Case analysis: A Student's Guide

This case analysis guide has been designed to cover all aspects of case analysis and presentation. Of course, you may be comfortable with your presentation skills, or report writing. If this is the case, read those sections that cover gaps in your skills.

A sample case analysis (Tesco PLC) is provided to accompany this guide and includes a spreadsheet with a sample financial analysis.

1. What is a case study?

A case study is simply an account of a particular set of circumstances in an industry as a whole, or facing the members of a particular organization. More specifically, a case may be written with a particular purpose in mind that implies a task for you the student. The table below outlines the possibilities:

Nature of the case	Your task in analyzing such a case
Report on what an organization or individual (usually the strategic leader) actually did when faced with certain circumstances.	Evaluate the decisions made and/or strategies pursued and examine alternatives courses of action.
Explanation of a set of circumstances facing an organization.	Analyse the circumstances to draw out implications for the organization and then propose a strategy for dealing with the situation.
Explanation of a set of circumstances facing an entire industry	Analyse the circumstances to determine how the issues involve will change the industry in the future and what implications this will have for organizations in the industry.
An account of the competitive rivalry between two or more organizations.	Interpret the logic of the decisions made and/or strategies pursued and evaluate their appropriateness in terms of an organisation's available resources and external conditions (including competitor behaviour).
An account of the aims and management of a collaborative strategy between two or more organizations.	Analyse the issues that prompted the collaboration, evaluate how effectively it was managed and establish whether or not its objectives were met.

You should pay particular attention to the words analyse, interpret and evaluate.

The aim of case analysis is to demonstrate an understanding of what the case depicts by interpreting information using theoretical concepts and perspectives derived from your course.

Never simply restate the facts of the case. This is almost always a bad thing to do when analyzing a case.

2. Why are cases used in strategy courses?

Reading and listening to lectures alone will not provide management skills. Every managerial situation has many different dimensions that will require individual evaluations, decisions and actions.

Cases, and particularly their repetitive use, give you the student an opportunity to practice tackling realistic scenarios that face real managers in real companies. The case study will help you to develop a host of skills: -

- You will develop analytical skills through the use of quantitative and qualitative techniques to interpret and understand business situations.
- The case method demands that you assess a situation and make a decision as to an appropriate course of action. Through the extended use of cases your decision-making skills will improve as you begin to generate alternative solutions and develop evaluation strategies to decide on a best course of action.
- You will develop a skill in applying the theories, techniques and tools you have learned on your course of study.
- Your communication skills will be improved in a number of ways via the use of case studies. For example:

    - **Oral skills** will be improved by having to present your findings and recommendations in a succinct manner and you must be prepared for challenges to your assumptions and be able to justify your position using the evidence from the case.
    - **Social skills** are developed where you are analyzing the case as part of a group or for group discussion. This will involve you in conflict situations and compromise.
    - **Written skills** are further developed through report writing which must encapsulate the main elements of a situation and clear recommendations as to courses of action which are logical and justified. The process of familiarizing yourself with a case will likely involve note-taking, a skill which requires you to be able to draw out pertinent points from the case rather than simply rewriting the situation.

In addition to the development of the above skills, using cases will increase your appreciation of the processes managers should engage in when guiding a business to success and so enhance your business judgment. Furthermore, also the repeated use of case studies will give you an insight into different industries

and companies. The case study will allow you to learn by doing, offering something close to real business experience.

3. How should I conduct a case analysis?

For every case there are 3 key aspects of case analysis (which usually form the basis of any assessment of your efforts) and you must ensure that each is fully addressed and evident in your report or presentation:

- Analysis and interpretation of the case facts.
- Application of conceptual and theoretical material from your course.
- Presentation of results with supporting evidence.

But before you begin to address each of the above you must first 'get a feel' for the case. You can do this by following this series of steps:

- Quickly read the case to familiarize yourself with the situation presented.
- Now read the case in depth to begin to absorb the facts and start thinking of approaches/solutions to the set questions.
- Carefully consider any tables/charts in the case, as authors usually don't add them unless there is a reason, often these numbers are telling a story that is important to the situation and your evaluation of it.
- At this point you should begin to outline what the key strategic issues are. Until you do this you are unable to start interpreting, evaluating, drawing out implications or linking together related issues, since you had not decided what to analyse, or which techniques might be appropriate.

