Business Analysis Project

Session 8- Assignment Guidelines

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Andre Samuel

SAM Trinidad

Assessment

- You are required to prepare a 3,000 words report on an enterprise of your own choosing. This will be a critical appraisal of the competitive position of the enterprise and you will benchmark with two similar organisations.

- This module simulates the problems (issues) that real life senior managers deal with and requires you to test some of your proposed solutions. The focus is on some aspect of competitive advantage and how this is reported in published information and also in financial reports and statistics.

Assignment Criteria

1. Research on industry sector and selected organisation, referencing (10 marks)
2. Detailed financial analysis, including financial spreadsheet modelling of recommended strategy options (15 marks)
3. Analysis, interpretation and discussion of strategic issues (30 marks)
4. An appraisal of the limitations of financial models and conventional analysis (10 marks)
5. Conclusions and Recommendations (20 marks)
6. Quantitative Modelling Recommended Strategy (15 marks)

Report Structure

Title Page

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1. Introduction
2. Analysis of Current Financial Performance
3. Analysis of Strategic Issues
4. Conclusions
5. Recommendations
6. Limitations of financial models and conventional analysis

Reference List

Appendices

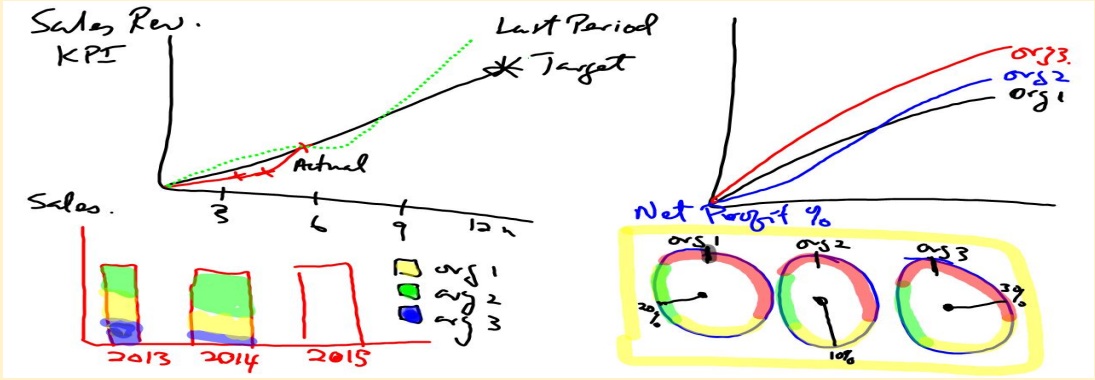
1. Introduction

- Give an introduction of industry of choice
- Give an overview of industry forecast, next 3 years, you can use expert reports e.g. Bloomberg, Yahoo finance, Marketline, Statista
- Choice of Organization- give brief overview of business, vision, mission, objectives and their current strategy
- Choice of Benchmarking Organization- state the 2 organization and justify why they were chosen e.g. similar or best if class

2. Analysis of Current Financial Performance

- Select Financial Indicator (Ratios) See next slide.
- Calculate for Focus Org and 2 Benchmark Org for a 3 year period
- Use an Excel Spreadsheet to do calculation. Place in appendix
- You can use sub sections for the discussion e.g. 2.1 Profitability, 2.2 Liquidity, 2.3 Working Capital, 2.4 Shareholder Value

- Present Ratios using a dashboard with graphs and charts



- Narrative analysis is needed, discuss performance over the last 3 years
  - Are we meeting targets?
  - What is the trend? Increasing/decreasing?
  - What is the % change? Positive/negative?
  - Make sure to include a comparison to the 2 Benchmark Org
- Summary of Key Financial Issues- here you present the gaps i.e. areas of weak performance.

