

**The Five Forces Analysis**

Force	Threat to Profits
Internal rivalry	High — internal distraction, less customer loyalty, awards/motives, high, infrequent product decisions
Entry Substitutes / Complements	LOW — high cost of entry, specialized industry, high entry concentration, internal competition
Buyer Power	LOW — low alternatives, complex price setting, price-value considerations
Supplier Power	LOW — low concentration control 82% of the market, many supply alternatives, the threat of forward integration

- Strategic Problem**
- Management Issues
  - Decreasing Profit Margins
  - Slashing staff strengthens Key Competitor
  - Diseconomies of scale
  - More effective substitutes

**Executive Summary  
Harnischfeger Industries**

- Family-owned specialty company from 1884 - 1956
- Public offering in 1956
- Four major business segments:
  - Systems Group
  - Paper Group
  - Heavy Equipment Group
  - Material Handling Equipment
- Material Handling Equipment Division V.P. is searching growth opportunities.

**Financial Results**  
DuPont Analysis  
ROE drivers (Profitability, Activity and Financial Leverage)

ROE driver	2014	2013	2012	2011	2010
Net Income Margin	20.7%	23.0%	21.0%	21.0%	21.0%
Capital Turnover	1.1x	1.1x	1.1x	1.1x	1.1x
Financial Leverage	1.5x	1.5x	1.5x	1.5x	1.5x
ROE	33.0%	33.0%	33.0%	33.0%	33.0%

- Strategic Alternatives**
- Boundaries of the Firm
    - Horizontal boundaries:
      - Reduce Product Market
      - Workforce Management
    - Vertical boundaries:
      - Consider outsourcing
      - Buy vs. make
  - Market and Competitive Analysis
  - Product Innovation - re-design the sling
  - Position and Dynamics
    - Production Innovation - lower cost & quicker delivery times
    - Broader marketing strategy
  - Internal Organization
    - Decentralize the organization
    - Non-compete agreements

## Harnischfeger Industries

*By Susan Barone, Michele Cabral, Amanda Guyette*

**The Five Forces Analysis**

Force	Threat to Profits
Internal rivalry	High — internal divisions; price-cutting; product differentiation; market power; high administrative expenses
Entry	Low — high cost of entry; specialized industry; tight labor concentration; external economies
Substitutes / Complements	Low — low alternatives; complete price-cuing; price-value considerations
Buyer Power	Low — low competition; control size of the market
Supplier Power	Low — many supply alternatives; low threat of forward integration

**Financial Results**  
 DuPont Analysis  
 ROI Drivers (Profitability, Activity and Financial Leverage)

Item	2010	2011	2012	2013	2014
Profit Margin	15.0%	14.0%	13.0%	12.0%	11.0%
Asset Turnover	1.2	1.1	1.0	0.9	0.8
Equity Multiplier	1.5	1.4	1.3	1.2	1.1
ROA	18.0%	15.4%	13.0%	10.8%	9.0%
ROE	27.0%	21.6%	16.9%	13.0%	9.9%

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# Strategic Problem

- Management Issues
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- Slashing staff strengthens Key Competitor
- Diseconomies of scale
- More effective substitutes

# The Five Forces Analysis

Force	Threat to Profits
Internal rivalry	<b>High</b> — internal distraction; little customer loyalty; mature market; large, infrequent purchase decisions
Entry	<b>LOW</b> — high cost of entry, specialized industry; tight seller concentration, internal know-how
Substitutes / Complements	<b>LOW</b> — few alternatives; competitor price cutting, price-value considerations
Buyer Power	<b>LOW</b> — two companies control 92% of the market
Supplier Power	<b>LOW</b> — many supply alternatives; low threat of forward integration

# Financial Results

## DuPont Analysis

### ROE drivers (Profitability, Activity and Financial Leverage)

		1983 - New Management	1985 - New Baseline	1986 - Diversification	1990 - The beginning of the End	Analysis
Profit Margin on Sales	Net Income / Net Sales	-15.71%	4.37%	0.18%	4.11%	Measure of profit per dollar of sales
X						
Asset Turn	Net Sales / Average Total Assets	53.01%	57.86%	75.20%	112.72%	Use of assets to generate sales
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Return on Assets	Net Income / Average Total Assets	-8.33%	2.53%	0.13%	4.64%	Assets are effectively being utilized.
X						
Equity Multiplier	Average total assets / Average total equity	3.78	2.80	4.56	2.71	Measure of assets financed with debt; indicates ability to pay down debt, presumably through a strong gross profit.
=						
Return on shareholders' equity	Net Income / Average shareholders' equity	-31.48%	7.09%	0.61%	12.55%	Diversification has resulted in positive outcome for shareholders.

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