Agenda: Analysis of Quaker Oats – Identifying and examining the key financial and non-financial data and measurements that management uses. Analyzing the quality of reporting by management of these key measurements.

Big picture lessons:

- What are the drivers for Quaker? A key in analyzing a business is to identify those factors that most contribute to its profitability. Once these factors are identified, projections can be made based on past trends, the economic environment that the company operates in and information provided by management. Relevant drivers for Quaker may include:
  - Gross profit margins by product type and geographic location.
  - Market share and market share growth by product and geographic location.
  - Commodity prices.
  - Customer satisfaction.
  - Consumer price sensitivity.
  - Inventory turnover.
  - New product development.
  - New geographic market development.
  - Advertising costs and advertising sensitivity.
  - Distribution costs.
  - Quality control (% of rejected batches).

- In analyzing key measurements cited by management, make sure you understand how these are defined and measured. For example, what is included and excluded in operating income, controllable income. How are restructuring charges, gains or losses on divestitures, interest costs, and items peripheral to the main operations of the business treated? Is management’s treatment of these items appropriate? Look for specifics – beware of vague data or generalizations.

- Five and ten year averages can be misleading. They may mask more current trends or be unduly influenced by performance in 1 or 2 years. The base year significantly impacts the amounts reported. Year-to-year analysis is more useful.

- Consistency in reporting provides useful information. This means that all important items are measured and discussed each year, not just when they present good news. Consistency in measurement is needed to analyze trends.

- All data is more relevant when broken down by business and geographic segments.