufactured by its suppliers. The company allows its customers to design, price, and purchase through its Web site.

The other company sells a highly differentiable line of computers, consumer-oriented electronic devices, and a variety of proprietary software products. Led by its charismatic founder, the company has 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 to expand its installed base of customers by showcasing its products in a user-friendly retail atmosphere.
Books and Music

The book and music retailers are companies G and H. One focuses on selling primarily to customers through a vast retail-store presence. The company is the leader in traditional book retailing, which it fosters through its “community store” concept and regular discount policy. The firm also maintains an on-line presence and owns a publishing imprint.

The other company sells books, music, and videos solely through its Internet Web site. While more than three-quarters of its sales are media, it also sells electronics and other general merchandise. The firm has only recently become profitable, and it has followed an aggressive strategy of acquiring related on-line businesses in recent years.

Paper Products

Companies I and J are both paper manufacturers. One company is the world’s largest maker of paper, paperboard, and packaging. This vertically integrated company owns timberland; numerous lumber, paper, paperboard, and packing-products facilities; and a paper-distribution network. The company has spent the last few years rationalizing capacity by closing inefficient mills, implementing cost-containment initiatives, and selling nonessential assets.

The other firm is a small producer of printing, writing, and technical specialty papers, as well as towel and tissue products. Most of the company’s products are marketed under branded labels. The company purchases the wood fiber used in its papermaking process on the open market.

Hardware and Tools

Companies K and L manufacture and sell hardware and tools. One of the companies is a global manufacturer and marketer of power tools and power-tool accessories, hardware and home-improvement products, and fastening systems. The firm sells primarily to retailers, wholesalers, and distributors. Its products appear under a variety of well-known brand names and are geared for the end user.

The other tool company manufactures and markets high-quality precision tools and diagnostic-equipment systems for professional users. The firm offers a broad range of products, which it sells via its own technical representatives and mobile franchise dealers. The company also provides financing for franchisees and for customers’ large purchases.
Retailing

Companies M and N are two large discount retailers. One firm carries a wide variety of nationally advertised general merchandise. The company is known for its low prices, breadth of merchandise, and volume-oriented strategy. Most of its stores are leased and are located near the company’s expanding network of distribution centers. The company has begun to implement plans to expand both internationally and in large urban areas.

The other firm is a rapidly growing chain of upscale discount stores. The company competes by attempting to match other discounters’ prices on similar merchandise and by offering deep discounts on its differentiated items. Additionally, the company has partnerships with several leading designers. Recently, the firm has divested several nondiscoun department-store businesses. To support sales and earnings growth, this company offers credit to qualified customers.

Newspapers

Companies O and P own newspapers. One is a diversified media company that generates most of its revenues through newspapers sold around the country and around the world. Because the company is centered largely on one product, it has strong central controls. Competition for subscribers and advertising revenues in this firm’s segment is fierce. The company has also recently built a large office building for its headquarters.

The other firm owns a number of newspapers in relatively small communities throughout the Midwest and the Southwest. Some analysts view this firm as holding a portfolio of small local monopolies in newspaper publishing. This company has a significant amount of goodwill on its balance sheet, stemming from acquisitions. Key to this firm’s operating success is a strategy of decentralized decision making and administration.
Financial detective

NYIT 3/15/12
Introduction
This case consists of an analysis, where companies in the same field are compared to figure out which company belongs to which financial statement.

Health products
The Companies
Company 1 is the largest prescription-pharmaceutical company in the world. It has many different ethical pharmaceuticals, which are supported with a big R&D budget. They have recently divested in non-pharmaceutical businesses and are no seen as the partner of choice for license deals with other biotech companies. Company 2 is a diversified health-product company. Among their products you find non-prescription drugs, health and beauty products but also medical diagnostics and devices. Brand development and management are major elements in the firm’s mass-market-oriented strategy.

The financial statements
When you look at the statement you quickly see that there are some items that stand out in terms of how much it differs between the companies. When I look at intangibles I see that B has much higher value which would imply that B is company 1 that have a lot invested in research. Furthermore I see that Net fixed assets are slightly higher for A which implies that A is company 2 who carry a wide array of product that needs many different machines to be produced. In the information about the companies it is stated that company 1 has divested during the last years, in the item deferred tax I notice that B has much higher values which implies that B is company 1. Cost of goods scale shows us that A has much higher producing expenses, which implies that they don’t have the benefit from economies of scale. This would only strengthen my statement that A is company 2.

Conclusion
Company 1 is B, Company 2 is therefore A.

Beer
The Companies
Company 1 is a national brewer of mass-market consumer beer. Owns many brands, beer-related businesses and several theme parks. They operate a large network of breweries and distribution systems. Company 2 have a smaller production volume and higher prices. They outsource most of the brewing. Financial conservative. Has undergone a cost-saving initiative to counter balance the surge in packaging and freight costs.

The financial statements
I see that net fixed assets are much higher at C which would imply that company 1 is C. Furthermore I see that C has a long term debt far greater than D and this is
connected with the amount of equity that D has, this implies that D is company 2 who are more conservative.
When I look at SG&A I see a much higher amount for D, which matches a surge in packaging, and freight costs, which concludes the same as before.

