

Internal Analysis

- Finance
- Marketing
- Operations
- Human Resources
- Organizational Structure
- Note: SWOT
 - Identify Strengths and Weaknesses

Financial Analysis

- Revenue
- Expenses
- Cash Flow
- Break Even
- Ratio Analysis
- Comparison to Industry
- Projections using Current Strategy

Current-Year-Trends

3-Year Averages

Financial Ratios

- Profitability
- Liquidity
- Leverage
- Activity
- Other

Financial Ratios - Profitability

	Formula	How Expressed	Meaning
Net profit margin	$\frac{\text{Net profit after taxes}}{\text{Net sales}}$	Percentage	Shows how much after-tax profits are generated by each dollar of sales.
Gross profit margin	$\frac{\text{Sales} - \text{Cost of goods sold}}{\text{Net sales}}$	Percentage	Indicates the total margin available to cover other expenses beyond cost of goods sold, and still yield a profit.
Return on investment (ROI)	$\frac{\text{Net profit after taxes}}{\text{Total assets}}$	Percentage	Measures the rate of return on the total assets utilized in the company; a measure of management's efficiency, it shows the return on all the assets under its control regardless of source of financing.
Return on equity (ROE)	$\frac{\text{Net profit after taxes}}{\text{Shareholders' equity}}$	Percentage	Measures the rate of return on the book value of shareholders' total investment in the company.
Earnings per share (EPS)	$\frac{\text{Net profit after taxes} - \text{preferred stock dividends}}{\text{Average number of common shares}}$	Dollars per share	Shows the after-tax earnings generated for each share of common stock.

Financial Ratios - Leverage

	Formula	How Expressed	Meaning
Debt to asset ratio	$\frac{\text{Total debt}}{\text{Total assets}}$	Percentage	Measures the extent to which borrowed funds have been used to finance the company's assets.
Debt to equity ratio	$\frac{\text{Total debt}}{\text{Shareholders' equity}}$	Percentage	Measures the funds provided by creditors versus the funds provided by owners.
Long-term debt to capital structure	$\frac{\text{Long-term debt}}{\text{Shareholders' equity}}$	Percentage	Measures the long-term component of capital structure.
Times interest earned	$\frac{\text{Profit before taxes + Interest charges}}{\text{Interest charges}}$	Decimal	Indicates the ability of the company to meet its annual interest costs.
Coverage of fixed charges	$\frac{\text{Profit before taxes + Interest charges + Lease charges}}{\text{Interest charges + Lease obligations}}$	Decimal	A measure of the company's ability to meet all of its fixed-charge obligations.
Current liabilities to equity	$\frac{\text{Current liabilities}}{\text{Shareholders' equity}}$	Percentage	Measures the short-term financing portion versus that provided by owners.

Financial Ratios - Liquidity

	Formula	How Expressed	Meaning
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Decimal	A short-term indicator of the company's ability to pay its short-term liabilities from short-term assets; how much of current assets are available to cover each dollar of current liabilities.
Quick (acid test) ratio	$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$	Decimal	Measures the company's ability to pay off its short-term obligations from current assets, excluding inventories.
Inventory to net working capital	$\frac{\text{Inventory}}{\text{Current assets} - \text{Current liabilities}}$	Decimal	A measure of inventory balance; measures the extent to which the cushion of excess current assets over current liabilities may be threatened by unfavorable changes in inventory.
Cash ratio	$\frac{\text{Cash} + \text{Cash equivalents}}{\text{Current liabilities}}$	Decimal	Measures the extent to which the company's capital is in cash or cash equivalents; shows how much of the current obligations can be paid from cash or near-cash assets.