Now you are ready to tackle the 3 key aspects of analysis, conceptualization and presentation outlined earlier. While set out in order below the first two actually are part of the same process, i.e. you should use the models and theories from your course to structure your analysis. However, it is a sign of a good student that they recognize the limitations of theories and note points the theory doesn't address.

3.1 Analysis and interpretation of the case facts.

Firstly, consider the key decisions or issues of the case, as this will inform what it is you must analyse, e.g. a decision that has been taken or a change in the organisation's internal/external environment. Once this has been identified you can begin your analysis.

This will start by considering the numbers, e.g. calculating financial ratios to establish the company's financial position, calculating growth rates/sales profits to determine recent performance and consider margins and cost structures to determine any revenue-cost-profit relationships that may exist. Further help with

this analysis can be found at in the financial analysis section below (and by looking at the file ratio_analysis.xls.)

In interpreting the case you must use the facts contained within it, be careful not to read too much into something unless there is evidence to support an assumption. However, do not use excuses of poor information where evidence may not be available or limited, this is the reality of the managers situation, make an assumption that can be asserted as reasonable (not fanciful), this is a legitimate practice. Finally, not all the facts in a case will be meaningful to the strategic issue in question, be careful that you are not side tracked by a 'red herring'.

3. 2 Application of conceptual and theoretical material from your course.

Here you have to determine which theories/concepts from your course would help in better understanding or resolving the situation outlined in the case. Every case you are given will be strategy based and therefore, gives you the chance to apply what you have learned. Tutors are actively looking for you to demonstrate your understanding of theory by your knowing when and how to apply a particular concept/model.

Remember, not every concept/model will be relevant in a single case. It is your discriminate application of the concept/model that will inform the tutor whether or not you have understood both the case and the concept/model.

When applying a particular concept/model to a case you must ensure that you adapt the model/concept to the context of the case, do not simply present the concept/model with no attempt to establish how it fits in with a given situation.

3.3 Presentation of results with supporting evidence.

Whether presenting your results as part of a class discussion, orally or in written format, you will be expected to demonstrate your skill in sorting and structuring information. You must have established what is relevant and important to the strategic issue in question and when presenting your findings and your judgments you must provide supporting evidence drawn from the facts of the case and any realistic assumptions. This will highlight to the tutor how good, or not, your analysis of the situation has been.

A manager would not simply reiterate results to a board they would suggest actions based on their findings (and show the supporting evidence) and that is exactly what you must do. Convert your analysis into solutions that will produce the desired results. Again, these solutions must be realistic and you must justify them against alternative courses of action.

4. Financial analysis of case studies

Financial analysis is a part of case study analysis that many students shy away from assuming it to be too difficult. In fact, it is no more than simple arithmetic. To assist and encourage you to do the financial analysis we have included a spreadsheet on this web site that will calculate all of the key ratios for you and has helpful hints on how to interpret the results.

You can find the Excel speadsheet ratio_analysis.xls referenced here on the companion website.

Why is the financial analysis relevant anyway?

There are two key answers to this question:

1. A company with a stronger financial position will have more strategy options open to it. The more finance available the more demanding and resource intensive strategies the firm can tackle, e.g. more ambitious acquisitions, more research and development, more frequent product launches, etc.

2. A company with a strong financial position is better able to fight off attacks from challengers seeking to infiltrate its markets, undercut it on price or outspend it in terms of marketing or other areas.

3. Ratio analysis can reveal a lot about how well management are utilising available resources and so supports the internal analysis.

Thus for a variety of reasons an understanding of the financial position of a company is vital.

4.1 Interpreting financial statement (ratio analysis)

The two principal sources of accounting information for ratio analysis are the Balance Sheet and Profit and Loss Account. In addition, it is usually advisable to have the notes to the accounts as they often give more specific detail on figures needed for the ratio calculations.

The main financial statements	Description
Balance sheet	Shows a detailed breakdown of a company's assets and liabilities on the last day of the accounting period.
Profit & Loss Account	The P&L account gives details of the company's activities over the accounting period by recording revenues generated and costs incurred in generating that revenue.

