



**COURSE SYLLABUS FOR SENIOR MANAGEMENT DEVELOPMENT PROGRAM**  
**FROM JULY 19- 24, 2010**

**Monday, July 19**

**Wiegandt GmbH Cologne**

**9-298-159**

This case takes the point of view of a credit officer at a furniture company in Germany. He must decide what to do about two retail stores that are behind on their payments for furniture. The case contains more financial data about the customers than is typically available to a supplier, but it provides a good example of how financial analysis can be used to understand what is causing changes in a company's financial condition.

**Assignment Questions:**

1. Place yourself in the position of Mr. Karl Neuhaus, the credit manager of Wiegandt GmbH Cologne. A member of your staff has just left the credit files of Haefren Baum and Backhaus on your desk with an expression of some concern about their slow payment pattern. Examine the information available on each customer and try to piece together a picture of its operations over the past several years.
2. How do you assess the operations and financial condition of each of these two customers? On a comparative basis, how would you rank the two customers, in terms of their relative operating and financial viability?
3. As you decide what to do about these two customers, what issues do you need to consider? What action would you recommend for the Haefren Baum and Backhaus accounts?

Harry Rawlinson, managing director of Aqualisa, is deciding how to handle the marketing of the Quartz shower, the first significant product innovation in the U.K. shower market in years. The vastly superior Quartz shower - which took three years and 5.8 million euros to develop - is simply not selling, despite the fact that existing showers in the U.K. are plagued with problems and there is widespread consumer dissatisfaction with overall shower/ performance

**Assignment Questions:**

1. What is the Quartz value proposition to plumbers? To consumers?
2. Why is the Quartz shower not selling?
3. Aqualisa spent three years and 5.8 million euros developing the Quartz. Was the product worth the investment? Is Quartz a niche product or a mainstream product?
4. What should Rawlinson do to generate sales momentum for the Quartz product? Should he change his marketing strategy to target consumers directly, target the DIY market, or target developers? Should he lower the price of the Quartz? Or should he do something different altogether?

**Lecture on Free Cash Flow (FCF) Valuation (no preparation)**

**Tuesday, July 20**

**Dove: Evolution of a Brand**

**9-508-047**

Unilever launched a radical new advertising campaign for its Dove Brand. Though it has generated a lot of publicity not all has been favorable. The company is reconsidering whether their marketing plan is working.

**Assignment Questions:**

1. What is a brand? Is Unilever right to consolidate the ones it has?
2. How has Dove's positioning changed in the new campaign? (What was it in 1960, what is it now?)
3. Is this change related to the changes in the way the brand is managed (see page 7)?
4. Has the new campaign been a success?
5. What should Unilever do now to the positioning of Dove?

**Advanced Technologies Incorporated (ATI)**

**9-299-042**

The CEO of a semiconductor equipment manufacturer is assessing the financial forecasts and financing plan prepared by the chief financial officer. Continued rapid growth will create substantial financing pressures, especially if profitability fails to recover and/or if a major, unexpected economic downturn occurs.

**Assignment Questions:**

1. How well did ATI perform during the period 1993-1997?
2. What are the biggest challenges facing Advanced Technologies, Inc (ATI) as of October 1997?
3. What has caused the huge increase in bank loans, despite record profitability?
4. What are the implications of 20% per year sales growth for ATI's future financing requirements?
5. How should a company with ATI's characteristics finance itself?
6. What should Mr. Alexander do?

**Lecture: Pricing**

**Assignment:** Read, but do not analyze: **Colonial Homes**

**9-190-008**

**Wednesday, July 21**

**Dell's Working Capital**

**9-201-029**

Dell Computer Corp. manufactures, sells, and services personal computers. The company markets its computers directly to its customers and builds computers after receiving a customer order. This build-to-order model enables Dell to have much smaller investment in working capital than its competitors. It also enables Dell to more fully enjoy the benefits of reduction in component prices and to introduce new products more quickly. Dell has grown quickly and has been able to finance that growth internally by its efficient use of working capital and its profitability. This case highlights the importance of working capital management in a rapidly growing firm.

