

**Fall Semester 2006**  
**Cases in Financial Management BA 452 and Marketing Management II BA 472**

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Text: Cases from the Darden School of Business at the University of Virginia and from Harvard Business School. Chapters 1-4, 8, and 11 from *Competition Demystified* by Greenwald and Kahn. This book is on reserve in the library. These chapters should be read before October 3, 2006.

Required Financial Calculator  
Suggested Popular business publications, especially the WSJ

### **Course Perspective**

This course should be fun! We don't mean backslapping, playground fun; rather, it should be intellectually fun. If you are working as hard as you should in BA 452 and 472, you will feel challenged and at times perhaps a little lost. However, you should also experience a sense of accomplishment when you meet the challenge of completing a challenging homework assignment or preparing and presenting a complex case. You should experience in these courses flashes of enlightenment—moments when theories, principles and practice come together in a well-structured competitive strategy. We hope these flashes will be even more intense because you will see the interrelationships between finance and marketing strategies: Good decisions in one area can be totally subverted by poor decisions in the other, and determining good strategies for both areas (what's best for the firm) will be the challenge of this course. You will, we hope, experience the joy and frustration of working with colleagues on cases. If you are an active participant, BA 452 and 472 will be an exciting journey for you and for your classmates. However, if you choose not to be actively involved in the courses, the experience will be a forced march for you and an experience to be endured by your classmates who must be in class with you.

### **Course Objectives:**

In this course, we'll apply many of the theories examined in Marketing Management 371 and Financial Management 351 in order to understand and explain marketplace phenomena. The primary methods for attaining understanding and ability to explain and predict business phenomena will be homework assignments, case analyses, student presentations, and discussions. There are several course objectives we hope to attain.

1. To gain insight into how financial and marketing decisions are interrelated and how careful analyses should lead to more integrated decision making with better results for the firm.

2. To gain insight into how financial theory is relevant to actual business situations through practice. There is an orientation beyond mere description and analysis, toward normative thinking and decision-making, as well as growth in judgment. The underlying focus throughout the course will be on valuation modeling and economic analysis as a foundation for corporate financial decision-making.
3. Through case analyses, attain a more thorough understanding of selected concepts, theories and principles we examined in Marketing Management I. The underlying focus will be upon making strategic decisions to sustain competitive advantage.
4. To acquire proficiency in analytical techniques needed to make financial decisions. Cases explore the application of finance tools and concepts in an imperfect world where information is noisy, behavior is not always rational, and outcomes are unpredictable.
5. Develop skills necessary to analyze critically marketing situations and to frame well informed marketing strategies based upon our analyses.
6. Develop skills necessary to present the results of our analyses as well as our recommendations in writing and orally.
7. Develop skills necessary to examine, question, and discuss others' analyses.
8. Develop skills of working with others to attain a common goal. Much decision-making in business is accomplished in a group environment, and team members must learn to advance their ideas in a cooperative manner.
9. To gain an awareness and understanding of more recent financial and marketing trends and innovations.

### **Course Structure:**

**Cases:** The second courses in Corporate Finance and Marketing Management utilize case studies to accomplish the objectives presented above. Cases present the frustrating opportunity for students to put **all of their finance, marketing, accounting, management, and economics** knowledge to work in solving strategic finance-marketing management problems. Usually, you will find it relatively easy to identify the general strategic area covered by the case. However, before recommending a solution to the issues presented in the case, you must determine which information presented in the case is relevant. Then, you must thoroughly examine that information. Sometimes, one is lulled into "treating the symptom rather than the disease" presented in a case. Using cases also allows us to cover many different aspects of finance and marketing. Finally, the use of cases also means that students must develop their analytical and communication skills of drawing, stating, and defending their conclusions as well as analyzing and questioning others' conclusions.

Cases will be worked on in small groups, and there will be variety in delivery of the cases to enliven student participation and learning. Many cases will involve standard case discussions lead by the professor, with students expressing their opinions, demonstrating their analysis done outside of class, and questioning the analyses of other groups. However, in one case teams will negotiate with each other. Some cases will be number-crunching problems, some will involve interpretation and the exercise of managerial judgment, and some will involve both. Some cases will be more difficult than others. Five cases will be formal, written cases prepared by each team, and presented orally by

three teams. (See section on grading.) When you make an oral presentation, your overall grade for that case will take into consideration both the oral and written components.