The FIVE main groups of ratios are detailed below. It should be remembered that a single ratio figure is of little use. Ratios need to be interpreted as trends in an individual company's performance (i.e. are ratios improving or declining) or against industry averages (or specific competitors where appropriate).

The FIVE main groups of ratios

4.1.1 Profitability ratios

Profitability ratios show how effectively the managers of a company use available assets to generate profits.

Return on capital employed (ROCE)

ROCE = EBIT/Total assets x 100

ROCE shows the return on the fixed and current assets less current liabilities, i.e. how much money managers have generated with the money made available. It is The higher this figure the better, so long as short term profits are not being artificially boosted by means that jeopardise long-term profitability.

Return on equity

Return on equity = Net profit/equity x 100

Return on equity shows the profit available for distribution to shareholders as a percentage of the money shareholders have tied up in the business (i.e. share capital and reserves). This measures profit as a percentage of shareholder's funds and so the higher it is the happier shareholder's tend to be.

Gross profit margin

Gross profit margin = Gross profit/Sales x 100

Gross margin shows the percentage of Sales left over after deduction of variable expenses. It thus shows what percentage of Sales is available to cover overheads and profits.

Net profit margin

Net profit margin = Net profit/Sales x 100

Net margin shows what is left out of Sales when all expenses have been met. This figure should be as high as possible, so long as it is not artificially boosted in the short term by actions that jeopardise long-term profits.

4.1.2 Activity ratios

Activity ratios seek to evaluate how well management are using the resources at their disposal.

Net asset turnover

Net asset turnover = Sales/(Total assets less Current liabilities)

Net asset turnover is a measure of how effectively management use available assets to generate sales. A high figure is not necessarily 'good' if margins are so small that little profit results. Needs to be considered in context of pricing strategy.

Stockholding period

Stockholding period = Stock/Cost of Sales x 365

Stockholding period should be as short as possible as this means less money is being tied up in inventory. However, if it is too short there is a risk of running out of stock and so losing money through missed sales and interrupted production.

Debtor collection period

Debtor collection period = Debtors/Sales x 365

This debtor ratio shows the ratio of debtors to sales and should be kept to a minimum to reduce the amount of money owed to the firm. However, this has to be viewed against the need to offer credit to customers to maintain goodwill, etc.

Creditor payment period

Creditor payment period = Creditors/Sales x 365

Creditor days shows how long the firm usually takes to pay for goods it has bought on credit from suppliers. The higher this figure the better as it shows the firm is using the maximum free credit available. However, to abuse credit terms by non-payment within agreed limits will damage relations with suppliers.

4.1.3 Liquidity ratios

Liquidity ratios seek to measure how well placed a firm is to meet its immediate commitments (i.e. those requiring cash payment). In other words, how effectively working capital is being managed.

Current ratio

Current ratio = Current assets/Current liabilities

The current ratio is usually stated as the amount of current assets for every £1 of current liabilities. Typically firms try to have ratios greater than 1:1 but this varies widely between industries. A positive figure gives confidence to creditors that a firm can meet its commitments.

Quick asset ratio

Quick asset ratio = (Current assets - stocks)/Current liabilities

Quick assets or acid test is a more severe test of liquidity than the current ratio as it excludes the less liquid asset of stock (which may be difficult to turn into cash immediately). In this regard it shows whether the firm could pay what it owes its creditors if they demanded immediate payment.

4.1.4 Capital gearing ratios

Capital gearing ratios relate to the balance between debt and equity finance (i.e. capital structure) being used by the company. Whereas debt finance is often cheaper than equity finance, it does expose the company to more risk due to the possible fluctuation in binding interest payments.

Gearing ratio

Gearing ratio = Long and short-term borrowings/Capital employed*

* Capital employed comprises Shareholders' funds + total borrowings.

The gearing ratio shows what proportion of the total capital base is made up of borrowings (debt). A high figure shows more of a company's assets are financed by debt rather than shareholder's equity funds. While debt may be a cheaper form of funding it is more risky due to interest rate fluctuations as economic conditions change. Interpretation of this ratio should be made by comparing figures over time to track changes and by comparison with other firms or the industry average.

Debt to equity

Debt to equity ratio = Long and short-term borrowings/ Shareholders' funds*

* Shareholders' funds = equity + reserves.