Conclusion
Company 1 is C and company 2 is D

Computer Companies
The companies
Company 1 focus on built to order PC by mail order. They have a wide variety of products in the area of computers. The customers use a website to do all purchase from the company.
Company 2 sells computers, consumer-oriented electronic-devices and software through their stores. They have recently gained market shares after a decline and are now aggressively pursuing their retail strategy.

The financial statement
I see that F has a higher figure under the item intangibles this could be patents, which would imply that company 2 is F. The item investments and advances is significant higher for E, this could be the result of investing in a efficient online mail-order system (which would imply that company 1 is E). Accounts payable sticks out and especially for E. The high figure could be a result of outstanding debt to suppliers of different components (company 1 =E). The item S&G Expense also differs between the companies. The higher figure for company F could be a result of overhead from a lot of stores (company 2=F).

Conclusion
Company 1 is E and company 2 is F.

Books and music
The companies
Company 1 has a vast retail store presence. They are leaders in traditional book retailing. Maintains an on-line presence and owns a publishing imprint.
Company 2 sells a variety of media products through its website. 75% of sales are derived from media the other 25% is electronics and other general goods. Recently become profitable, and has acquired related on-line businesses in recent years.

The financial statements
When I look at the statements I see that inventories and net fixed assets both are considerably higher for H than G. This implies that H is company 1 who has much more inventories in their stores than the on-line site who can control their inventory better.
When we look at long term debt, we notice that G has a very high debt which
could derive from an aggressive strategy of acquisitions of companies. This shows that G probably is company 2. When I examine the ratios I see that fixed assets turnover is considerably higher for G than for H which would be consistent with an on-line based company without fixed assets.

Conclusion
Company 1 is H and Company 2 is G.

Paper products
The companies
Company 1 is the worlds largest maker of paper, paperboard, and packaging. Owns timberland, lumber, and different production facilities. Has spent the last years cutting costs and selling inefficient and nonessential parts of the company.
Company 2 is a small producer of towels, tissues, printing and technical specialty paper. Products are marketed under brand labels and they by all the wood fiber needed on the open market.

The financial statements
When I look at net fixed assets I see that J has more fixed assets such as timberland, facilities and so on. This would indicate that J is company 1. Under the item intangibles I see that I has a higher value which would be consistent with a company who has a lot of brands. The value of the brands is a big part of this item which would show that I is company 2.
When I look at the long-term debt I see that it is considerably higher for I than J; this can be a result of the strategy company 1 have had during the last years. By selling of parts of the company they have the possibility to lower their debt. When I combine all the statements above with the fact that J has twice the value in inventories compared to I the conclusion can only be that company 1 is J and company 2 is I.

Conclusion
Company 1 is J and company 2 is I.

Tools
The companies
Company 1 is a global manufacturer and marketer of a wide variety of power tools with accessories focused on home improvement. The company sells to retailers, wholesalers and distributors under a wide variety of well-known brands.
Company 2 is a manufacturer of high-precision tools and diagnostics-equipment for professional users. The firm uses technical representatives
and mobile franchise dealers to sell their products. They also provide financing for franchisees and large purchases from customers.

The financial statement
When I look at the balance sheet under the item receivables the figure is considerably higher for L, which would point towards company 2 since they give financing. The item investments and advances is also higher for L, which could connect to investments in R&D to develop high-precision and professional tools, and therefore company 2. In the income statement the item SG&A expenses stick out, especially for L. Company 2 has their own technical experts and provides support for their franchisees, this would create a higher cost of SG&A.

Conclusion
Company 1 is K and company 2 is L.

Newspapers
The companies
Company 1 is a diversified company with most of the revenue derived from selling newspapers in the country and global. Central controlled. Is pressured by fierce competition about subscribers and advertising. Has recently built a large office.

Company 2 is holding a portfolio of smaller local monopolistic newspapers. The company carries a significant amount of goodwill. Decentralized decision making is a key factor for the success of the company.

The financial statement
I start off by looking at the net fixed assets which should be higher for company 1 who recently built a big office. This is consistent with P. Furthermore we want to see a high value in the item intangibles which would show underlying values of goodwill. I can see that O has a higher value which would imply that 0 is company 2.

We see that there is a big difference in stockholder equity between the two companies this can be a sign that the company with lower equity has invested in a project, like a new office. When I look at the ratios I see that P has a lower profit margin, which can be the result of fierce competition, consistent with company 1.

Conclusion
Company 1 is P and company 2 is O.

Retailing
The companies
Company 1 carries a wide variety of merchandise and advertises nationally. They are volume oriented and most of their stores are leased. They are planning to expand both internationally and in urban areas.

Company 2 is a rapidly growing chain of upscale discount stores. They have partnerships with several leading designers. The company recently disinvested
in non-discount department stores. They offer credit to qualified customers to support their sales and earnings growth.

The financial statement
M has a very high value under the item intangibles, which could be derived from a lot of partnerships and therefore pointing towards company 2. The ratio that catch the eye the most is receivables turnover, this means that M get paid more often, this could be derived from a strategy of giving customers credit and then getting the payments more often.

Conclusion
Company 1 is N and company 2 is M.

Cross comparison
When I look at the balance sheet for the different companies I see a higher value under item intangibles for healthcare, tools, and newspapers. I believe that this is derived from a lot of R&D, patents and also know-how. The highest net profit margin is in health products. This is not surprising since they have monopoly on the pharmaceuticals they develop themselves.