**Lectures:** There will be lectures as well. The lectures will generally address financial or marketing topics not covered in Corporate Finance or Marketing Management I, but we will spend some time reviewing certain material before going into more depth. Since the two courses, 452 and 472, meet consecutively, lecture periods may run from one course period into the other.

**Teamwork:** Students will form groups during the first week of the course. Groups will meet regularly outside of class to prepare the upcoming cases and/or discuss assigned reading. Students are provided in the syllabus or the course public folder a list of questions for each case that should be addressed as the teams meet. **Each student** should come prepared to discuss the group's answers in particular as well as other issues of the case brought up in class. Each team will also be required to complete five formal written case presentations and present three of them orally. (Please see grading section.) The formal write-ups should never exceed five double-spaced typewritten pages (12 pt. Times Roman with 1-inch margins) plus exhibits. Formal written presentations will be graded primarily on completion, clarity of expression, knowledge of the facts of the case, and the ability to follow directions, i.e. **an emphasis on the analytical process and the ability to draw on correct theories.** Each team should come prepared to present their written results by sharing their spreadsheet.

**Topics:** We will cover the following topics: Evaluation of Corporate Performance, Forecasting, Cost of Capital, Capital Budgeting, Debt Management, Mergers, Corporate Financial Strategy, Valuation of the Firm, Pricing, Distribution, Competitive Advantage, Industry Structure and Strategy, Brand Management, and Services. There will be other topics that arise naturally from cases and readings as we progress through the course.

**Homework Assignments:** Homework assignments will help the student prepare for the formal grading opportunities. Some are reading assignments and some require preparing spreadsheets or written answers. They will be taken up and read in order to ascertain what areas need additional explanation and what effort is being made. These homework assignments will be assessed on each group's effort and completeness—not on correctness—and will be used in determining a student's class contribution grade. Other individual participation grades come from each student's daily participation in class discussions. Homework assignments will help to prepare you for the tests and for the formal case work.

**Mid-term and Final:** There will be two tests in each course, BA 452 and 472, during the semester which will permit the student to demonstrate that the first two objectives of the course have been met. All work is to be the student's alone.

**Student Responsibility:** Because of the interactive nature of these courses their success depends to a great extent upon how well prepared students are for each class meeting.

1. You must prepare each assignment before class. This is particularly important since so much time will be spent presenting and discussing cases. Do not waste your colleagues' time by trying to discuss a case you have not prepared carefully. Don't confuse merely reading a case with preparing it for class discussion.
2. You must attend class regularly and be prepared to make significant contributions to our discussions of cases and other assignments. **There are no excused absences for this course. If you are not present, you cannot discharge your responsibility of contributing to discussion and learning in the course.** Please note that 30% of your grade is earned by contributing to class discussion. Also, note that we have scheduled ample time to discuss each case. Much of that time is student "property." Each of you is expected to question and discuss in detail the case assigned for that day. If you wish to use only 25% of your time, you should remember that you earn the class contribution portion of your grade by contributing to the class. After student presentation and discussion, the professors might want to elicit some points of the case for more detailed discussion and will call upon students for specific analyses and recommendations. It is from this give and take in discussion and questioning that you will earn a significant portion of the 30% class contribution portion of your grade. Moreover, it is from this give and take discussion that you will develop and hone your marketing and finance knowledge and skills as well as your knowledge and skill about "how" to discuss and to be an advocate. Simply put, if you aren't in class, you can neither learn nor earn!
3. You must make sure that you schedule an appointment with your teacher when you feel you are having problems meeting the requirements of this course.
4. Class discussions in BA 452/472 will sometimes become very, to use a fairly neutral word, animated. Lively discussion is a goal for this course. Given the benefits of discussion mentioned earlier and the fact that students should have invested a tremendous amount of effort into preparing their case analyses, a lively discussion is both expected and desired. **HOWEVER, disrespect for one's colleagues will not be tolerated in this course!**

### **Honor Code:**

All casework and homework are covered by the honor code.

1. It will be considered an Honor Council offense to use notes or other materials obtained from students who have taken this course in prior years.
2. When turning in homework and formal case write-ups, your pledge indicates the following:

"We pledge that each member signing below shared in the preparation of this case equally, we consulted with no student outside our group, and we used no information from previous semesters."