The debt to equity ratio is a more stringent measure of a company's gearing because borrowings are deducted from capital employed in the denominator leaving just shareholders' funds (consequently this ratio will always be higher than the gearing ratio). The calculated figure shows debt as a percentage of shareholders' funds. Changes over time and comparisons with industry averages should be used to interpret whether a given figure is 'high' or 'low'.

Interest cover

Interest cover = EBIT/Interest charges

The Interest cover ratio shows how many times the firm could pay its debt interest from its profits. A figure of, say, 10 would indicate that profits could fall to one-tenth of current levels and the firm could still meet its interest payments.

4.1.5 Investor ratios

Investor ratios are of particular interest to shareholders as they show how effectively the shareholder's investment is performing. These ratios are widely used by investors and analysts and are widely published in business journals (e.g. Financial Times).

Earnings per share (EPS)

EPS= Profit after interest and tax/Number of ordinary shares

The EPS ratio shows how much after tax profit a company has made for each ordinary share issued. Interpretation should be on the basis of the firm's own past record as comparison between firms has little meaning given different numbers of shares they will have in circulations.

Price-earnings ratio (PE ratio)

PE ratio = Current market price of a share*/Earnings per share

The PE ratio shows by what multiple investor's are willing to pay for each £1 of earnings offered by an investment in a company. For example, a PE ratio of 5 means investor's are willing to pay £5 for every £1 of earnings. The higher the PE ratio the greater the confidence investor's have in a company's ability to keep delivering profits to shareholders.

* For the current share price, check either the Financial Times or an online source such as Hoover's (http://www.hoovers.com).

Dividend yield

Dividend yield = (Dividend per share/Current price of the share) x 100

The dividend yield shows the dividend as a percentage of the share price and as such is a key reference point in comparing the returns on the shares of different companies or other types of investment such as bank deposits.

Dividend cover

Dividend cover = EBIT/Total dividend

Dividend cover shows how many times the dividend could be covered out of current profits. As such, this ratio shows what confidence investors can have in the firm's ability to make dividend payments even if there was a decline in profits.

Ratio analysis will not necessarily provide all the answers to your financial questions but it will often highlight aspects of a company's performance that require further investigation, e.g. an unusually high 'debtor collection period' might warrant investigation of the company's credit management policy, or a high 'stockholding period' might suggest poor management of inventory which is needlessly tying up money.

Treat the ratios as pieces of evidence in assembling an overall picture of a company's situation, not as definitive answers to questions of financial well being.

Activity: Case Study of Financial Analysis: Tesco PLC (1998 - 2002)
Questions:

1. Examine the ratio analysis given in the Tesco Example carefully. (You should also look at the online Moodle version, because that has comments about each ratio appended to each row (red triangles)).

Note the ratio numbers in each row - for the five groups - In your own words explain what the changes in each number ratio *means* for the (financial) performance of Tesco PLC between 1998 and 2002. What might these changes suggest about Tesco's strategy through this period - where might you gain evidence for *why* these changes occurred?

2. Choose which ratios you think may be the most appropriate ones to examine for the INEOS case study - in the period specified in the case study (say, up to 2015). Why may these ratios tell you more than others about the financial sustainability of INEOS and its strategy in the chemical engineering sector?

4.2 Presenting your analysis

There are three main ways of presenting a case analysis. We will examine each in turn.

4.2.1 Class discussion

This will involve you individually preparing the case to participate in a group discussion. You should be prepared to learn not only from your own analysis and findings from the case but also from what others say, this is a 'give and take' session, so ensure that you bring your own ideas to the discussion and to leave with a greater level of understanding.

To gain this greater level of understanding you must listen, taking on board others opinions and weighing them against your own, and being prepared to change or modify your viewpoint or defend your position.

This form of presentation can be unnerving, having to speak unprompted, assert your ideas and defend your views to peers and tutors, but the best way to overcome this is to get involved in the discussion early, the longer you put it off the more difficult it becomes to speak up. Remember that in some assessment strategies your participation in these events is used for awarding marks.