Ellis, J and Williams D (1993), Competitive Strategy and Financial Analysis, Pitman , page 235

	Ratio	How calculated	Interpretation
Operating ratios	**Overall Performance**		
	Gross profit	Turnover minus direct costs of making product or providing a service	
	Operating Profit	Gross profit minus operating costs	Shows whether operation is financially sustainable
	Return on Capital Employed %	Operating profit / Average capital employed x 100	Provides an overall measure of corporate performance
	Net Profit Margin %	Operating profit / Turnover x 100	Describes the % profit for each £ turnover after direct & indirect expenses have been deducted
	Asset Turnover (X)	Turnover / Average capital employed	Shows how many times sales generated from the capital employed
	Working Capital		
	Stock Turnover (X)	Cost of sales / Stocks	Indicates how many times stocks are being turned over in a year
	Debtor Turnover (X)	Turnover / Trade debtors	Number of times trade debtors are rotated in a year
	Working Capital to Turnover ratio %	(Stocks + trade debtors – trade creditors) / Turnover x 100	Provides a measure of the overall working capital needs of the company. High ratios suggest working capital needs are greater.
Financial ratios	**Debt Ratios**		
	Gearing Ratio %	Total borrowings / Capital employed x 100	Measures extent of borrowings in relation to capital employed.
	Debt–equity ratio %	Total borrowings / Shareholders' funds x 100	Relates total debt to shareholders' funds to indicate how company is financed.
	Interest Cover (X)	Profit on ordinary activities before interest / Interest paid	How many times profits cover interest payments. A measure of the ability to service debt.
	Liquidity Ratios		
	Current Ratio (X)	Current assets / Current liabilities	How many times current assets cover current liabilities
	Acid test (X)	Current assets less stocks / Current liabilities	Current ratio less stocks. A more stringent test of liquidity

3. Analysis of Strategic Issues

- Maximum 2 models
- **3.1 PESTLE Analysis**
  - **Discuss each factor individually**
  - Use evidence to support claims
  - Present summary table of PEST factors for Organization

Political	Economic	Social	Technology
• X	• X	• X	• X
• Y	• Y	• Y	• Y

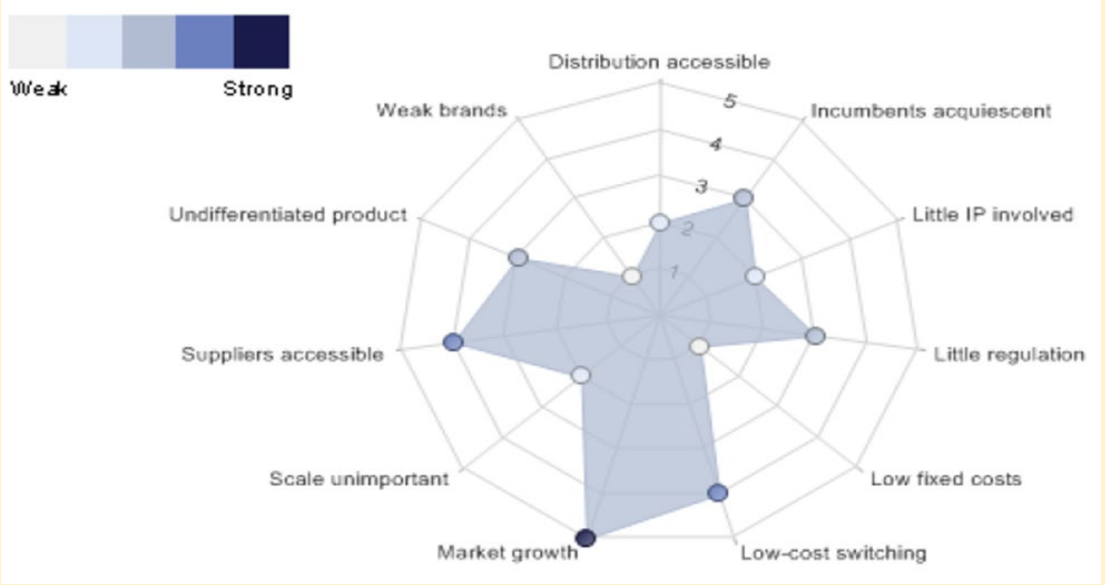
  - **Identify the Key Driving Forces**. Use a diagram to present
  - Must **discuss the impact and implications of the key driving forces** to the Organization and Industry
  - Summarise using ETOP Analysis. See Next Slide for example.

