A "Quick & Dirty" Strategic Audit

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ABSTRACT

In teaching Strategic Management, it is imperative that students first learn how to audit the firm before they begin analysis, planning and implementation. Unfortunately this is a step often overlooked. Without a complete and up to date audit, any analysis conducted would have questionable validity and reliability.

This report focuses on an instructional tool that faculty can utilize to guide students through a strategic audit of a company. The objective in auditing the organization is to describe the firm in terms of its current position in the industry, its strategy, structure, and performance. This paper describes the Company Profile Sheet and explains how it can be an invaluable tool for the students to understand the company under review and the strategic management concepts.

INTRODUCTION

In looking at the nature of strategy, organizations, and strategic thinking, the field is:

- complex, messy and ambiguous;
- the stage in which strategic managers must perform is in a constant state of change; and,
- there are no universally accepted right answers-everything we do in managing strategically is contingent upon reality (environment), feasibility (resources) and desirability (goals).

Even experienced managers can become overwhelmed with the complexity and dynamic nature of the variables that must be considered in making, implementing, and managing strategic decisions. Imagine how hard it is to stay fresh, creative, visionary and focused on the future when the present is so demanding. As a result, much work in the area has focused on the strategic management process and the development of tools to help us get our arms around "the beast."

This paper focuses on an instructional tool to help students understand the elements that go into looking at a firm strategically. This template, the "Company Profile Sheet", guides the student through the preliminary process of conducting the strategic management audit.

THE STRATEGIC AUDIT

The objective in auditing the organization is to describe the firm in terms of its current position relative to its overall plans, configurations, and assets.

Strategy (plans and processes) looks at what the firm does and how it does it.

Structure (configurations) looks at how the organization integrates the parts.

Performance (assets) looks at the outputs.

In developing the template I thought about what students need to know to conduct an *effective* and *efficient* strategic audit. My objective in developing the Company Profile Sheet was to come up with a one page strategic audit that would cover the key elements that influence strategic behavior and decisions.

To plan for the future you need a baseline in the present-like a doctor taking a patient history, a strategist needs to understand the current position of the firm prior to analyzing alternatives. Three areas led to the development of the Company Profile Sheet: lack of understanding of strategic *terminology*; inconsistent *operational definitions* and *metrics* to measure those concepts; and a *consistent platform* to conduct comparative analysis, both longitudinal and cross-sectional.

TERMINOLOGY

Strategic Management is usually taken at the end of the program of study in business—the *capstone experience*. Although students taking this course have been exposed to the basic concepts of business in their core courses (Management, Accounting, Finance, Marketing, Economics, Information Systems), their ability to apply those concepts in an integrative way into a company study is limited. Because of the dynamic and complex nature of the field of strategy there are many concepts and variables students must consider in conducting a strategic audit of a firm. Exposure to such concepts as *company demographics*-sector, trading, company type, industry classification, distribution areas tend to be abstract concepts, not grounded in application. *Strategic concepts* including corporate/business/functional level strategies, structural forms, and process strategies tend to be new variables to students, covered superficially in earlier courses but forgotten. *Performance* indicators including an ability to really look at balance sheets, income statements and ratios, analyzed and memorized for tests in earlier courses, have long been put aside as unimportant.

Additionally, students tend to have been exposed to *text cases*, where data is available in a concise, problem specific context. Reality is not written like a textbook case. Asking students to learn to pull current data from real company documents like the annual reports and 10k may be a new experience for them.

OPERATIONAL DEFINITIONS AND METRICS

It is one thing to be exposed to the concepts—it is another to understand the metrics required to operationalize those concepts. Most Strategic Management texts give theoretical definitions of terminology. My objective in developing the template with definitional instructions was to give the students a guide with operational metrics for each of the variables under audit.

CONSISTENT PLATFORM

The template provides a consistent platform for conducting a strategic audit.

- It serves as a map that guides the student through the key elements of the audit.
- It provides an integrative approach to strategic audit versus disjointed presentation of concepts.
- It provides the ability to examine not only a single company, but to conduct longitudinal and cross-sectional company comparisons using an integrative template for data collection.
- It provides a foundation for more in-depth and qualitative narratives of strategy.
- It serves as a complement to case analysis.

THE COMPANY PROFILE SHEET

The Company Profile Sheet, **Appendix A**, provides a "quick and dirty" strategic snap shot of the firm. The company profile sheet is divided into three primary sections and is composed of 34 questions. Primary data can cover the most current year, but to really understand strategic change, it is good to look at data over several years.

The first section (items 1-10) includes **general information** on the firm: its name, address, phone number, trading name/ symbol/ markets, industry classification, dates founded/ incorporated/ public, sector, industry type, distribution areas, key subsidiaries, outlets, and employees.

The second section of template is **Strategy, Structure** information, items 11-18. Once you have collected general demographic data on the firm, you can begin to dig deeper into the strategy and structural configurations: business description, identifiable businesses, strategy of growth classification (single business or multi), competitive strategy, primary markets/ products/ brands, integration (vertical or horizontal), process of growth classification, and structure.

The third section of the profile includes **performance** information (items 19-34). Taking information from the income statement, balance sheet and key ratios this provides a quick look into financial standing of the firm. Performance looks at the outputs. A strategic manager must look at the financial numbers in order to understand what is going on in the company. It is critical that the student learn to appreciate and "love" the numbers in order to develop effective strategy.

DATA COLLECTION

Guiding students in data collection is the first step in the strategic audit process. Begin with documentary publications and self-reported firm information. If the firm under investigation is traded publically, have your students begin their research by reviewing the documents filed with the SEC-the annual report, the 10K, and proxy statements. Original company documents provide the cleanest information on the firm, and the pictures, letters, and narratives provide some insight into the company character, values and image. The company website and investor presentations provide essential information to understanding the company strategy, goals and performance. The company profile sheet can also help the students to focus interview questions when collecting primary data.