Some pointers:

- You and other students should do most of the talking. The tutor is there to facilitate the discussion and will likely ask questions to move the discussion in the direction of the key issues.
- Be prepared to be questioned and challenged by your peers for justifications and evidence to support your statements.
- Don't fear rejection of your ideas. This is a part of the learning process of class discussion. Managers don't always convince their colleagues either. Respect the views and approaches of others and be able to defend and justify your own.
- Be prepared to change your mind and question your own assumptions in light of what you hear in the discussion.
- Make every effort to contribute meaningfully. i.e. build on the discussion so far or introduce an important new issue.
- Use your previously prepared notes to help you make points and provide the appropriate evidence to support your statements.

4.2.2 Individual or group presentation

It will not be uncommon in your managerial career to be expected to give oral presentations and so case studies can require this form of verbalized diagnosis, analysis and recommendations as way of aiding you in developing this skill. The major differences between a group and individual presentation are firstly the advantage of more ideas and greater analysis that should give wider insights, however, a difficulty of the group approach is managing the group. Each member must be delegated certain tasks and deadlines must be given to ensure that the final presentation does reflect the efforts of ALL group members. It is not always necessary or desirable to have each member orally present, it maybe that there is a natural speaker within the group who is happy to do this. On the other hand, if each member is to speak then you must ensure that the presentation can be divided logically to allow for allocation of scripts to each member. Also, be sure to hand over to one another at the end of a section, don't simply step down at the end of your bit!

Whether the presentation is individual or group good execution of the task will be based around your consideration of 3 key areas:

- **Plan**

  You and any group members must plan your presentation to ensure it is organized, logical and relevant. Good planning is vital to an effective presentation. Having done your analysis of the case and drawn conclusions then you need to plan how you are going to present this to your audience. You must determine a structure, e.g. Introduction, Strategic issues, Analysis, Recommendations, Summary. A slide show can help you to convey this information easily and with maximum visual impact. The use of Microsoft PowerPoint will help with this, however, whilst seeking maximum visual impact the use of too many 'gizmos' can distract an audience, and an 'all singing, all dancing' slide show can never compensate for poor content. A possible slide show could be:

  - Opening slide – Title and name of presenter(s)
  - Introductory slide – Outline of presentation/structure. Aim to arouse interest.
  - A summary of key strategic issues/problems of the case.
  - A series of slides to present your analysis of the situation, using relevant models/concepts.
  - A number of slides outlining recommendations. It may be appropriate to have one slide per recommendation on which supporting arguments and reasoning are given.
  - Summary slide – draw conclusion and provide a lasting impression.

If you have planned a slide show ensure that the equipment needed is available and can be booked for the presentation.

You are unlikely to have a finite amount of time for the presentation so you must plan how you are going to use the allotted time e.g. 20 minutes. This will involve structuring the content to ensure all elements are included and that the information can be presented in the time given. A common problem with student presentations is they contain too much information that is difficult for the audience to assimilate, keep it simple and to the point.

Also, plan the content to ensure it is balanced; introductions and summaries should be briefer than the core themes of strategic issues, analysis and recommendations. If the presentation is a group effort then thought must be given to who says what and in what order.

A final point at this planning stage is to try and anticipate any questions that might be raised from the content of the presentation and plan responses.

- **Practice**

At this point, whether individually or part of a group you must rehearse the presentation. This practice is to establish two things, firstly, that you know the content of the presentation and are not reliant on a script and, secondly, to develop your delivery style. It is here that a group can be particularly helpful by commenting on each other's performance in relation to eye contact, timing, voice audibility and linking between presenters. If individually presenting, you must try to get someone to observe you and offer these types of comments.

Practicing at this point will also highlight if there is too much/too little content for the allotted time. You should not speak fast simply to fit it all in as your audience will be unable to follow, and thus the objective of the exercise has been negated.

You need also to practice using any technology/aids that you have incorporated into the presentation.

This stage of preparation is the key to confidence and the more you practice the more confident you will feel at the time of the actual presentation. You cannot practice enough!

