

# Contents

---

|                       |  |    |
|-----------------------|--|----|
| <b><i>Preface</i></b> |  | xi |
| <b>CHAPTER 1</b>      | New CEO Activities                           | 1  |
|                       | Immediate Priorities                         | 1  |
|                       | Measure the Business                         | 3  |
|                       | Get to Know the Company                      | 5  |
|                       | Develop a Strategy                           | 7  |
|                       | Create a Budget and Related Systems          | 9  |
|                       | Review the Management Team                   | 10 |
|                       | Review Risks                                 | 11 |
|                       | Review Costs                                 | 13 |
|                       | Summary                                      | 15 |
| <b>PART I</b>         | STRATEGY DEVELOPMENT                         | 17 |
| <b>CHAPTER 2</b>      | General Corporate Strategy                   | 19 |
|                       | Overview of General Corporate Strategy       | 19 |
|                       | Building a Strategy: General Concepts        | 23 |
|                       | Building a Strategy: Product Differentiation | 26 |
|                       | Building a Strategy: Low Cost                | 29 |
|                       | Building a Strategy: Focus on a Niche        | 32 |
|                       | Building a Strategy: Impact of the Internet  | 34 |
|                       | Building a Strategy: Additional Comments     | 34 |
|                       | Strategy Testing                             | 37 |
|                       | Summary                                      | 38 |
| <b>CHAPTER 3</b>      | Financial Strategy                           | 39 |
|                       | Cash   | 39 |
|                       | Investments                                  | 41 |
|                       | Working Capital                              | 42 |
|                       | Inventory Reduction Decision                 | 45 |
|                       | Fixed Asset Lease versus Buy Decisions       | 46 |
|                       | Payables                                     | 47 |

|                  |   |            |
|------------------|---|------------|
|                  | Debt  | 49         |
|                  | Equity  | 52         |
|                  | Product Elimination Decisions                           | 56         |
|                  | Step Cost Reductions                                    | 59         |
|                  | Temporary Labor Decisions                               | 60         |
|                  | Divestiture Decisions                                   | 61         |
|                  | Summary   | 62         |
| <b>CHAPTER 4</b> | <b>Tax Strategy</b>                                     | <b>65</b>  |
|                  | Accumulated Earnings Tax                                | 66         |
|                  | Cash Method of Accounting                               | 67         |
|                  | Inventory Valuation                                     | 68         |
|                  | Mergers and Acquisitions                                | 68         |
|                  | Net Operating Loss Carryforwards                        | 69         |
|                  | Nexus   | 69         |
|                  | S Corporation   | 70         |
|                  | Sales and Use Taxes                                     | 71         |
|                  | Transfer Pricing  | 72         |
|                  | Unemployment Taxes                                      | 75         |
|                  | Summary   | 76         |
| <b>CHAPTER 5</b> | <b>Information Technology Strategy</b>                  | <b>77</b>  |
|                  | Reasons for Devising an Information Technology Strategy | 77         |
|                  | Developing the Information Technology Strategy          | 78         |
|                  | Technical Strategies                                    | 81         |
|                  | Specific Applications                                   | 82         |
|                  | Summary   | 85         |
| <b>CHAPTER 6</b> | <b>Outsourcing Strategy</b>                             | <b>87</b>  |
|                  | Overview of Outsourcing                                 | 87         |
|                  | Outsourcing Risks                                       | 92         |
|                  | Initiating Outsourcing                                  | 94         |
|                  | Companies that Take Over Outsourced Functions           | 94         |
|                  | Summary   | 97         |
| <b>PART II</b>   | <b>THE BUDGET</b>                                       | <b>99</b>  |
| <b>CHAPTER 7</b> | <b>Budgeting Process</b>                                | <b>101</b> |
|                  | System of Interlocking Budgets                          | 101        |
|                  | Sample Budget   | 109        |
|                  | Flex Budget   | 127        |
|                  | Budgetary Control Systems                               | 127        |
|                  | Summary   | 129        |

|                   |   |     |
|-------------------|---|-----|
| <b>CHAPTER 8</b>  | Capital Budgeting                                       | 131 |
|                   | Hurdle Rate   | 131 |
|                   | Payback Period  | 132 |
|                   | Net Present Value                                       | 134 |
|                   | Internal Rate of Return                                 | 136 |
|                   | Throughput-Based Capital Budgeting                      | 137 |
|                   | Problems with the Capital Budget Approval Process       | 140 |
|                   | Cash Flow Modeling Issues                               | 141 |
|                   | Funding Decisions for Research and Development Projects | 142 |
|                   | Postcompletion Project Analysis                         | 143 |
|                   | Summary   | 145 |
| <b>PART III</b>   | RISK MANAGEMENT   | 147 |
| <b>CHAPTER 9</b>  | Risk Management: General Concepts                       | 149 |
|                   | Risk Management Policies                                | 149 |
|                   | Risk Management Planning                                | 150 |
|                   | Manager of Risk Management                              | 152 |
|                   | Risk Management Procedures                              | 153 |
|                   | Types of Business Insurance                             | 155 |
|                   | Types of Insurance Companies                            | 157 |
|                   | Evaluating the Health of an Insurance Carrier           | 158 |
|                   | Annual Risk Management Report                           | 159 |
|                   | Summary   | 160 |
| <b>CHAPTER 10</b> | Risk Management: Foreign Exchange                       | 163 |
|                   | Foreign Exchange Quote Terminology                      | 163 |
|                   | Nature of Foreign Exchange Risk                         | 164 |
|                   | Data Collection for Foreign Exchange Risk Management    | 165 |
|                   | Foreign Exchange Hedging Strategies                     | 165 |
|                   | Summary   | 176 |
| <b>PART IV</b>    | FINANCIAL ANALYSIS                                      | 179 |
| <b>CHAPTER 11</b> | Performance Measurements                                | 181 |
|                   | Asset Utilization Measurements                          | 181 |
|                   | Operating Performance Measurements                      | 186 |
|                   | Cash Flow Measurements                                  | 190 |
|                   | Liquidity Measurements                                  | 193 |
|                   | Solvency Measurements                                   | 197 |
|                   | Return on Investment Measurements                       | 199 |
|                   | Market Performance Measurements                         | 204 |
|                   | Summary   | 206 |