FIGURE 1
COMPANY PROFILE SHEET-GENERAL INFORMATION

GENERAL INFORMATION www______ email______
1.Firm Name______ Address______ Phone______
2.Trading Name/Symbol______ Trading Markets (AMEX NYSE OTC)______ 3.SIC Numbers______
4.Sector (Manufacturing; Service (includes retail, wholesale, distribution); Mining/Oil/Gas; Combined) 5.Date founded______ incorporated______ public______
6.Industry Type (Science based; Non Science) 7.Distribution areas (Local; regional; national; international (______%)______
8.Key Subsidiaries______
9.Number of outlets______ 10.Number of full-time employees **20XX** (n-1) ______ **20XX(n)** ______
***(n=current year; n-1=last year)*

FIGURE 2
COMPANY PROFILE SHEET-STRATEGY & STRUCTURE INFORMATION

STRATEGY, STRUCTURE INFORMATION
11.**Business Description**______
12.**Identifiable Businesses *(Corporate)(SQ-G-R-L)***______

13.**Strategy of Growth:** (Single Business (Single line; Dominant);Multi-business (Related; Unrelated))			
13a.*ratios*	*Segment*	**20XX(n-1)**	**20XX(n)**
Specialization Ratio=Rev.largest discrete bus./total revenues:			
Relatedness Ratio=Rev.largest group discrete bus./total rev:			

13b.*strategy of growth classification*			**20XX(n-1)**	**20XX(n)**
	Single Business	Single line (SR ≥ .95)	1.1	1.1
		Dominant (.7≤SR≤.95)	1.2	1.2
	Multi-Business	Related (RR≥.7)	2.3	2.3
		Unrelated (RR≤.7)	2.4	2.4

14.**Competitive Strategy *(Business)*** Segment______ *(ADRF)* Cost leadership or Differentiation *Market Focus*: Narrow or Broad B2B and/or B2C
15.Primary Markets ______
Primary Products/Brands/Patents,Copyright,Trademark______
16.Integration Vertical and /or Horizontal
17.Process of Growth Internal Development and/ or External Process (Acquisitions, Mergers, Joint Ventures, Strategic Alliances)

18.Structure	**20XX(n-1)**	**20XX(n)**	
Functional	1	1	
Divisional	2	2	Type **20XX(n)** (product, geographic, holding, other)
Other	3	3	Identify______

FIGURE 3
COMPANY PROFILE SHEET-PERFORMANCE

PERFORMANCE ($OOOXXX) *(Conversion rate: $1USD=___)*

	20XX(n-1)	**20XX(n)**		**20XX(n-1)**	**20XX(n)**
19. Net Revenues			27. P/E Ratio (date)		
20. Net Income			28. Net Income/Revenue *(profitability)*		
21. EPS			29. ROC *(profitability)*		
22. # Shares			30. D/E *(leverage)*		
23. Stock Price			31. Working Capital *(liquidity)*		
24. Dividends			32. Marketing Expense		
25. Total Assets			33. R&D Expense		
26. Long Term Debt			34. Patents		

On the first day of class I give the Company Profile Sheet along with the instructions to the students. I assign a specific company to audit, so all students are working on the same case. (I refer to *"real company analysis"* as *"live"* cases). I usually pick a publically held firm where on-line access to the Annual Report/10K is available. Their assignment is to complete the template as much as they can over the week, recognizing that we have not yet covered the material in class. This gives a *baseline* of what they currently know. When we come back to class I put them in teams and give them time to compare their work, and again complete the assignment as much as they can as a team. At this point students discover they "knew more than they thought they knew" and they have begun to learn how to draw information from real company documents. At this point students can begin collecting the data for their individual company reports on firms they chose. Over the next month together we cover line by line the concepts in the Company Profile Sheet. By the time we have completed reviewing the 34 questions, we have covered most of the concepts in Strategic Management-corporate, business, and functional level strategy.

I recommend that students be consistent in how they present data from a strategic perspective. Strategists read *left to right*, so it makes sense to present the data in that format (unlike the way Accountants present data). I recommend using *annual data*. When students mix quarterly and annualized data, everything gets confused. Another observation is that students have a hard time getting the *units on the performance measures* correct and consistent. More often than I would like to admit they think the company revenues are in the trillions!

Appendix B includes the instructions to guide the students in collecting the data and filling out the sheet, item by item. Upon completion of the data collection in the template, your students will have created a one page, in-depth strategic audit of the firm.

SUMMARY

Completing the Company Profile Sheet is the first step in the strategic audit and provides a "quick and dirty" strategic snapshot of the firm. It highlights general company information, strategy and structure information, and performance information on one concise and integrated page. Page two of the sheet provides additional information on the company description, a breakout of its strategic segments including revenue and operating income by segment, and structure in support of the classifications on page 1. This sheet can be an extremely effective tool in helping the student in a strategic management course, or a business person, to get their "arms around the beast" we call Strategic Management, and can serve as a first step in conducting a strategic analysis of the firm.

I have found using the Company Profile Sheet assignment helps the students in their final term

- to be exposed to real companies, with real data, in real time;
- to understand how to search out data on real companies using documents that are readily available outside of a textbook and outside of the university resources;
- to improve their confidence about what they have really learned in their program of study;
- to help them understand the integrative nature of the concepts;
- to establish meaningful discussion of strategy and business based on consistent terminology and operational metrics versus anecdotal stories;
- to collect data on companies they are interviewing or work with-and,
- to understand some key questions to ask when considering a potential company opportunity.

I have found using the Company Profile Sheet assignment helps the faculty

- structure class discussions using the template as a foundation for teaching strategic concepts;
- makes it easier to evaluate student work because it follows a consistent, standardized format;
- helps ensure that key concepts are covered and not forgotten;
- highlights the importance of doing a critical strategic audit prior to analysis and planning.
- Also, I have each student pick a different company to audit and as a result, I am exposed to many new and different firms I would not normally review each term.
- The template could also serve as a research platform for data collection for faculty conducting longitudinal and/or cross sectional company analysis.

A completed sample Company Profile Sheet for *Time Warner, Inc.* is included in **Appendix C**.

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APPENDIX A
Company Profile Sheet

Exhibit 1.1 Strategic Audit *Rater Name* ________ *Date* ________

3-D COMPANY PROFILE SHEET
STRATEGY, STRUCTURE, AND PERFORMANCE

GENERAL INFORMATION www________ email________

1.Firm Name________ Address________ Phone________
2.Trading Name/Symbol________ Trading Markets (AMEX NYSE OTC)________ 3.SIC Numbers________
4.Sector (Manufacturing; Service (includes retail, wholesale, distribution); Mining/Oil/Gas; Combined) 5.Date founded________ incorporated________ public________
6.Industry Type (Science based; Non Science) 7.Distribution areas (Local; regional; national; international (________%)
8.Key Subsidiaries________
9.Number of outlets________ 10.Number of full-time employees **20XX** (n-1)________ **20XX(n)**________
***(n=current year; n-1=last year)*

STRATEGY, STRUCTURE INFORMATION
11.**Business Description**________
12.**Identifiable Businesses *(Corporate)(SQ-G-R-L)***