Financial Ratios - Activity

	Formula	How Expressed	Meaning
Inventory turnover	$\frac{\text{Net sales}}{\text{Inventory}}$	Decimal	Measures the number of times that average inventory of finished goods was turned over or sold during a period of time, usually a year.
Days of inventory	$\frac{\text{Inventory}}{\text{Cost of goods sold} + 365}$	Days	Measures the number of one day's worth of inventory that a company has on hand at any given time.
Net working capital turnover	$\frac{\text{Net sales}}{\text{Net working capital}}$	Decimal	Measures how effectively the net working capital is used to generate sales.
Asset turnover	$\frac{\text{Sales}}{\text{Total assets}}$	Decimal	Measures the utilization of all the company's assets; measures how many sales are generated by each dollar of assets.
Fixed asset turnover	$\frac{\text{Sales}}{\text{Fixed assets}}$	Decimal	Measures the utilization of the company's fixed assets (i.e., plant and equipment); measures how many sales are generated by each dollar of fixed assets.
Average collection period	$\frac{\text{Accounts receivable}}{\text{Sales for year} + 365}$	Days	Indicates the average length of time in days that a company must wait to collect a sale after making it; may be compared to the credit terms offered by the company to its customers.
Accounts receivable turnover	$\frac{\text{Annual credit sales}}{\text{Accounts receivable}}$	Decimal	Indicates the number of times that accounts receivable are cycled during the period (usually a year).
Accounts payable period	$\frac{\text{Accounts payable}}{\text{Purchases for year} + 365}$	Days	Indicates the average length of time in days that the company takes to pay its credit purchases.
Days of cash	$\frac{\text{Cash}}{\text{Net sales for year} + 365}$	Days	Indicates the number of days of cash on hand, at present sales levels.

Financial Ratios - Other

	Formula	How Expressed	Meaning
Price/earning ratio	$\frac{\text{Market price per share}}{\text{Earnings per share}}$	Decimal	Shows the current market's evaluation of a stock, based on its earnings; shows how much the investor is willing to pay for each dollar of earnings.
Dividend payout ratio	$\frac{\text{Annual dividends per share}}{\text{Annual earnings per share}}$	Percentage	Indicates the percentage of profit that is paid out as dividends.
Dividend yield on common stock	$\frac{\text{Annual dividends per share}}{\text{Current market price per share}}$	Percentage	Indicates the dividend rate of return to common shareholders at the current market price.

Note: In using ratios for analysis, calculate ratios for the corporation and compare them to the average and quartile ratios for the particular industry. Refer to Standard and Poor's and Robert Morris Associates for average industry data. Special thanks to Dr. Moustafa H. Abdelsamad, Dean, Business School, Texas A&M University-Corpus Christi, Corpus Christi, Texas, for his definitions of these ratios.

Financial Analysis

- Competitive position:
 - Revenue/Costs/Trends (Competitors)
 - Market Opportunities/Threats
 - Profitability vs. Market: Products/Areas/Customers/Distribution Channels/Costs
- Global Market



Marketing Analysis

- Market Share
- Size
- Demographics
- Advertising

Marketing - Mix Variables

Product	Place	Promotion	Price
Quality	Channels	Advertising	List price
Features	Coverage	Personal selling	Discounts
Options	Locations	Sales promotion	Allowances
Style	Inventory	Publicity	Payment periods
Brand name	Transport		Credit terms
Packaging			
Sizes			
Services			
Warranties			
Returns			

Source: Philip Kotler, *Marketing Management: Analysis, Planning, and Control*, 4th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1980), p. 89. Copyright © 1980. Reprinted by permission of Prentice-Hall, Inc.



Internal Analysis

- Products/Services
- Market Analysis
 - Target Market Characteristics
 - Sales/Distribution/Profits by Product/Service
- Competitive Analysis
 - Competitor's Profile
 - Product/Service Comparison
 - Market Niche and Share
 - Competitor Strategies



Internal Analysis

- Marketing Strategy
 - Penetration Goals
 - Price / Package
 - Sales / Distribution
 - Services
- Advertising / Promotions



Operations Analysis

- Location
- Facilities
- Processes
- Functional Chart of Organization
- Capacity
- Inventory
- Distribution



Human Resource Analysis

- People and Staffing
- Types of Skills
- Organization Chart showing
 - Number of Employees
 - Employee Skills
- Payroll
- Union or Non-union
- Training
- Management Structure

Potential Internal Strengths

- A distinctive competence
- Adequate financial resources
- Good competitive skill
- Well thought of by buyers
- An acknowledged market leader
- Well-conceived functional area strategies
- Access to economies of scale
- Insulated(at least somewhat) from strong competitive pressures

Potential Internal Strengths

- Cost advantages
- Better advertising campaigns
- Product innovation skills
- Proven management
- Ahead on experience curve
- Better manufacturing capability
- Superior technological skills
- Other?

Potential Internal Weaknesses

- Sub par profitability because- Lack of managerial depth and talent/Missing some key skills or competence/Poor track record in implementing strategy//Plagued with internal operating problems
- No clear
- Obsolete facilities
- Falling behind in R & D
- Too narrow a product line
- Weak market image
- Weaker distribution network

Potential Internal Weaknesses

- Below-average marketing skills
- Unable to finance needed changes in strategy
- Higher overall unit costs relative to key competitors
- Other?