CHARTERED ACCOUNTANTS EXAMINATIONS

PROFESSIONAL LEVEL

P5: STRATEGIC MANAGEMENT

SERIES: JUNE 2013

TOTAL MARKS – 100 TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.

2. This paper is divided into TWO sections:

   Section A: One compulsory question.

   Section B: Four Optional Questions. Attempt any three (3).

3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must NOT appear anywhere on your answer booklet.

4. Do NOT write in pencil (except for graphs and diagrams).

5. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

6. All workings must be done in the answer booklet.

7. Present legible and tidy work.

8. Graph paper (if required) is provided at the end of the answer booklet.

SECTION A

Compulsory Question.

QUESTION ONE

EXTRA SPECIAL FOODS

Extra Special Foods Limited is a medium sized food processing company situated in an industrial area in Kitwe. The company which is still owned and managed by its original founders has a diversified market and produces a wide range of packaged products. The company has its own packaging plant and produces several food lines under its own label, two of which are for Maheu Energy Drink, which is a segment of the food market it entered into five (5) years ago.

The company has a good reputation and distributes over 80% of its products through three (3) large supermarket chains. Twice in the last five years, the directors of the company have managed to avoid being taken over by large competitors.

The early 2000's were not good for the company. Coming out of the recession in the earlier part of the 2000's and facing stiff competition towards the end of 2005, the directors divested from some of the products lines in order to increase overall profitability and reduce inefficiencies. However promotional activities from competing firms caused a lot of problems and the company began to lose its market share. In addition, the company is now facing considerable pressure from imports, particularly from South Africa and COMESA states, which have made significant advances in the Zambian processed food market. Although input and labour costs steadily increased over the past few years the competitive nature of the market resulted in a period of relatively low increases in market price, and as a result, Extra Special Foods' products were marginally over-priced, and its profit margins are down.

Indeed several months ago a senior buyer from an important supermarket chain mentioned that his company, although satisfied with quality standards of the company's food lines was concerned over the recommended selling prices on some lines. He said that his company was beginning to review medium term contracts.

As previously mentioned, the company is operating in a highly competitive segment of the food market since it is competing with small producers, other medium sized companies and with multinational firms who have well established brands. Some of its competitors have been taken over by larger firms, mainly to acquire their production plants, since food production capacity and location are significant factors in the industry, particularly in Kitwe and other towns along the line of rail.

Furthermore the company has been financially cautious, avoiding large scale expenditures which would require borrowing. The latest Maheu Energy Drink producing plant which came on stream in 2005 was financed out of retained profits.

However, it is clear that significant changes are occurring in the industry and Extra Special Foods Ltd engaged Strategy Services Ltd (SSL), a firm of management consultants, to conduct a survey of its market segments

The main findings of (SSL) were:

(i) Forecast market growth likely to continue at the rate of 6% per annum.

(ii) Forecast of increased competition after 2010 with firms seeking to establish Regional/COMESA brands, and tastes

(iii) Significant costs involved in meeting COMESA standards in packaging and manufacturing from 2010, particularly for firms operating older plants.

(iv) Continuing trend to "healthier" and "natural" products, including low sugar/sugar free, and additive-free food and to "white meat"

(v) Increased dominance of supermarket chains such as Shoprite's, Spar's and Pick 'n' Pay's selling "own label" as well as branded products.

Faced with such developments, Extra Special Foods Limited is developing a strategy to see it through to 2020 aimed at preserving its independence, and increasing both its profitability and sales.

Required:

Assume the role of an independent management consultant and prepare a confidential report for the directors of Extra Special Foods Limited covering the following areas:

(a) The strengths and weaknesses of Extra Special Foods Limited in light of forecast trends and developments; (18 marks)

(b) The strategic options open to Extra Special Foods Limited; (10 marks)

(c) The strategy you recommend, and proposals for implementation. (12 marks)

Total: 40 marks

SECTION B

Answer any <u>three</u> out of <u>four</u> questions in this section.