13.**Strategy of Growth:** (Single Business (Single line; Dominant);Multi-business (Related; Unrelated))			
13a.*ratios*	*Segment*	**20XX(n-1)**	**20XX(n)**
Specialization Ratio=Rev.largest discrete bus./total revenues:			
Relatedness Ratio=Rev.largest group discrete bus./total rev:			

13b.*strategy of growth classification*			**20XX(n-1)**	**20XX(n)**
	Single Business	Single line (SR > .95)	1.1	1.1
		Dominant (.7≤SR≤.95)	1.2	1.2
	Multi-Business	Related (RR≥.7)	2.3	2.3
		Unrelated (RR≤.7)	2.4	2.4

14.**Competitive Strategy *(Business)*** Segment________ *(ADRF)* Cost leadership or Differentiation *Market Focus*: Narrow or Broad B2B and/or B2C
15.Primary Markets________
Primary Products/Brands/Patents,Copyright,Trademark________
16.Integration Vertical and /or Horizontal
17.Process of Growth Internal Development and/ or External Process (Acquisitions, Mergers, Joint Ventures, Strategic Alliances)
18.Structure

	20XX(n-1)	**20XX(n)**	
Functional	1	1	
Divisional	2	2	Type **20XX(n)** (product, geographic, holding, other)
Other	3	3	Identify________

PERFORMANCE ($OOOXXX) *(Conversion rate: $1USD=)*

	20XX(n-1)	**20XX(n)**		**20XX(n-1)**	**20XX(n)**
19. Net Revenues			27. P/E Ratio (date)		
20. Net Income			28. Net Income/Revenue *(profitability)*		
21. EPS			29. ROC *(profitability)*		
22. # Shares			30. D/E *(leverage)*		
23. Stock Price			31. Working Capital *(liquidity)*		
24. Dividends			32. Marketing Expense		
25. Total Assets			33. R&D Expense		
26. Long Term Debt			34. Patents		

I. BUSINESS DESCRIPTION

II. STRATEGY - SEGMENT INFORMATION (Revenue; Operating Income by Segment)

20XX(n-1)				**Revenues/Operating Income**	**20XX(n)**			
$000XXX Rev	**%Total Rev**	**$000XXXOp Inc**	**%Op Income**	**(by segment)**	**$000XXX Rev**	**%Total Rev**	**$000XXXOp Inc**	**%Op Income**
	100%			**TOTAL**		**100%**		

(Source:________)

III. STRUCTURE - Draw it. Include position, titles and names **Year 20XXn**

(Source: ________)

IV. FINANCIALS: Include latest Income Statement & Balance Sheet.
Analyze the financials from 20XX(n-1) and 20XX(n) for trends/ significant events-deviations-gaps, forecasts:

- (1) Identify financial Trends (year 200Xn-1 to 200Xn) from Income & Balance Sheet Statements; What do they tell you?;
- (2) Consider the key ratios (liquidity, leverage, operating, profitability); What do they tell you? (include formulas you used to calculate ratios)
- (3) Strengths/ Weaknesses of financials:
- (4) What do the financials NOT tell you?
- (5) What else would you need to know to do a really effective financial due diligence from a strategic perspective? How would your analysis change if you were going to buy the company vs if you were selling the company?

List Primary Sources of Data
@dbrawlev

APPENDIX B
Company Profile Sheet Instructions

The Company Profile Sheet, **Appendix A**, provides a "quick and dirty" strategic snap shot of the firm. The objective in completing the company profile sheet is to briefly describe the firm in terms of its overall strategy, structure, and performance. Data collection is the first step in the strategic audit process. Begin with documentary publications and self-reported firm information. If the firm under investigation is traded publicly, begin your research by reviewing the documents filed with the SEC---the annual report, the 10K, and proxy statements. Original company documents provide the cleanest information on the firm, and the pictures, letters, and narratives provide some insight into the company character and image. These filings are available upon request from the company, in most university and public libraries, and can also be retrieved on many on-line databases

GENERAL INFORMATION:

1. Firm Name, Website, Email, Address, Telephone Number

As you begin your research it is very important to make sure you have the correct firm name. Many firms have names that are very similar---for example, Coca Cola Company, Coca Cola Enterprises, Coca Cola Bottling Company, Coca Cola USA. However, each represents a distinctly different company unit. Make sure that you are collecting data on the right system.

2. Trading Name/Ticker Symbol/Trading

Information on the trading activity of the firm can be useful in your research. Begin by finding the trading name, ticker symbol and markets. These are not always intuitively derived, i.e. the Coca Cola Company ticker symbol is KO. It is important to understand where the firm stock is traded. Domestic trading markets are usually listed on the front page of the 10K, as well as the last page of the Annual Report. International trading markets may be more difficult to track down. However, if they are not listed in the Annual Report, call Investor Relations at the company and ask if they are traded on any international exchanges. Brokerage firms can also be helpful in securing this information, as well as providing summary information of firm trading activity, future projections, and industry forecasts.

3. SIC/NAICS Numbers

The SIC (Standard Industrial Classification) and NAICS (North American Industry Classification System) codes provide the key to securing information on the industries within which the firm competes. Developed by the government to aid in filing the multitude of information it collects, the SIC/NAICS have become the standard classification scheme for individual company, and in its aggregate form, industry information. Three or four digit codes in most cases will be the most useful in collecting industry information. However, by decreasing the digits we can broaden the industry classification, by increasing the digits the researcher can narrow and focus the industry. For example, SIC "20" is a classification for *food/kindred products*; "208" is *Beverages*; "2087" is *canned and bottled soft drinks*. Descriptions of the SIC/NAICS codes and their use can be found at *http://siccode.com/en*

Using SIC/NAICS classifications will facilitate your industry research. However, it should be undertaken with a grain of salt. Note: multi-business companies are not required to separate data fully by segment. Therefore, much data collected under an individual SIC/NAICS number will really be an aggregate of company data across all of its business units.

4. Sector: (Manufacturing; Service (*Includes Retail, Wholesale, Distribution*); Mining/Oil & Gas; Combined)

Sector refers to *economic market classification*, and is specific to an industry. Therefore, multi-business firms operating in several industries will require sector classification breakdowns across each business. Sector is used as a basic proxy for economic and market structure at both the industry and firm level. It is assumed that manufacturing firms, as a group, have certain similar economic/market properties---properties that differ from service firms and /or mining/oil and gas.

Classification by sector is important in understanding both the strategic resource allocation and socio-technical issues that will arise within the business unit. It should be noted that same sector firms in different industries would be more similar strategically, than different sector firms, same industry.