Example ETOP analysis

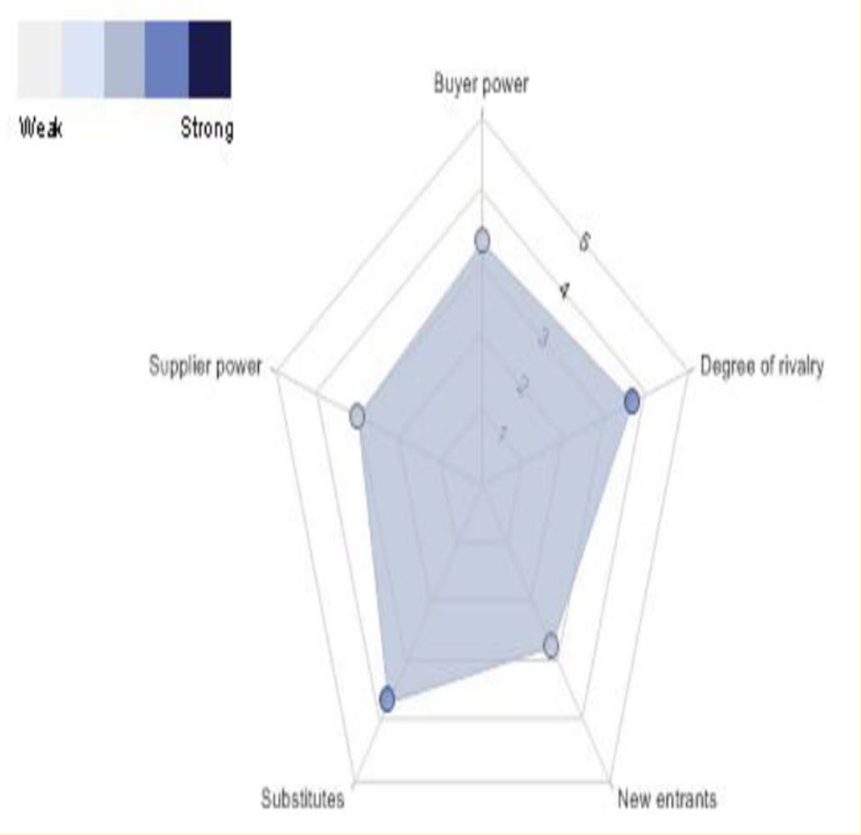
Macro-environmental factor Issues	Influential impact: Opportunities Major	Opportunities Minor	Threats Major	Threats Minor	Conclusion Implication
Political issues					
Political climate					
A trend of political reform in pursuit of democracy	×				Greater freedoms, security and a reduction of political risk
Legal system based on French civil and customary legal systems		×			Standard practice throughout the region
Support to international business					
Investment codes in the region guarantee uniform rights for national and foreign businesses and the freedom to transfer capital, resources and salaries	×				Secure environment for international investors

Instead of X you Could use a score -5 to 5 to represent Threat/Opportunity and its impact. – scores would be threat, + scores would be opportunity.