|                   |   |     |
|-------------------|---|-----|
| <b>CHAPTER 12</b> | Cost Reduction Analysis                           | 207 |
|                   | Types of Reports Used for Cost Reduction Analysis | 207 |
|                   | Spend Analysis Overview                           | 211 |
|                   | Spend Database                                    | 211 |
|                   | Supplier Consolidation Analysis                   | 212 |
|                   | Parts Consolidation Analysis                      | 213 |
|                   | Maintenance, Repair, and Operations Item Analysis | 213 |
|                   | Spend Compliance                                  | 213 |
|                   | Spend Analysis Reports                            | 214 |
|                   | Workforce Reduction Analysis                      | 217 |
|                   | Workforce Reduction Issues                        | 217 |
|                   | Workforce Reduction Alternatives                  | 221 |
|                   | 5S Analysis                                       | 223 |
|                   | Error Quantification                              | 223 |
|                   | Fixed Cost Analysis                               | 224 |
|                   | Ishikawa Diagrams                                 | 224 |
|                   | Value Stream Mapping                              | 225 |
|                   | Waste Analysis                                    | 226 |
|                   | Summary   | 227 |
| <b>CHAPTER 13</b> | Mergers and Acquisitions                          | 229 |
|                   | Evaluating Acquisition Targets                    | 229 |
|                   | Complexity Analysis                               | 245 |
|                   | Valuing an Acquisition Target                     | 246 |
|                   | Types of Acquisitions                             | 260 |
|                   | Summary   | 266 |
| <b>PART V</b>     | THE PUBLIC COMPANY                                | 269 |
| <b>CHAPTER 14</b> | Initial Public Offering                           | 271 |
|                   | Reasons to Go Public                              | 271 |
|                   | Reasons Not to Go Public                          | 272 |
|                   | Cost of an IPO                                    | 274 |
|                   | Preparing for the IPO                             | 274 |
|                   | Finding an Underwriter                            | 277 |
|                   | Registering for and Completing the IPO            | 280 |
|                   | Alternatives for Selling Securities               | 282 |
|                   | Trading on an Exchange                            | 284 |
|                   | American Stock Exchange                           | 285 |
|                   | Overview of the Nasdaq                            | 287 |
|                   | New York Stock Exchange                           | 289 |
|                   | Comparing the Stock Exchanges                     | 291 |
|                   | Over-the-Counter Stocks                           | 292 |
|                   | Summary   | 293 |

| <i>Contents</i>   |   | ix  |
|-------------------|---|-----|
| <b>CHAPTER 15</b> | Investment Community                      | 295 |
|                   | Analyst's Perspective                     | 295 |
|                   | Finding the Right Analyst                 | 297 |
|                   | Sell Side: Analysts                       | 297 |
|                   | Negative Analyst Report                   | 299 |
|                   | Sell Side: Brokers                        | 300 |
|                   | Sell Side: Investment Bankers             | 301 |
|                   | Sell Side: Investor Relations Specialists | 302 |
|                   | Buy Side: Types of Investors              | 302 |
|                   | Buy Side: Institutional Investors         | 303 |
|                   | Buy Side: Individual Investors            | 304 |
|                   | Buy Side: Presentations to Investors      | 306 |
|                   | Summary                                   | 307 |
| <b>CHAPTER 16</b> | Public Company Activities                 | 309 |
|                   | Investor Conference Call                  | 309 |
|                   | Road Show                                 | 311 |
|                   | Concept of Guidance                       | 315 |
|                   | Form of Guidance Issued                   | 316 |
|                   | Frequency and Timing of Guidance          | 318 |
|                   | Aggressiveness of Guidance                | 319 |
|                   | How Short Sellers Operate                 | 320 |
|                   | How to Handle Short Sellers               | 321 |
|                   | Measuring Short-Seller Activity           | 322 |
|                   | Summary                                   | 323 |
| <b>CHAPTER 17</b> | Taking a Company Private                  | 325 |
|                   | Going-Private Transaction                 | 325 |
|                   | Rule 13e-3                                | 325 |
|                   | 300-Shareholder Limit                     | 326 |
|                   | Form 15                                   | 327 |
|                   | Summary                                   | 327 |
| <b>Appendix</b>   | New CEO Checklist                         | 329 |
|                   | <i>About the Author</i>                   | 337 |
|                   | <i>Index</i>                              | 339 |

<http://www.pbookshop.com>