5. Date Founded/ Incorporated/ (Private/Public)

Noting the date founded, incorporated, and public gives the investigator some insight into the firm's history, availability and relative reliability of data. Date founded suggests the relative age of the enterprise. Date incorporated helps the researcher understand strategic changes in the firm structure. It is especially important to note dates of reincorporation under different names and structural forms (i.e. holding company) in order to efficiently be able to find information on the firm. The Securities and Exchange Commission requires certain data filings. Once the firm goes public these filings are free and openly available to all interested parties. Filings include the prospectus, annual report, 10k, proxy statements, quarterly reports, as well as numerous other required reports. This availability of data is one of the reasons that public companies are scrutinized in so much detail, while activities of privately held companies, although they comprise the majority of the firms in the world, are less well documented. As a result of both the filing requirements and this increased scrutiny, data available on public companies is perceived to be more reliable than data that is not subject to such extensive external review.

6. Industry Type (Science Based; Non Science)

The industry type is a proxy for level of technology at the organization-environment interface. Controlling for science-based versus non-science based industry type appears to be a better predictor of strategy, structure, and performance than industry itself as designated by SIC category. Use of industry types as a proxy for level of technology is based upon the assumption that firms operating in high technology science based industries will exhibit a higher level and greater variety and magnitude of product and process technological change and innovation than firms in non-science based industries, product lifecycles will be different, as well as resource allocations.

A firm is generally classified as Science based if it operated in the following categories: bio-technology and pharmaceuticals, aircraft & spacecraft, medical, precision & optical instruments, radio, television & communication equipment office, accounting & computing machinery, electrical machinery & apparatus, motor vehicles, trailers & semi-trailers, railroad & transport equipment, chemical & chemical products, machinery & equipment. NAICS codes that constitute high technology industries are identified in Figure 1. However, it is imperative that you use your judgment in classifying your segments as segments that may not appear to be science based may have a significant science based component. For a quick designation, look at the company's R&D expenditures- high R&D probably indicates the firm is "science based." Firms operating in all other industries are classified as *Non-Science based.*

7. Distribution Areas (Local; Regional; National; International)

Strategic complexity increases significantly as firms diversify their distribution areas from local to regional to national to international. Government, laws, regulations, monetary policies, politics, access, economics, business systems, structure, markets, social norms, cultural dynamics, language, geography, labor, money, transportation/communication, contracts, market research, advertising, expectations --- among many others--- change from county to county, country to country. As the firm strategically increases its differentiation among the markets where it distributes its output, it must also increase its integration mechanisms within the strategy machine--the organization--to cope with these different parts. This will impact resource allocations across the system, the necessity to effectively boundary scan, and the requirement of efficiently and effectively managing the strategic information system.

8. Key Subsidiaries

A subsidiary is defined as a company in which another corporation called the "parent company" owns more than 50% of the voting shares.

Understanding the strategy and structure of the firm requires an understanding of the critical parts of the system, and the key subsidiaries of the firm help define these boundaries. The firm subsidiaries will usually be listed near the last page of the annual report/10k with the information regarding headquarters, key officers, and business units. As you list the key subsidiaries, pay particular attention to how they are named and grouped. Also, be sensitive to whether the subsidiary is wholly owned by the parent firm. Some subsidiaries may be only partially owned by the firm under audit and this will directly influence the amount of control the firm will have over the subsidiary. For reporting purposes, firms are only required to list as subsidiaries, those units in which they maintain at least a majority (usually 70%) ownership position. It should also be noted that subsidiaries, if held as autonomous units, might be traded publically independent of the parent firm.

9. Number Of Outlets

In profiling the firm it will be helpful to know the number of outlets by type, retail distribution and /or manufacturing that the firm has established. The number of outlets can be a good indicator of segment and/or brand growth within the company. Therefore, longitudinal comparison can prove useful. In looking at growth in number of outlets over a period of time, be aware that the number of outlets reported historically will be revised to reflect both internal growth and acquisition activity. If you want a true picture of growth, it will be necessary to go back on a year-to-year basis to collect the data, segmented by type of growth.

10. Number Of Full-Time Employees

For publically held firms, the number of full-time employees can be found in the 10k document in a special category entitled "employees". This section also includes additional human resource management information including special contracts, provisions, and unionization. The number of employees can give the researcher some measure of growth within the firm. It can also be very misleading, if not evaluated in light of the strategy of the firm overall. When looking at the number of employees, it is important to note the type and nature of business segments in which the firm operates, and the changes that have taken place over the period of evaluation. The relationship of "labor intensive" to "capital intensive" technological processes across segments is critical to understanding the relationship between the number of employees and revenues for

Figure 1
NAICS codes that constitute high-technology industries
http://www.nsf.gov/statistics/seind14/index.cfm/chapter-8/c8s6o55.htm

NAICS codes that constitute high-technology industries

2002 NAICS code	2007 NAICS code	Industry
1131	1131	Timber track operations
1132	1132	Forest nurseries and gathering of forest products
2111	2111	Oil and gas extraction
2211	2211	Electric power generation, transmission, and distribution
3241	3241	Petroleum and coal products manufacturing
3251	3251	Basic chemical manufacturing
3252	3252	Resin, synthetic rubber, and artificial synthetic fibers and filaments manufacturing
3253	3253	Pesticide, fertilizer, and other agricultural chemical manufacturing
3254	3254	Pharmaceutical and medicine manufacturing
3255	3255	Paint, coating, and adhesive manufacturing
3259	3259	Other chemical product and preparation manufacturing
3332	3332	Industrial machinery manufacturing
3333	3333	Commercial and service industry machinery manufacturing
3336	3336	Engine, turbine, and power transmission equipment manufacturing
3339	3339	Other general purpose machinery manufacturing
3341	3341	Computer and peripheral equipment manufacturing
3342	3342	Communications equipment manufacturing
3343	3343	Audio and video equipment manufacturing
3344	3344	Semiconductor and other electronic component manufacturing
3345	3345	Navigational, measuring, electromedical, and control instruments manufacturing
3346	3346	Manufacturing and reproducing magnetic and optical media
3353	3353	Electrical equipment manufacturing
3364	3364	Aerospace product and parts manufacturing
3369	3369	Other transportation equipment manufacturing
4234	4234	Professional and commercial equipment and supplies, merchant wholesalers
4861	4861	Pipeline transportation of crude oil
4862	4862	Pipeline transportation of natural gas
4869	4869	Other pipeline transportation
5112	5112	Software publishers
5161	na	Internet publishing and broadcasting
na	519130	Internet publishing and broadcasting and Web search portals
5171	5171	Wired telecommunications carriers
5172	5172	Wireless telecommunications carriers (except satellite)
5173	na	Telecommunications resellers
5174	5174	Satellite telecommunications
5179	5179	Other telecommunications
5181	na	Internet service providers and Web search portals
5182	5182	Data processing, hosting, and related services
5211	5211	Monetary authorities, central bank
5232	5232	Securities and commodity exchanges
5413	5413	Architectural, engineering, and related services
5415	5415	Computer systems design and related services
5416	5416	Management, scientific, and technical consulting services
5417	5417	Scientific research and development services
5511	5511	Management of companies and enterprises
5612	5612	Facilities support services
na	561312	Executive search services
8112	8112	Electronic and precision equipment repair and maintenance

na = not applicable.