## Grading and Evaluation

**Course grades are earned according to the following scheme. (You will earn a grade for BA 452 and a grade for BA 472. Although both grades will be calculated using the same grading system, it is possible to receive different grades in the two courses.)**

A	94 – 100	C	74 - 76
A-	90 - 93	C-	70 - 73
B+	87 - 89	D+	67 - 69
B	84 - 86	D	64 - 66
B-	80 - 83	D-	60 - 63
C+	77 - 79	F	below 60

A weighted course average will be calculated using the following weights for the course components.

Three written cases presented formally to the class @ 9%.....	27% <sup>1</sup>
Two written cases presented formally to the class @9%.....	18% <sup>2</sup>
Contribution to class meetings.....	30%
Midterm exam. . . . .	10%
Final exam.....	20%

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<sup>1</sup> **For each of the five written cases, you will receive two grades, one from Professor Pittman on financial analyses and one from Professor Planchon on marketing analyses.** All cases, unless otherwise noted are to be pledged as a group effort to which all members of the group contributed equally. Each student in the group will earn the same grade for the case. The formal presentation, in addition to the written case, will entail using a power point presentation. A hard copy of the power point should be turned in with the case. **ALL** written cases must be turned in before the beginning of class—no exceptions.

<sup>2</sup> These cases, like those presented, will have a formal written analysis that must be turned in. They will, however, not be presented to the class. The cases will be pledged as the work of the group, and all students in the group will receive the same grade for the case.

## Course Schedule

The following schedule is for both BA 452 and BA 472. Under each class date, there will be assignments for both courses with BA 472 following BA 452. BA 472 is in red. For some periods, particularly at the beginning of the course, more time out of the two periods might be spent on one course or the other so we can cover material necessary for particular cases.

- August 24                    Introduction to Cases  
**FOCUS: /Review of Discounted Cash Flow Model (Overview); Financial Statements; DuPont Analysis; How to Program Cash Flow Statement**
- Introduction to Cases: review the marketing process and strategy.
- August 29                    **FOCUS: Financial Statement Analysis**  
Analyze Financial Statement of Apple Computer in order to review financial concepts  
(*Homework*: Analyze and be prepared to discuss key ratios; reread Chapter 3). We will program Apple Computer cash flow statement in class. Program cash flow statement before coming to class.  
**FOCUS: Industry/Peer Analysis** (*Homework*: The Financial Detective; follow instructions in case. Be prepared to turn in your answers.
- Read: Note on Marketing Strategy and Note on Structural Analysis of Industries
- August 31                    **Finish Review of Marketing Process; Review Marketing strategy and Porter Analysis.**  
**Introduction to writing and presenting cases**
- September 5  
**Random)**                    **Oracle Systems Corporation (Informal Case Presentations:**  
  
Homework: Formal case write-up plus Power Point Presentation that contains answer to the following:  
1. What can the historical income statements (Exhibit 1) and balance sheets (case Exhibit 2) tell you about the health and current condition of Oracle Systems?  
2. How can financial ratios extend your understanding of financial statements? What questions do the time series of ratios in case Exhibit 3 raise? What questions do the ratios on peer firms in case Exhibits 6 and 7 raise?  
3. Is Oracle Systems Corporation financial healthy in September 1990?

4. In light of your answer to question 3, what might account for the firm's recent decline in share price?

Analysis of case presentation and written analysis. Each group must drop its written case and power point presentation into Planchon's in-box before class. They will be used for discussion.

September 7

**FOCUS: Financial Forecasting**

(*Homework*; read Chapter 4; work 1-10 problems at the end of the chapter. You may check your answers against the Instructors Manual outside my door after completing your homework.) STUDY file entitled **IFFCF3.xls** before class along with the file entitled "Sales-Based Forecast"). Bring all programming questions to class. We will slowly go over methodology.

Marketing Strategy; Structural Analysis; Sustaining Value

September 12

**FOCUS: Financial Forecasting**

(*Homework*: Complete chapter 4 problems and check your answers against the Instructors Manual. In class we will go over a forecast of Netflix financial statements that you will prepare. I will provide instructions in the Excel file provided on Sep 7. Come to class with your best effort at a forecast. You may talk to other students for clarification, but you need to practice programming a forecast by yourself. We will work to correct and improve our forecasts in class., adding how to program external funds needs or excess external funds and how to perform sensitivity analysis.