**Assignment Questions:**

1. How was Dell's working capital policy a competitive advantage? How might it be a disadvantage?
2. How did Dell finance its 52% growth in 1996? Do a "sources and uses" analysis using Exhibit 5 from year-end 1995 to 1996. (Hint: Follow the big changes only and treat all equity accounts as a single item.) Also, calculate the DuPont Formula for 1994, 1995, and 1996.
3. Assuming Dell sales will grow 50% in 1997, can the company fund this growth internally without issuing new debt or equity? How much would working capital need to be reduced and/or profit margin increased to finance this growth? What does this analysis tell you about Dell's performance in recent years?
4. How would you recommend Dell finance its growth?

**Callaway Golf**

**9-501-703**

Callaway Golf clubs were a runaway phenomenon in the early years of the company's history. But now there are problems: what has gone wrong?

**Assignment Questions:**

1. What factors contributed to the early success of Callaway drivers? (What were the main reasons?)
2. Why are they having problems at the time of the case (what has gone wrong?)
3. What should they do about it?

## Valuing Capital Investment Projects

9-298-092

1. Please read the background note if these concepts are new to you: time value of money, net present value, and internal rate of return.
2. Please answer the questions in the problem set with special emphasis on #1, 2, and 4.

**Thursday, July 22**

**Nestle 2008**

**9-509-001**

Nestle has been successfully marketing its products for well over 100 years. What is its secret? The new CEO must decide whether to continue the somewhat radical policies of his predecessor. Should he?

**Assignment Questions:**

1. What are the major reasons by Nestle's long running success?
2. Is the recent emphasis on health and wellness a good idea?
3. If so, what changes will Nestle have to make in the way it markets its products?

**Liston Mechanics**

**9-205-070**

This case reviews, through a rather simple and straightforward situation, the various methods of valuation--free cash flow, weighted average cost of capital, equity cash flow, adjusted present value, multiples, etc.

**Assignment Questions:**

1. Using assumptions in the case, estimate LMC's free cash flow for the next five years (2005-2009).
2. Using the assumptions in the case, estimate LMC's weighted average cost of capital (WACC)? Why is it appropriate to use LMC's WACC rather than SAC's WACC?
3. How much is LMC worth without any of the improvements mentioned in the case (this is the "base case" scenario)? Remember to calculate a terminal value for cash flows after 2009 (suggestion: make sure you understand the formula used in the valuation model).
4. Calculate how each of the improvements mentioned in the case will change LMC's value. How much is LMC worth if they are able to implement all of the changes?
5. Calculate how each of the following changes would affect the base case scenario (make the changes one at a time). Which changes have the largest impact on LMC's value and why? Which are most feasible?
  - a) Increase the sales growth rate by 1% per year (from 6%/5%/3% to 7%/6%/4%)
  - b) Increase the terminal value growth rate from 3% to 4%.
  - c) Increase the operating margin from 20% to 21%.
  - d) Reduce the tax rate from 40% to 38%.

- e) Decrease the NWC as a percent of sales from 20% to 19%.
- f) Decrease the capital expenditures from \$35 to \$33 million per year.
- g) Decrease the WACC by 1%.

### **Samsung Electronics**

9-504-051

Samsung transformed itself from being a low end brand (and a supplier of no-name commodity products) to being one of the world's most admired brands. How?

#### **Assignment Questions:**

1. What steps did Samsung take to transform itself? What marketing decisions did it take?
2. What does Sony stand for as a brand (to you)? Samsung?
3. What does Samsung need to do now to improve its brand even further?

**Friday, July 23**

**Airbus A3XX: Developing the World's Largest Commercial Jet (A)**

**9-201-028**

In July 2000, Airbus Industries' supervisory board is on the verge of approving a \$13 billion investment for the development of a new super jumbo jet known as the A3XX that would seat from 550 to 1,000 passengers. Having secured approximately 20 orders for the new jet, the board must decide whether there is sufficient long-term demand for the A3XX to justify the investment. At the time, Airbus was predicting that the market for very large aircraft (VLA), those seating more than 500 passengers, would exceed 1,500 aircraft over the next 20 years and would generate sales in excess of \$350 billion. According to Airbus, it needed to sell 250 aircraft to break even and could sell as many as 750 aircraft over the next 20 years. This case explores the two sets of forecasts and asks students whether they would proceed with the launch given the size of the investment and the uncertainty in long-term demand.