NAICS = North American Industry Classification System.

NOTES: Data on high-tech industries for 2008 and earlier years were compiled using the 2002 NAICS codes. Data for 2009 and 2010 were compiled using the 2007 NAICS codes.

instance. Consider also if the firm processes include *Fabrication* versus *Assembly* components.

Figure 2
Resource Intensity and Technology

Resource Intensity	Technology
High Labor	Customized, Job Shop
	Batch, Mass
High Capital	Process

Two companies that appear on the surface to be similar but are quite different in terms of resource intensity and technological processes are the Coca Cola Company (1993,2015) and PepsiCo, Inc. (1993,2015). Why is there such a significant difference in number of employees? Take a look at the segment revenues across the two companies. Included is the data from both 1993 when restaurants were PepsiCo's largest segment as well as the 2015 data. Both years clearly highlight the differences between the two companies strategically.

As number of employees is a critical variable in evaluating the economic impact of a company, and in turn its political and social clout, firms will want to reflect the number of employees in the most favorable light. Be careful interpreting number of employees based on narratives presented. For example, a company may state in its annual report that it "employs worldwide, across its brands 250,000", however, its 10K states number of full-time employees are 39,000. This appears to be a significant deviation. However, note the wording---the larger number reflects employees of the brand, including all employees of franchisees. These represent indirect, not direct employees of the company. The number of employees may also be manipulated to indicate both full and part-time employees. Make sure you are pulling the appropriate number that reflects your objective with the greatest validity. Also, note that as you evaluate changes over time, it is important to reflect changes in employees relative to changes in strategy.

Figure 3
Coca Cola Company versus PepsiCo 1993/2015

	Coca-Cola 1993	Coca-Cola 2015	Pepsi 1993	Pepsi 2015
Net Revenues ($000,000)	$13,963	$44,294	$25,021	$63,056
Full time employees	34,000	132,200	423,000	263,000
Segments (%)	Soft drinks 88%	Concentrate ops 38%	Beverages 34%	Frito Lay NA 23%
	Foods 12%	Finished prod ops 62%	Snack Food 28%	Quaker Foods NA 4%
			Restaurants 38%	Latin Am 13%
				North Am Bev 33%
				Europe/SubSah/Af 17%
				Asia/MidE/NAf 10%
Gross Profit	$ 8,803	$26,812	$13,075	$34,672
Operating income	$ 3,108	$ 8,728	$ 2,907	$ 8,353
Net Income	$ 2,176	$ 7,351	$ 1,588	$ 5,452

STRATEGY & STRUCTURE

The second area of evaluation is **Strategy, Structure** information, items 11-18**.**

Once you have collected general demographic data on the firm, you can begin to dig deeper into the strategy and structural configurations.

11. Business Description

Here you want a brief general description of the organization. You may include a more detailed description on page 2 of the Profile Sheet (Appendix A). As part of describing the business, we look at the Corporate, Business, and Functional Level strategies.

12. Identifiable Businesses: (Corporate Level) (Status-Quo, Growth, Retrenchment, Liquidation)

Part I, first paragraph of the 10k usually gives a concise description of the firm. This is followed by descriptive segment information. Segment information can also be found in the financial disclosure section of the Annual Report/10K. Companies operating in more than one business segment are required to report revenues and certain operating data by segment. The segments identified should be consistent with the SIC/NAICS numbers reported in item 3. Identification of critical business segments is the first step in evaluating corporate level strategy: in answering the key corporate question---What business (es) has (past),does (present), or should (future) the firm operate?

Several points should be noted:

- as stated, the organization itself and its boundaries are merely a conceptual construct;
- the measurements are not precise, nor do they represent an absolute criterion;
- selection of the SIC/NAICS category and the specificity (i.e. 2 digit code versus 6 digit code) will directly influence the way you classify the strategic business units;
- as movements toward both vertical and horizontal integration become fully institutionalized into the corporate level strategy of the firm the perception of the SIC/NAICS category will broaden and a firm that appeared to have multi-business related units will now appear to be a fully integrated single business firm with multiple diversified product/market lines.

Single Business versus Multi-Business? Remember your inductive theory:

If it looks like a duck, walks like a duck, and quacks like a duck---even though it may not specifically meet the normative definitions presented for a duck, maybe you should evaluate it more fully. Just make sure and substantiate your classifications so that when asked how you arrived at your conclusions you have the data available to support your position.

The four basic corporate level strategies are: *status quo, growth, retrenchment, and liquidation*.

13. Strategy Of Growth

Strategy of Growth is a representative measurement and classification of the firm's overall commitment to growth through diversity at the macro organization level.

Figure 4
Corporate, Business, and Functional Level Strategies

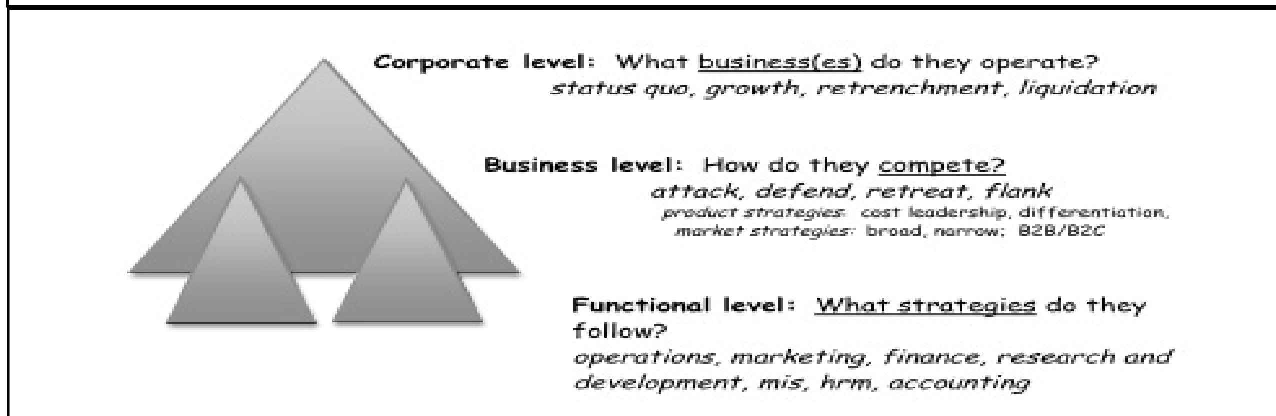


Figure 5
Corporate Level Strategies

Rumelt (1974) developed classifications among the categories using the *specialization* and *relatedness ratio* calculations.