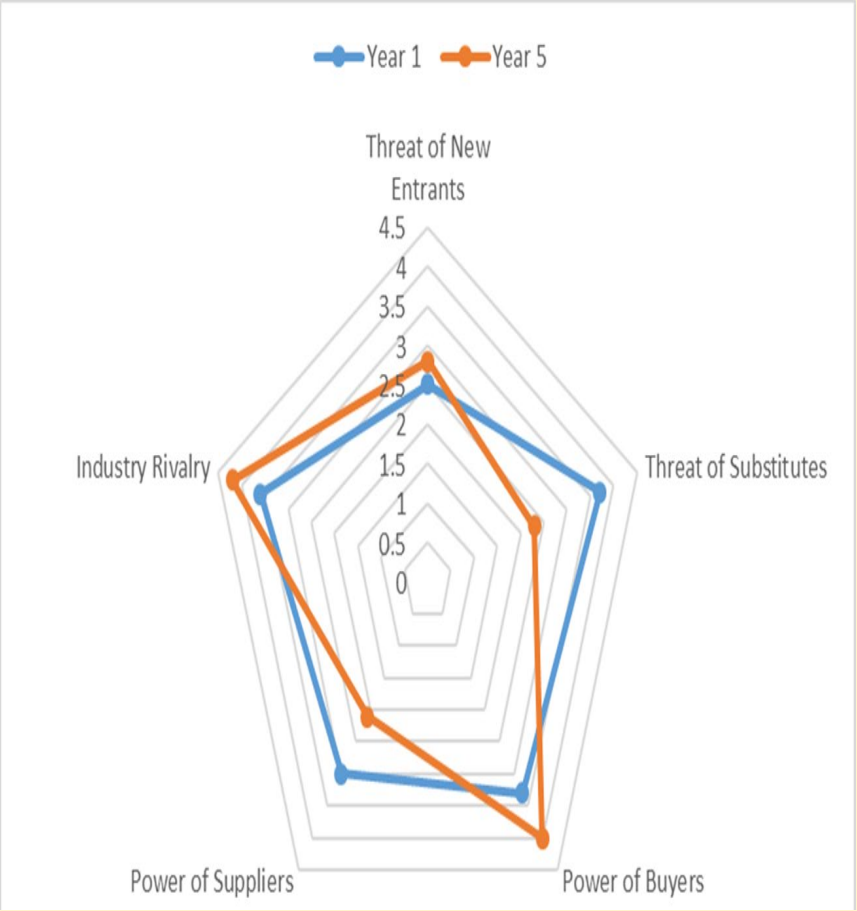
- **3.2 Five Forces Analysis**
  - Use a Quantitative analysis
  - Discuss each factor individually
  - For each Force identify the key influencing factors
  - Use Radar Chart for each Force. See example below
  - Must **discuss the impact and implications of the key influencing factors** to the Organization and Industry



- Present overall Radar chart for Five Forces



- Present Radar chart for next 3-5 years



Must provide a discussion of the key driving forces of competition and its impact on the organization

4. Conclusions

- Must link strongly with the earlier parts of the report and **pull together your findings**
- **restate the key issues** that you have identified and your major findings
  - Provide a brief discussion of the key issues arising out of the PEST, Five Forces and/or Balance Scorecard analysis
  - Use:
    - ETOP analysis and Key Driving Forces Diagram
    - Five Forces Overall and next 3-5 years Radar Chart
    - Balance Scorecard dashboard
    - summary of Key Financial Issues
  - to get the key points
- Could use a SWOT matrix here to summarise.

5. Recommendations

- Based on the analysis and conclusions, you must now **recommend an appropriate Strategic Option** for the Focus Organization
- It must address these key issues and major findings
- **5.1 Strategic Choice**
  - Present the Strategic Options- using appropriate models e.g. Porter's Competitive Strategy, Bowman's Strategic Clock, Ansoff Matrix, BCG Matrix etc.
  - Define 3 Strategic Options for the Organization

5.1.1 Suitability

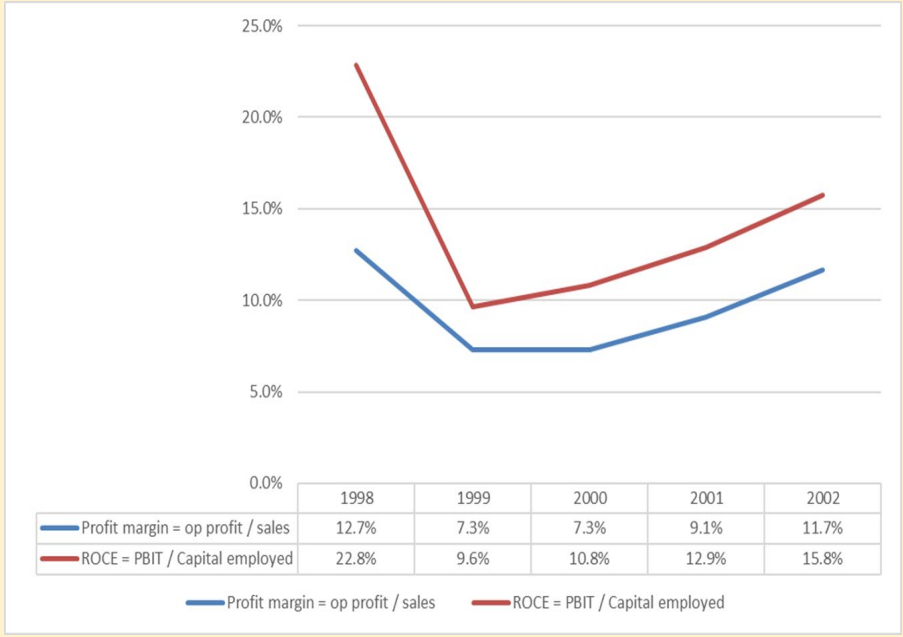
- Apply Suitability Test to choose one of the 3 Options
- Use the Strategic Planning Matrix (QSPM) for the selection
- Base on the QSPM, discuss whether or not the new strategy:
  - Will exploit the opportunities in the environment and avoid the threats?
  - Will capitalise on the organisation's strengths and strategic capabilities and avoid or remedy the weaknesses?