**Assignment Questions:**

1. Should Airbus commit to build the A3XX? How many orders should Airbus have before committing to develop the plane?
2. How many aircraft does Airbus need to sell in order to break even on the investment? Is this number greater or less than your estimate of total demand for very large aircraft (VLA) over the next 20 years?
3. What is the total demand for VLA aircraft? Analyze the sensitivity of demand to small changes in assumptions regarding growth, conversion rates, and market share. Who is right - Boeing or Airbus?
4. How should Boeing respond to this situation?

**Tesco Plc.**

**9-503-036**

Tesco also transformed itself, from a low-end unprofitable supermarket to one of the most successful in the world. How?

**Assignment Questions:**

1. What evidence is there in the case to demonstrate the success of Tesco?
2. What were the most important factors in the transformation?
3. What do you think of the Steering Wheel idea? Would it work in other companies?
4. What do you think of Tesco's international strategy? Will the "Tesco Way" work outside Britain?



In the first six weeks on the job, the new CEO of Malaysia Airlines (MAS), has developed an ambitious turnaround plan, including aggressive job cuts and route eliminations, but MAS's largest shareholder, Khazanah Nasional, the sovereign wealth fund, is tasked with helping to grow the Malaysian economy. Should Khazanah encourage job and route cuts at MAS, and how would the government react to them? Moreover, should MAS's new CEO pre-announce publicly his intentions?

**Assignment Questions:**

1. Malaysia's Finance Minister envisioned Khazanah operating much as a private equity fund. Is this a realistic vision? How are Sovereign Wealth Funds (or sovereign development funds) similar to and dissimilar from, private equity shops?
2. MAS's CEO proposes to cut jobs and routes to return the company to profitability. Is this a wise plan of action? How would you return MAS to profitability?
3. Some SWFs and particularly SDFs see themselves as having a "double-bottom-line," i.e. generating profits and strategic benefits for their sovereign owners. Can the same be said of an airline? Why or why not? What are the implications for the airline's CEO?
4. What should MAS CEO Idris Jalla do?
5. What should Khazanah's CEO Dato' Azman Mokhtar do?

## Saturday, July 24

### Lecture: Loyalty

Prof. Bell will conclude with a wrap up lecture that will, in part, discuss the question of customer loyalty. In preparation please think about products/companies/organizations/people to which you feel loyal. Why are you loyal to them?

### The Acquisition of Consolidated Rail Corporation (A)

9-298-006

On October 15, 1996, Virginia-based CSX and Pennsylvania-based Consolidated Rail (Conrail), the first and third largest railroads in the eastern United States, announced their intent to merge in a friendly deal worth \$8.3 billion. This deal was part of an industry-wide trend toward consolidation and promised to change the competitive dynamics of the Eastern rail market. Students, as shareholders, must decide whether to tender shares into the front-end of a two-tiered acquisition offer. To make this decision, they must value Conrail as an acquisition target and understand the structure of CSX's offer.

#### **Assignment Questions:**

1. Why does CSX want to buy Conrail? Analyze the deal in strategic, competitive, and financial terms.
2. As a member of CSX's Board of Directors, would you support the proposed acquisition of Conrail at a blended price of \$89 per share? What is the maximum amount CSX should be willing to pay for Conrail?
3. Analyze the structure of CSX's offer for Conrail:
  - a) Why did CSX make a two-tiered offer? What effect does this structure have on the transaction?
  - b) What are the economic rationales for and the takeover implications of the various provisions in the merger agreement (i.e. no-talk clause, lock-up options, break-up fee, and poison pill shareholder rights plan)?
4. As a Conrail shareholder, would you tender your shares to CSX at \$92.50 in the first-stage offer?