Specialization Ratio (SR)*:* The specialization ratio is the primary measure of diversity and is defined as the proportion of a firm's revenues attributable to its largest single strategic business unit. A single business unit is the set of activities associated with the production and marketing of a single product/service or a line of closely related products/services. Included within a business unit are all products or product lines that require close coordination or which share important resources. In deciding whether two product-market activities are part of the same business unit or not, it is helpful to ask this question: "Would a major change in pricing, manufacturing processes, technology, materials used, etc., in one of these areas have a strong effect on the operations in the other area?" If not, the two-product-market activities are separate and not part of the same business unit.

Relatedness Ratio (RR)*:* The relatedness ratio is the proportion of a firm's revenues that are attributable to the largest group of businesses that are related in some way to one another. A business is part of a group of "somehow related businesses" as long as it is tangibly related to at least one other business in the group. The operationalizations of the classifications are shown in Figure 6.

14.Competitive Strategy: (Business Level) (Attack, Defend, Retreat, Flank)

Business Level strategy addresses the question: How does the company compete? This question is industry segment specific and must be answered for each of the individual business segments in which the company operates. It should be noted that a firm might follow different competitive strategies in each of its different business segments.

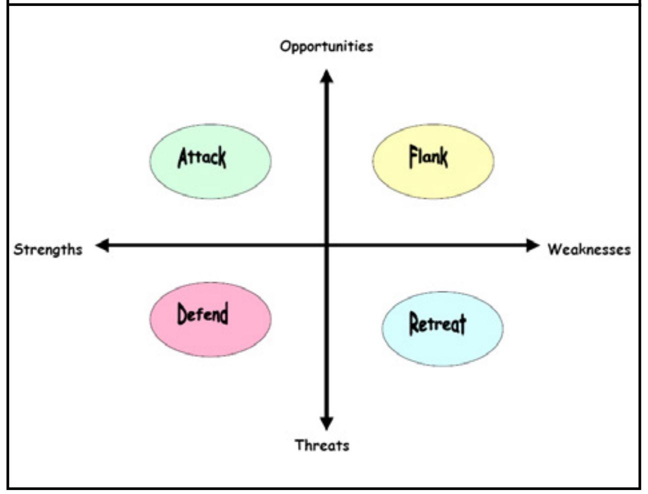
As a first step in defining the business level strategy for the segment, look at the relationship between your internal strengths & weaknesses, and external opportunities & threats (SWOT). There are four basic competitive strategies: *attack, defend, retreat, and flank*.

Once the overall business level strategy is determined, than you want to look at the generic strategies within the segment relative to the *product* and the *market*.

Figure 6
Single Business- Multi-Business classification system

	Classification	Definition
1.Single Business 70%-100%	**1.1 Single line** Firms with SR between .95 and 1.0	Firms that grow by the expansion of one main product/market line so that at least 95% of net revenues lie within this singe product/ market business area.
	1.2 Dominant Firms with SR between .7 and .95	Firms which grow primarily by the expansion of one main product line but which in addition have added secondary business lines making up to 30% or less of the total sales volume. These secondary activities can be related to the primary activity or can be unrelated.
2.Multi-Business <70%	**2.3 Related** Firms with SR less than .7, and RR between .7 and 1.0 These may also be referred to as *Concentric*	Firms which grow by expansion by means of entry into related product /market businesses, by the use of a related technology, by related vertical activities, or by some combination of these so that no one business segment accounts for 70% of the net revenues.
	2.4 Unrelated Firms with SR less than .7, and RR less than .7 These may also be referred to as *conglomerate*	Firms which grow by expansion into new markets and new technologies unrelated to the original product /market business segment such that no one segment accounts for 70% of net revenues.

Figure 7
Business Level Strategies and SWOT



Porter (1985) defines the generic competitive strategies in terms of *competitive scope* and *advantage*. Porter defined two basic types of competitive advantage a firm can possess to establish its distinctive competencies: *low cost or differentiation*. These combine with the "scope" of a firm's operations (the range of market segments targeted) to produce "three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus" (namely narrow focus). To Porter, firms that wish to gain competitive advantage must "make a choice" among these: "being 'all things to all people' is a recipe for strategic mediocrity and below-average performance" A firm that is "stuck in the middle", engaging in each generic strategy but failing to achieve any of them will, in all probability, fail to identify what is fundamentally distinct about its business in the marketplace as perceived by its customers. Looking at customer type, Business to Business/Business to Consumer, can also be useful.

15. Primary Markets-Primary Products/ Brands/ Patents/ Copyrights/ Trademarks/ Registrations

Following item 14, primary markets and products are segment specific questions. Markets may include geographic, customer type, or some combination. Understanding the primary market segments and product/brand components of strategy helps in understanding relative competitive positioning.

Also important, are the critical registrations that give a company "proprietary rights" over a technology, product, process or symbol. These can serve as market barriers to potential competitors. It is also important to note the area over which these proprietary rights are enforceable. Does the company have the local, state, national or international rights to use of a name or trademark?

16. Integration: Vertical/ Horizontal

The strategist must understand the degree and nature of vertical and horizontal integration strategies within and across the industry segments and sectors. A *commodity* is a product that is purely substitutable with no differentiating value added components.

Vertical integration is defined as extending the value added chain from the commodity to the end consumer---getting as close to the ultimate customer as possible. *Forward vertical integration* is moving the segment from where it is closer to the consumer. *Backward vertical integration* is moving the firm back towards the commodities required in fabrication.

Horizontal integration is extending the firm's market share with related or concentric products/ businesses. This may include buying out key competitors.

17. Process Of Growth: Internal Development Or External

From a strategic perspective, interest is not only in how businesses grow in terms of the strategic content, but also the process or method through which firms attain a certain strategy. Firms that grow and diversify through a process of internal investment and re-investment , wherein outputs of the firm reenter the system as inputs to support growth, are classified as utilizing an internal development process of growth.