Cumberland Metal Case. Each Group should write the case and drop it in Planchon's in-box. Be prepared to present the case complete with PowerPoint. Cold Calls

September 14

**FOCUS: Financing Forecasting and Valuation Models**

(\*\**Participation*: At this point, each student should be able to program in class a pro forma spreadsheet, including external funds need and pro forma cash flow. Each student will receive a **historical balance sheet and income statement**, and some assumptions; he or she will need to make the remaining assumptions. We will spend the first half of the class on this exercise. Each student will receive a participation grade on their spreadsheet; accuracy counts.

Finish Cumberland Metal

- September 19 I will use **IFFCF4.xls** to illustrate how pro forma are used to value stock, both free cash flow approach and residual cash flow approach. Read the file “Valuation Methodology” before class.
- Going to Market; Integrated Marketing Communication; Buy Low Sell High; Each group will write U.S. Pioneer, do a PowerPoint for it and be prepared to make a cold-call presentation.
- September 21 **FOCUS: Valuation Analysis**  
 (\*\**Homework*: Each team will prepare valuation of **Apple Computer** (free cash flow approach and residual cash flow approach) using assumptions I provide. We will review each in class and compare different scenarios. Bring your spreadsheet to class. \*\*heavier than normal weight on grade
- Wrap up U.S. Poiner. What did we learn?
- September 26 **WACC (lecture)**  
 (*Homework*: Read “Best Practices in Estimating the Cost of Capital – Survey and Synthesis” Read Chapter 15 in RWJ. Compute Dell and Starbucks WACC in class.
- Review Marketing Strategy, sustaining Value, Going to Market, Note on Structural Analysis, and Buy Low—Sell High. Do Barco case write up with PowerPoint and be prepared to make a presentation cold call.
- September 28 **Capital Budgeting (lecture)**  
*Homework*: Reread Chapter 10 and 11 in RWJ  
 Handouts: “Making Go/No-Go Project Decisions”.  
 Discussion of Real Options
- Wrap up Barco. What have we learned?

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**The following group of cases is for both Professors Pittman and Planchon**

- October 3 **Home Depot (Informal Case Presentations: Random)**  
*Homework*: Formal case write-up plus Power Point Presentation
- October 5 **Introduction to Economic Value Added (lecture)**  
 (*Homework*: Reading assignment in folder.  
*Video: Economic Value Added*)
- October 10 **Astral Mid-term Due**  
 Optimal Capital Structure Discussion

October 12	<b>Marketing Mid-term in Class</b>
October 17	<b>FALL RECESS</b>
October 19	<b>Mergers and Acquisitions (lecture)</b> <i>Video: Mergers</i> Read Chapter 25 in RWJ
October 24	<b>Case I: Starbucks</b>
October 26	<b>IPO/Investment Banking (lecture)</b>  <b>Wrap up Starbucks. What have we learned</b>
October 31	<b>Case II: Nantucket Nectars</b>
November 2	<b>Investment Banking in Practice</b> <b>Alternative Valuation Methodologies</b>  <b>Wrap up Nantucket Nectars. What have we learned?</b>
November 7	<b>Case III: Matching Dell</b>
November 9	<b>Hedge funds</b> <b>(Read Kmart, Sears, and ESL: How a Hedge Fund Became One of the World's Largest Retailers)</b>  <b>Wrap up Matching Dell. What have we learned?</b>
November 14	<b>Case IV: Gucci</b>
November 16	<b>Corporate Governance</b> <b>Stock Options Issues</b>  <b>Wrap up Gucci. What have we learned?</b>
November 21	<b>Case V: Biopure</b>
November 28	Come to class having read merger negotiation case and be prepared to ask questions; each side will be briefed separately

November 30

**CASE VI: Yeats Valves (No FORMAL write-up, participation grade)**

**Teams give instructor their planned opening bid(ask) prices and their walk-away bid(ask) prices. Negotiation follows.**

December 5

Debriefing

Review for Final Exam/ **Read Brown Forman Case before coming to class.**

**Questions for final exam will not be provided until you arrive for the exam.**

**Exam dates:**

You may select **any of the three times.**

**Date**

**Assignment**