- **Present**

When it comes to the day of the presentation ensure that any equipment/aids booked are still available and working. At the presentation remember the following:

- Introduce yourself and any other members.
- You may wish to give the audience copies of the slides being used to help them follow the presentation and make notes of any queries they may have. However, you may decide to give these out at the end to ensure the audiences full attention during the presentation.
- Adhere to your planned structure.
- Speak clearly and at an appropriate pace.
- Refer to any slides or aids but do not stand and read from them. The audience can read for themselves.
- Do not stand in front of slides/aids. Also, avoid turning your back on the audience.
- Maintain eye contact with your audience, engage them, invite questions where appropriate.
- Do not read from scripts, this is boring and reduces eye contact. You may use memory props such as cue cards, but don't seem over reliant on them.
- If this is a group presentation be sure to link up by handing over to each other with a statement from the current presenter as to who and what will be presented next.
- If a group, do not talk amongst yourselves when another member is 'on', this is both discourteous and distracting for audience and presenter.
- Conclude by thanking your audience for their attention and always invite 'any questions'.
- When answering any questions be clear and confident and refer to the content of the presentation where appropriate. If a group presentation you may wish to take questions and delegate to the group member who is most likely to be able to answer based on their contribution to the case study and presentation.
- Thank your audience for their attention.

4.2.3 Written report

In common with the oral presentation, any written report must identify the strategic issues facing the company and develop a realistic course of action. It is likely that you can include more content in a written report than an oral presentation, however, there may still be constraints i.e. a 5000-word limit. The challenge of the written report is to convey your analysis and suggested recommendations effectively. The same preparation, as outlined in section 3, will form the bases of the written report.

For an effective written report firstly check the assignment brief to establish who the report is for, its purpose and any specific requirements i.e. word length, role e.g. marketing manager reporting to the Board of Directors, style and format.

A useful checklist for structure of the report could be:

- Title page, include company name and student name
- List of contents
- Executive Summary – A single page that outlines the key recommendations of the report. Whilst it is contained at the beginning of the report it cannot be completed until the report has been finalized.
- Company situation – This section will diagnose the strategic issues and main problems faced by the company. It should demonstrate that you have a good understanding of the company's position and that you have identified the firm's current strategy. Unless appropriate do not retell the facts and history of the company.
- Analysis and Evaluation – As well as financial analysis, look at the functional areas of the company to determine its capabilities, i.e. the factors/resources contributing to the success and/or failure of the company. Undertake a detailed analysis of the competitive environment to determine threats and opportunities. You should use tools of analysis from your course of study. It is important that you use evidence and facts from the case to support your conclusions. Your analysis may involve some quantitative calculations, therefore, use charts and tables to present your calculations and remember to label them. In the body of your report you should make reference to any tables and use key figures from the case to support your conclusions. This section should present a balanced argument, avoid being to one-sided and omitting aspects of the case that don't support your conclusions.
- Alternative Approaches – Discuss all legitimate courses of action open to the company outlining the strengths and weaknesses of each and how each will solve the problems you have identified. It maybe logical to start with the least acceptable alternative through to the best.
- Recommendations – Here you must outline your chosen alternative from the previous section and fully explain why you recommend this approach. Your explanation must be consistent with your analysis and evaluation and statements made about this course of action in the previous section. Also, you must show how this recommendation matches the company's financial and managerial competences.
- Action Plan – It is not enough to state what the company should do you have to further state exactly how it should be done. This will require a timeframe and a series of actions, some of which may be prioritized, you can also specify whom or what departments maybe responsible for doing what.

When writing the report use a simple functional style, remember in business information needs to be understood quickly and easily. Use short paragraphs and headings and sub-headings, point lists as these will help the reader navigate their way quickly and efficiently around the report. Be sure to proof-read and spell check your work prior to submission.

5. Conclusion

Whether written report, oral presentation or class discussion, the following rules will assist you with your case analysis:

- Read the case twice. Once to get a feel for the contents and once to go through the facts in detail (making notes).
- List all the problems or issues faced by the company.
- Apply concepts/tools to the situation; every case will have links to one or more concepts studied. The aim should be to use whatever material is relevant from your course to achieve a structured analysis of the case.
- Investigate all the numbers to discover any stories being told. Don't avoid financial analysis – if the accounts are included with the case, chances are it is for a reason.
- Always support your assertions with logical arguments drawn from the evidence contained in the case. Justify business judgements. Organisations don't make decisions based on unfounded subjective opinion!
- Prioritise your recommendations and ensure that they are achievable within the company's financial and managerial capabilities. In other words, always outline what you see as the implementation issues involved in adopting your proposals.
- Underpin each recommendation with reasons why it is achievable and could help solve the company's problems.
- Generate an action plan outlining timescales and sequenced action points.