Figure 8
Business Level: Product and Market Strategies

	Competitive Advantage		
	Market/Advantage	**Low Cost**	**Differentiation**
Competitive	Broad Target	Cost Leadership	Differentiation
Scope	Narrow Target	Cost Focus	Differentiation Focus

Firms which show a propensity to grow and diversify by process strategies which require going outside the perceived organizational boundaries including *acquisition, mergers, joint ventures, and strategic alliances* among others are classified as employing an external process of growth.

In terms of complexity, utilizing a process strategy which requires going outside of the organizational boundaries to secure resources for survival and growth is much more complex than a strategy which utilizes a resource base internal to the firm. The level of differentiation introduced into the firm increases with the degree of external intervention. Strategic alliances are relatively limited in impact and usually contractual in nature. Joint ventures require more negotiation, but boundaries across the systems are usually well defined and limited in project scope, nature, and duration. The waters get much fuzzier and much more strategically and structurally complex with mergers and acquisitions. Negotiated contracts serve to outline how the new company or unit will be governed. It is important to know if the firm under evaluation is preconditioned to internal or external process of growth as this can impact the alternatives available.

18. Structure

Structure looks at how the organization integrates the parts. The organization represents the strategy machine, the corpus that both creates and executes the strategy. The structural configuration of the organization directly influences how well these functions are performed.

The DNA of formal organizations is authority, the right to command, initiate actions and make decisions. Authority is built into jobs–jobs that have two dimensions: scope and depth. Jobs are groups of combined tasks. Scope represents the number and variety of tasks included in a specific job; depth–the degree of discretion or authority an individual worker can exercise over his or her job. Jobs are combined into relationships such as chain of command, and exhibit characteristics- scalar chain, unity of command, span of control. These relationships may also represent line or staff functions, and may be centralized or decentralized. As the authority relationships are grouped, structural configurations emerge.

Two major structural types are identified: functional and divisional. These two types represent the "root" or generic categories upon which the more complex classification systems are based. In evaluating the research on structural configurations it appears that most of the inferences drawn using the more complex structural forms have involved pooling the data back into the two broad generic categories in order to relate growth and diversification strategy to the structure variable. For this reason, the more generic classifications are adopted for use here.

Firms defining their major subunits in terms of the business activities (production and operations, marketing, finance and accounting or stages in the manufacturing process) are functionally structured.

Firms which are split into a number of quasi-autonomous units, each headed by a general manager and supplied with the resources necessary for it to operate as an independent economic entity are divisionally structured. Structures included under this category include product division, geographic division, and holding company forms.

PERFORMANCE

The third area of audit is **Performance**, items 19-34. Performance looks at the outputs. A strategic manager must look at the financial numbers in order to understand what is going on in the company. It is critical that the strategist learn to appreciate and "love" the numbers in order to develop effective strategy.

19-34. Performance

Performance on the Company Profile Sheet (items 19-34) involves evaluating select numbers from the income statement, balance sheet, and calculating a few significant ratios. In addition, expenditures on Research and Development, Marketing, and Patents are noted.

A few key questions to consider when evaluating performance:

- Identify financial Trends (year 20XXn-1 to 20XXn) from Income & Balance Sheet Statements; What do they tell you?
- Consider the key ratios (liquidity, leverage, operating, profitability); What do they tell you? (include formulas you used to calculate ratios)
- Strengths/ Weaknesses of financials
- What do the financials NOT tell you?
- What else would you need to know to do a really effective financial due diligence from a strategic perspective? How would your analysis change if you were going to buy the company versus selling the company?

A few tips to interpreting and presenting the financials from a strategic perspective:

- The numbers should presented *left-to-right*. This is how strategists read.

- *Revised versus Unrevised*: If there were any major changes to a company (ex. sold a business unit), the numbers need to be revised in order to compare year-to-year performance. If we want to look at the company historically, we would look at the original numbers; if we want to look at the future, we would look at the revised numbers.
- *Basic versus Diluted* numbers: Use basic if looking historically, use fully diluted if you are considering buying the company or are a very conservative investor.
- The numbers should also be *questioned* constantly as they can be manipulated to show what we want. For example, the stock price of a company can change daily. To make the stock appear like it is performing better, the value listed could be the high value of the year versus what the stock was trading at today or at the end of the fiscal year. Another issue is that assets are listed as book value versus market value.
- Finally, recognize that different people look at the numbers in different ways. Accountants perceive the numbers one way, finance people another way, and strategists yet another way. Be aware of the differences- this will affect not only what information you present but how you present it.

APPENDIX C
Sample Company Profile Sheet, Time Warner, Inc.

Exhibit 1.1 Strategic Audit *Rater Name* Brawley *Date* April 2016

TimeWarner **COMPANY PROFILE SHEET**
STRATEGY, STRUCTURE, AND PERFORMANCE

GENERAL INFORMATION www www.timewarner.com email ir@timewarner.com
1.Firm Name Time Warner, Inc Address One Time Warner Center, NY, NY 10019-8016 Phone 212-484-8000
2.Trading Name/Symbol TWX Trading Markets (AMEX NYSE OTC) 3.SIC/NAICS Numbers 51211movie;51321 cable networks;51312 tv ; SIC 7812 motion pic/video
4.Sector (Manufacturing; Service (includes retail, wholesale, distribution); Mining/Oil/Gas; Combined) 5.Date founded1923/1927 incorporated 2001 (AOL-merger)/2003 (TWX) public 2001
6.Industry Type (Science based; Non Science) 7.Distribution areas (Local; regional; national; international) (US/Canada 72%, Europe 16%, Asia/Pacific Rim 6%, Latin America 5%, other 1%)
8.Key Subsidiaries Exh 21 10k14-(lots)Turner, Warner Brothers, Time, HBO, Warner Communications, CNN, TEN, Turner Sports, Castle Rock, New Line cinema, Time Warner, Hanna Barbera,DC Comics
9.Number of outlets NA 10.Number of full-time employees **2013** 34,000 **2014** 25,600 **2015** 24,800
***(n=current year; n-1=last year)*

STRATEGY, STRUCTURE INFORMATION
11.Business Description ***(Corporate)***: Leading media and entertainment company
12.Identifiable Businesses ***(Corporate)****(SQ-G-R-L)* Warner Brothers (G); Turner (G); HBO (G); Publishing (R/L: Divested)
13.**Strategy of Growth:** (Single Business (Single line; Dominant);Multi-business (Related; Unrelated))

13a.*ratios*	*Segment*	**2013**	**2014**	**2015**
Specialization Ratio=Rev.largest discrete bus./total revenues:	Warner Brothers	12312/26461=.47	12526/27359=.46	12992/28118=.46
Relatedness Ratio=Rev.largest group discrete bus./total rev:	All=WB+Turner+HBO (+Publishing 2013)	29795/29759=1	27359/27359=1	28118/28118=1