<u>QUESTION TWO</u>

Bwana Electronic Services operates in a high labour cost environment in Western Province of Zambia and imports electronic products from China. It re-brands and re-packages them as Bwana products and then sells them to business and domestic customers in the local geographical region. Its only current source of supply is SISK electronics. Bwana regularly places orders for SISK products through the SISK web-site and pays for them by credit card. As soon as the payment is confirmed SISK automatically e-mails Bwana a confirmation of order, an order reference number and likely shipping date. When the order is actually despatched, SISK sends Bwana a notice of despatch e-mail and a container reference number. SISK currently organises all the shipping of the products. The products are sent in containers and then trans-shipped to SABOT, the logistics company used by SISK to distribute its products. SABOT then delivers the products to Bwana factory. Once they arrive, they are quality inspected and products that pass the inspection are re-branded as Bwana products (by adding appropriate logos) and packaged in specially fabricated Bwana boxes. These products are then stored ready for sale. All customer sales are from stock. Products that fail the inspection are returned to SISK.

Currently 60% of sales are made to domestic customers and 40% to business customers. Most domestic customers pick up their products from Bwana and set them up themselves. In contrast, most business customers ask Bwana Electronic Services to set up the electronic equipment at their offices, for which Bwana Electronic Services makes a small charge. Bwana Electronic Services currently advertises its products in local and regional newspapers. Bwana also has a web site which provides product details. Potential customers can enquire about the specification and availability of products through an e-mail facility on the web site. Bwana then e-mails an appropriate response directly to the person making the enquiry. Payment for products cannot currently be made through the web site.

Feedback from existing customers suggests that they particularly value the installation and support offered by the company. The company employs specialist technicians who (for a fee) will install equipment in both homes and offices. They will also come out and troubleshoot problems with equipment that is still under warranty. Bwana also offers a helpline and a back to base facility for customers whose products are out of warranty. Feedback from current customers suggests that this support is highly valued. One commented that "it contrasts favourably with your large customers who offer support through impersonal off-shore call centres and a time-consuming returns policy". Customers can also pay for technicians to come on-site to sort out problems without a warranty equipment.

Required:

(a) Analyse the primary activities of Bwana using value chain model. Comment on the significance of each of these activities and the value that they offer to customers. (12 marks)

(b) Discuss the role IT/IS in creating competitive advantage for businesses like Bwana Electronic Services. (8 marks)

Total 20 marks

QUESTION THREE

Organisations are set up in specific ways to accomplish different goals. They can therefore achieve higher sales and other profit by properly matching their needs with the structure they use to operate. A suitable organisational structure is essential to the effective implementation of corporate strategic plans.

Required:

Discuss each of the following types of organisational structure.

(a) Functional Structure (5 marks)

(b) Multidivisional Structure (5 marks)

(c) The Holding Company Structure (5 marks)

(d) Matrix Structure (5 marks)

Total: 20 marks

QUESTION FOUR

Organisational performance is about creating value for the primary beneficiaries of the organisation. Strategic thinking and planning can help keep the focus of staff members on this value creation, and not on management tools or practices for their own benefit.

Required:

Discuss the meaning and uses of the following options of corporate strategic planning. Support your answer with diagrams.

(a) Gap analysis (10 marks)

(b) BCG Matrix (10 marks)

Total: 20 marks

QUESTION FIVE

The Mukuba Group is a large conglomerate with 37 companies within the group; engaged in activities as diverse as building, printing, catering, turf accounting, light engineering and cosmetics. It has now been decided that the fortunes of the group and certainly of the larger individual companies will be best served if these larger companies are hived off as separate individual public companies, in which Mukuba plans to retain a 40% stake only.

Required:

(a) Explain three value creating roles of a corporate parent in managing a business portfolio. (6 marks)

(b) Discuss the advantages and disadvantages of a conglomerate type of an organisation. (5 marks)

(c) (i) What are the likely reasons for the divestment decision? (4 marks)

(ii) Discuss briefly the further decisions implied for the group when divestment has been implemented. (5 marks)

Total 20 marks

END OF PAPER

P5: STRATEGIC MANAGEMENT

SUGGESTED SOLUTIONS

JUNE 2013 EXAMINATIONS

SOLUTION ONE

REPORT

To: Directors of Extra Special Foods Ltd

From: SSL (Consultants) Ltd

Subject : Strategic Analysis, Options and Recommendations

Status : Confidential

1.0 SUMMARY OF CONTENTS

1.1 INTRODUCTION

If Extra Special Foods is to achieve its stated objectives of independence, maintaining its profitability and increasing its sales, it needs to develop and implement a strategy which matches its corporate strengths against the opportunities that are emerging in its environment.

