

MGMT 3000 Exam 1 Review Notes

- 40 MC and T/F
- Go through PowerPoint slides associated with all of the material
- Read the chapters and cases again thoroughly
- Review your notes on our class discussions

Chapter 1: Introduction to Management (Full text version)

Management: A set of activities—*planning and decision making, organizing, leading, and controlling*—directed at an organization's resources—*human, financial, physical, and information*—with the aim of achieving organizational goals in an *efficient and effective* manner.

1. **Thomas Friedman**
 - a. Spokesperson for globalization, writer
 - b. Criticized for not being an expert in the things he writes about - tons of seemingly unrelated yet connected macro disciplines
 - c. Puts all pieces together, explains impact of globalization on our lives
 - d. *Lexus and the Olive Tree, The World is Flat, That Used to Be Us*
2. NAFTA - US, Canada, Mexico free trade
 - a. Strategy - to reduce trade barriers, increase flow of G&S
 - b. Unintended consequences - immigration
 - c. Mexico has problems with Rule of Law; Wal-Mart now ships from China because they don't trust Mexico
3. **Outsourcing** - any time a business pays another business to provide a product or service
 - a. Firms are simply not capable of doing absolutely everything themselves, or it would be very inefficient
 - b. "Outsourcing" has a negative connotation - lost American jobs
4. BRIC - Brazil, Russia, India, China - developing world
 - a. Developed world typically grows in the low single digits
 - b. Developing world can easily grow into double digits for long time
 - c. China's economy has averaged close to 10% CAGR (Compound Annual Growth Rate) for the last 3 decades ($1.10^{30} = 17.45$)
 - d. "**China Price**" - the absolute lowest price in a negotiation; connotation
 - e. EU says you now conduct all business meetings in English
5. **Thundering herd** - envisioned by Friedman, roaming the globe day-to-day
 - a. The large traders that buy and sell gov't bonds on a daily basis peek in on Japan and its prospects on a minute-by-minute basis as sun rises
 - b. Herd makes a quick valuation of Japanese gov't bond prices, then buys or sells on a net basis and moves on to the next country...
 - c. Roving band of capital circles earth every day making decisions about the relative risk of each sovereign economy based on its collective knowledge of the risks associated with each country
6. **Risk/Return Tradeoff** - the balance between the desire for the lowest

possible risk and the highest possible return

- a. Take more risk → potential for a higher rate of return

7. **Corporate level strategy** – Two basic questions to be asked

- a. Which businesses will we choose to compete in?
- b. How will resources be allocated among the firms in our portfolio?

8. **Financial Times (link)** – shows bond & LIBOR rates for different countries

9. **Figure 3: Return by Asset Class**

- a. US Treasury Bills: Positive **82/83** years, led in **6** of those years
 - i. Very safe investment
 - ii. Won't give high rate of return, but return is virtually guaranteed, backed by the underlying strength of the US economy and the promise of the US to repay debts
- b. Large-cap stocks: Positive **59/83** years, led in **16** of those years
 - i. Higher return than TB, but less than small-cap
 - ii. Covered by an army of analysts, fewer surprises
 - iii. Revenue streams are more transparent and predictable
- c. Small-cap stocks: Positive **57/83** years, led in **36** of those years
 - i. Smaller companies that are less transparent, less predictable
 - ii. Fewer analysts are covering the shares
 - iii. Investors know less about the revenue streams for these firms
 - iv. Spread of potential returns is much wider (could earn a much higher return but you might also lose your entire investment)

10. **Negative returns**

- a. Investors knowingly make a deposit in a too-big-to-fail, federally insured account that guarantees they will have less money one year hence (deposit \$1000 today, get \$950 in a year)
- b. Investors would prefer to take a known, small loss rather than place their funds in slightly more illiquid and risky assets

11. **Skill sets over your career (in order of when you need them most)**

- a. **Technical skills**
 - i. Specialized knowledge (procedures, processes, equipment)
 - ii. Knowing how and when to use that knowledge
 - iii. Can be seen in educational background, grades
 - iv. Key in entrepreneurial start-ups
 - v. Especially important early in career
- b. **Interpersonal skills**
 - i. Sensitivity, persuasiveness, empathy
 - ii. Especially important at lower and middle levels
- c. **Conceptual Skills** – ability to see the big picture
 - i. Cognitive ability or cognitive complexity
 - ii. Logical reasoning, judgment, analytical abilities are strong indicators of managerial effectiveness
- d. The CEO's interpersonal and conceptual skills are what generates business for the firm and a paycheck for us

Toll Brothers Case:

1. Class notes
 - a. Only housing industry that didn't tank was student housing
 - b. Company survived '05-'09 – most companies didn't!
 - c. Coastal housing has increased at much higher rate than internally
 - d. No one can move because they can't sell real estate
 - e. Developers can no longer walk into banks and get money
 - f. Value proposition = value/price
 - g. Inflation calculator
 - h. Tightened finances and bought distressed property; Cash is king
 - i. Underwater house – value of house is less than what you owe on it
 - j. Credit score runs everything – bad credit score → horrible int. rate
 - k. Subprime loans – get higher interest rate (with premium for risk of default)
 - l. You could borrow more than the purchase price of the house
 - m. Customer Value Proposition: Sell semi-customized, standardized luxury homes at a value price
 - n. Profit formula: + Housing Price - building costs – carrying cost unsold
 - o. 1989-1992 – 1st time in history when Net Income declined
2. Company background
 - a. Leading builder of luxury homes in the US
 - b. Began as a family business, opened by Bob Toll & Bruce Toll in 1967
 - c. Beginning – built about 30 homes/year
 - d. Housing boom 2005 - at peak; built 8000 homes & employed 4655
 - e. 2009 – Publicly Traded, Fort 500; Built 2450 homes, employed 2066
 - f. *Survived* through dramatic downturn of the US housing market
3. Toll Brothers Growth (1967-1999)
 - a. Emphasis on quality and customer satisfaction
 - b. Conservative financial strategy
 - i. Keeping construction costs low without jeopardizing quality
 - ii. Didn't invest heavily in land that could become overpriced
 - iii. Hired topflight managers, implemented strict financial controls
 - iv. Introduced mass production of luxury housing
 1. "Take a few standard home styles—Georgian, Colonial, Tudor—and pump them up to steroidal proportions"
 2. Quasi-customizable homes = "McMansions"
 - c. Survived housing slump of early 90s because of financial health of its target customers – baby boomers b/w 35 and 55
4. Toll Brothers' Environment: The US Housing Boom (2000-2005)
 - a. Economy was at risk of entering recession when dotcom bubble burst
 - b. Central banks decreased interest rates → mania for home-buying
 - c. There was an excess of global capital, high demand for low-risk, high-return investments; push \$\$ into mortgage market
 - d. Banks began offering subprime loans to attract \$\$ to mortgage market
 - e. Mortgage-backed securities were safe in the beginning