13b.*strategy of growth classification*			**2013**	**2014**	**2015**
	Single Business	Single line (SR > .95)	1.1	1.1	1.1
		Dominant (.7<SR<.95)	1.2	1.2	1.2
	Multi-Business	Related (RR>.7)	2.3	2.3	2.3
		Unrelated (RR<.7)	2.4	2.4	2.4

14.Competitive Strategy ***(Business)*** Segment Warner Brothers *(ADRF)* Cost leadership or Differentiation *Market Focus*: Narrow or Broad B2B and/or B2C
15.Primary Markets:*(geo)*US/Canada, Europe, Asia/Pacific Rim, Latin America; *(customers-cable us)*TW Cable, Comcast, Dish, Direct TV, ATT U-verse, Verizon, Cox, Charter, Cablevision, Bright House, Suddenlink
Primary Products/Brands/Patents, Copyright, Trademark Turner, HBO, Warner Brothers, Time; 3 revenue lines common to segments: *Subscription/Advertising/Content & Other*
16.Integration Vertical and /or Horizontal
17.Process of Growth Internal Development and/ or External Process (Acquisitions, Mergers, Joint Ventures, Strategic Alliances)

18.Structure		**2013**	**2014**	**2015**	
	Functional	1	1	1	
	Divisional	2	2	2	Type **2015** (product, geographic, holding, other)
	Other	3	3	3	Identify

PERFORMANCE **($million except share data)** *(Conversion rate: $1USD=)*

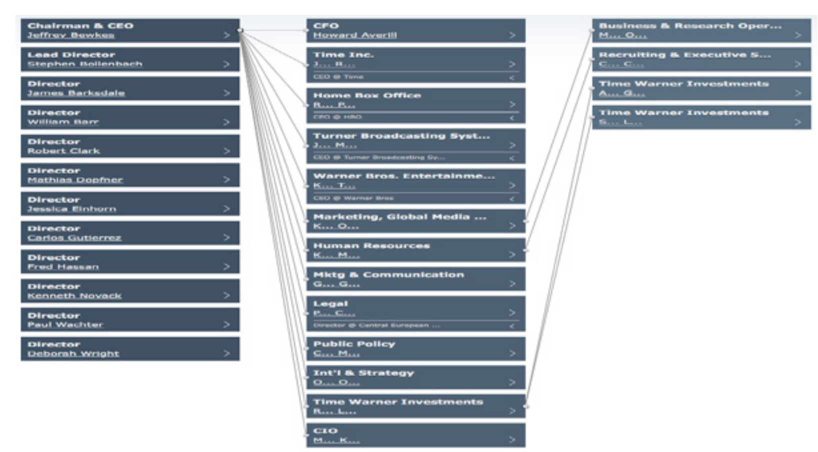
	2013	**2014**	**2015**		**2013**	**2014**	**2015**
19. Net Revenues	$26,461	$27,359	$28,118	27. P/E Ratio (date-FYE)	69.72/3.99=17.47	85.42/4.42=19.33	64.67/4.69=13.79
20. Net Income	$3,691	$3,827	$3,832	28. Net Income/Revenue *(profitability)*	3691/26461=.14	3827/27359=.14	3832/28118=.14
21. EPS	$3.99	$4.42	$4.69	29. ROC=net inc/(LTD+E)*(profitability)*	3691/(20061+29904)=.074	3827/(21376+24476)=.083	3832/(23594+23619)=.(
22. # Shares	920.0	863.3	814.9	30. D/E *(leverage)*	38095/29904=1.27	38783/24476=1.58	40229/23619=1.70
23. Stock Price (close)	$69.72	$85.42	$64.67	31. Working Capital CA-CL*(liquidity)*	12531-8388=4143	13108-9204=3904	12513-8002=4511
24. Dividends	$1.15	$1.27	$1.40	32. Marketing/Advertising Expense	$2,447	$2,430	$2,586
25. Total Assets	$67,999	$63,259	$63,146	33. R&D Expense	NI	NI	NI
26. Long Term Debt	$20,061	$21,376	$23,594	34. Patents	NI	NI	NI

I. BUSINESS DESCRIPTION
Time Warner, Inc, a Delaware corporation, is a leading media and entertainment company. The Company classifies its businesses into the following *three reportable segments*:
• Turner, consisting principally of cable networks and digital media properties;
• Home Box Office, consisting principally of premium pay television services domestically and premium pay andbasic tier television services internationally; and
• Warner Bros., consisting principally of television, feature film, home video and videogame production and distribution.

Note: Prior to 2013 TWX viewed it's segments as: Filmed Entertainment, Networks, and Publishing. In March 2013,TWX announced the divestiture of its Publishing Division, Time Inc. In June 2014, Time Inc. became a publically traded company.

II. STRATEGY - SEGMENT INFORMATION (Revenue; Operating Income by Segment)

2013 ($Millions)				**Revenues/Operating Income**	**2014 ($Millions)**				**2015 ($Millions)**			
Rev	**% Rev**	**Op Income**	**%Op Income**	**(by segment)**	**Rev**	**%Rev**	**Op Inc**	**%Op I**	**Rev**	**%Rev**	**Op Inc**	**%Op Inc**
$9,983	38%	$3,486	55%	Turner	$10,396	38%	$2,954	49%	$10,596	38%	$4,087	59%
$4,890	18%	$1,791	29%	Home Box Office	$5,398	20%	$1786	30%	$5,615	20%	$1,878	27%
$12,312	47%	$1,324	21%	Warner Bros.	$12,526	46%	$1,159	19%	$12,992	46%	$1,416	21%
		($394)	(6%)	Corporate			($73)	(1%)			($367)	(5%)
($724)	(3%)	$61	1%	Intersegment Eliminations	($961)	(4%)	$149	3%	($1,085)	(4%)	($149)	(2%)
$26,461	**100%**	**$6,268**	**100%**	**TOTAL**	**$27,359**	**100%**	**$5,975**	**100%**	**$28,118**	**100%**	**$6865**	**100%**
$3,354				Publishing, Time Inc. *(divested 2014)*								
($20)				Intersegment Eliminations Publishing								
$29,795												



III. STRUCTURE – Year 2015
Draw it. Include position, titles and names
http://www.theofficialboard.com/org-chart/time-warner

Note:
NA=Not Applicable;
NI=No Information

*Sources:*TWX 2013/2014/2015 Annual Reports;
TWX 10K 2013/2014/2015;
TWX 4Q15 Earnings Release 021016

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