TABLE 6-6 The Quantitative Strategic Planning Matrix—QSPM

		Strategic Alternatives		
Key Factors	Weight	Strategy 1	Strategy 2	Strategy 3
Key External Factors				
Economy				
Political/Legal/Governmental				
Social/Cultural/Demographic/Environmental				
Technological				
Competitive				
Key Internal Factors				
Management				
Marketing				
Finance/Accounting				
Production/Operations				
Research and Development				
Management Information Systems				

- **5.2 Modelling of Strategic Choice**
  - You must model your recommendations in the financial spreadsheet model from section 2
  - make some assumptions on costs, sales etc. and input these to the model
  - State these assumptions
  - Add the prediction for the next 3 years (Sensitivity Analysis)
  - ~~Calculate new financial ratios for the next 3 years~~
  - Print spreadsheet in body
- **5.3 Acceptability and Feasibility**
  - discuss and interpret the financial and other outcomes of your recommendations

- **5.3.1 Acceptability**
  - Place CBA spreadsheet in BODY- showing above calculations
  - **Discuss Payback period, NPV, ROI results in body**
  - ~~Use the new financial ratios from modelling spreadsheet~~
  - ~~**Present new Ratios using a new dashboard with graphs and charts for the next 3 years in body**~~
  - Narrative analysis is needed, discuss projected performance for the next 3 years
    - What is the trend? Increasing/decreasing?
    - What is the % change? Positive/negative?
  - Is the new strategy Acceptable?



	1998	1999	2000	2001	2002
Profit margin = op profit / sales	12.7%	7.3%	7.3%	9.1%	11.7%
ROCE = PBIT / Capital employed	22.8%	9.6%	10.8%	12.9%	15.8%

Summary- Criteria for Acceptability

Criteria	To Understand	Examples	Limitations
Return			
Profitability	Financial return on investments	ROCE Payback period DCF	Apply to discrete projects Only tangible costs/benefits
Cost-benefit	Wider costs/benefits (incl. intangibles)	Major infrastructure projects	Difficulties of quantification
Real options	Sequence of decisions	Real options analysis	Quantification
Shareholder value analysis	Impact on shareholder value	Mergers and acquisitions	Technical detail often difficult
Risk			
Financial ratio projections	Robustness of strategy	Break-even analysis Impact on gearing/ liquidity	
Sensitivity analysis	Test assumptions/ robustness	What if? analysis	Tests factors separately
Stakeholder reactions			
	Political dimension	Stakeholder mapping Game theory	Largely qualitative

- **5.3.2 Feasibility**
  - Do the resources and competences currently exist to implement the strategy effectively?
  - If not, can they be obtained?
  - Need to consider:
    - The funding required.
    - Cash flow analysis and forecasting.
    - Financial strategies needed for the different ‘phases’ of the life cycle of a business.
  - Could **use Lynch Feasibility Checklist** as a set of criteria and apply a score to each to determine overall feasibility.

6. Limitations of financial models and conventional analysis

- You need to critiques the PEST and Five Forces model
- Please see:
  - Lynch- Strategic Management
  - Johnson and Scholes et al – Exploring Corporate Strategy
- **6.1 Critique of PEST**
- **6.2 Critique of Five Forces**
- **6.3 Critique of Financial Ratios**
- **6.4 Critique of CBA**
- **6.5 Critique of Sensitivity Analysis**