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The Case of the Unidentified Industries—2006

If you were asked to visualize (in income statement and balance sheet form) the financial structure of a typical firm in one particular industry, do you think you could do it? How close to your "vision" do you think the "reality" would be? What if you were asked to do the same experiment covering 14 firms drawn from 14 different industries? How many of the 14 do you think you would get right? You may be surprised by how much you already know!

Exhibit 1 presents the balance sheets (in percentage form) and other selected financial data for 14 firms drawn from 14 different industries. While there are clear differences in the financial structures of different firms within a *single* industry, the firms selected have figures that are broadly typical of those in their industry.

Try to match the 14 firms operating in the 14 industries named below with the 14 sets of financial data presented in Exhibit 1. Use any approach you find helpful.

Advertising agency (about half of total revenue derived from commissions that equal 15% of media purchases for clients)

Airline

Bookstore chain

Commercial bank (fitted into the most nearly comparable balance sheet and ratio categories of the nonfinancial companies)

Computer software developer

Department store chain (with its "own brand" charge card)

Electric and gas utility (with 72% of its revenue from electricity sales and 28% of its revenue from natural gas sales)

Family restaurant chain

Health maintenance organization

Online bookseller

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Online direct factory to customer personal computer vendor (with more than half of sales to business customers and most manufacturing outsourced)

Pharmaceutical manufacturer

Retail drug chain

Retail grocery chain

Why do each of the industries have the patterns of asset use revealed in Exhibit 1? The sources of financing? The profitability? The inventory turnover? The accounts receivable collection period?

Exhibit 1 Balance Sheet Percentages and Selected Financial Data for Unidentified Industries

Line	Balance Sheet Percentages	A	B	C	D	E	F	G	H	I	J	K	L	M	N
1.	Cash and marketable securities	54	12	39	19	8	49	11	1	3	1	8	0	18	2
2.	Accounts receivable	7	3	24	8	37	13	51	1	3	8	12	5	2	90
3.	Inventories	15	42	2	5	0	2	0	7	22	17	35	2	0	0
4.	Other current assets	2	2	11	8	5	6	0	3	3	5	2	6	6	0
5.	Plant & equipment (net)	9	25	9	14	4	4	7	81	55	36	41	69	66	0
6.	Other assets	<u>11</u>	<u>16</u>	<u>15</u>	<u>46</u>	<u>46</u>	<u>25</u>	<u>32</u>	<u>6</u>	<u>13</u>	<u>33</u>	<u>3</u>	<u>18</u>	<u>8</u>	<u>9</u>
7.	Total assets ^a	100	100	100	100	100	100	100	100	100	100	100	100	100	100
8.	Notes payable	0	0	0	10	6	0	8	6	3	4	0	3	4	73
9.	Accounts payable	37	26	43	2	39	4	46	7	17	16	24	5	4	5
10.	Accrued items	15	22	26	1	1	3	2	8	4	0	5	0	0	0
11.	Other current liabilities	0	0	0	11	9	25	0	13	9	3	5	5	19	0
12.	Long-term debt	41	0	2	5	15	0	7	16	33	27	0	30	10	15
13.	Other liabilities	0	17	11	14	6	10	0	9	13	10	7	26	15	0
14.	Preferred stock	0	0	0	0	0	0	0	0	0	0	0	1	0	0
15.	Common stock	<u>7</u>	<u>35</u>	<u>18</u>	<u>56</u>	<u>25</u>	<u>58</u>	<u>37</u>	<u>41</u>	<u>21</u>	<u>41</u>	<u>59</u>	<u>29</u>	<u>48</u>	<u>7</u>
16.	Total liabilities and net worth ^a	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Selected Financial Data															
17.	Current assets/current liabilities	1.52	1.23	1.11	1.65	.92	2.18	1.10	.37	.96	1.34	1.69	.95	.94	1.17
18.	Cash, MS, and ARs/current liabilities	1.18	.31	.91	1.12	.82	1.94	1.10	.08	.21	.36	.59	.37	.72	1.17
19.	Inventory turnover (X)	11.4	2.7	79.8	1.6	NA	5.2	NA	22.3	10.2	2.3	5.7	19.8	NA	NA
20.	Receivables collection period (days)	12	7	36	68	201	77	89	2	4	41	16	40	12	4,071
21.	Total debt/total assets	.41	.00	.02	.15	.21	.00	.16	.23	.35	.31	.00	.33	.14	.88
22.	Long-term debt/capitalization	.86	.00	.11	.08	.33	.00	.14	.26	.57	.37	.00	.47	.16	.15
23.	Revenue/total assets	2.297	1.613	2.419	.439	.675	.636	2.079	1.90	2.956	.675	2.767	.423	.542	.081
24.	Net profit/revenue	.042	.029	.064	.158	.074	.285	.022	.059	.016	.063	.037	.068	.072	.204
25.	Net profit/total assets	.087	.046	.155	.069	.050	.181	.045	.112	.047	.042	.102	.029	.039	.016
26.	Total assets/net worth	15.02	2.84	5.60	1.78	4.03	1.74	2.74	2.45	4.67	2.45	1.69	3.30	2.10	13.28
27.	Net profit/net worth	1.459	.131	.865	.123	.200	.314	.123	.275	.218	.104	.173	.096	.082	.218

Source: Compiled from company annual reports.

NA = Not applicable.

^aColumn totals may not add to 100 due to rounding.