1.2 ANALYSIS OF STRENGTHS

- Extra Special Foods appears to be in a strong financial position, having purchased its Maheu Energy Drink processing plant out of retained earnings. The case states that "the company has been cautious, avoiding large scale expenditures which would require borrowing"
- Extra Special Foods has a good brand reputation and has a balanced distribution pattern.
- The company is attractive to its large competitors. This can be seen from the take-overs that have occurred in the industry, and also company has been targeted for take-over in past five years.
- The company has a wide product-mix which provides sales, cost and investment synergies.
- Company has a good reputation, and hence customers are satisfied with the quality of its products. This is an important point for the firm.
- The company has a strong distribution network as evidenced by the linkages with the three (3) supermarkets.

- Ownership of company is in the hands of the managers. This could be one key factor that has led to the survival of Extra Special Foods as an independent company.
- The attitude of the directors in commissioning a survey of the industry and this report, is indicative of a readiness to face up to the challenges that are occurring in the company's environment.

1.3 ANALYSIS OF WEAKNESSES

- Extra Special Foods has experienced increased input and labour costs over the past few years.
- There is strong likelihood that the company could be labour intensive. This can be seen from its policy of avoiding large capital expenditures.
- Reliance of company on the founders who fill the most senior positions. Need to consider managerial succession.
- Decreasing profit margins due to over pricing.

1.4 STRATEGIC OPTIONS AND RECOMMENDATIONS

Four strategic options needed to be considered and evaluated

MARKET CONSOLIDATION AND PENETRATION

This involves Extra Special Foods concentrating on its existing products and markets., but increasing efficiency and effectiveness. It is recommended that Extra Special Foods rationalizes its product range, by dropping products for which it has low sales volume and low profitability.

NEW PRODUCT DEVELOPMENT

This involves developing products for existing markets. It is recommended that Extra Special Foods researches the potential for extending its product range by introducing environmentally friendly food products.

NEW MARKET DEVELOPMENT

This involves developing new markets for existing products. It is recommended that Extra Special Foods extends its sales into the wholesalers markets and reduce its overreliance on main supermarkets by also opening up markets in the COMESA countries.

COMPLETE DIVERSIFICATION

This is a far-reaching measure and very risky. It is not recommended for Extra Special Foods.

1.5 STRATEGY IMPLEMENTATION

- The strategic decisions should be fully backed by the Board of Directors and must communicated to all members of staff.
- The strategies need to be funded and this may involve additional capital which can be raised in a variety of ways. These financing routes need to be carefully appraised and evaluated.

- The strategies need to be coordinated. This will not be a pause a problem given the structure of the organization as well as the personal involvement of the owners of Extra Special Foods. Furthermore, regular meetings will be needed to agree and review options and progress.
- If growth is to be managed and organized effectively, new managers will need to be recruited. The selection decisions will be critical for the succession plans of the firm.
- Control and information systems need to be established to monitor the implementation of the strategies. Additional marketing research, including sales analysis may be desirable. More sophisticated financial control systems, particularly budgets, should be developed if not already in place.
- In the longer term, growth will require new organization structures, especially when the founders become less personally involved in the operation of the company.
    - Question 1
    - (Developing Corporate Strategy, Understanding the external environment, Resources and Capabilities)

SOLUTION TWO

(a) A simple value chain of the primary activities of Bwana is shown below.

Handling and storing inbound fully configured equipment, Quality inspection	Rebranding of products, Re-packaging of products	Customer collection, Technician delivery and installation	Local advertising, Web based enquiries	On-site technical support, Back to base support
Inbound Logistics	**Operation**	**Outbound logistics**	**Marketing & Sales**	**Service**

Comments about value might include:

Inbound logistics: Excellent quality assurance is required in inbound logistics. This is essential for pre-configured equipment where customers have high expectations of reliability. As well as contributing to customer satisfaction, high quality also reduces service costs.

Operations: This is a relatively small component in the Bwana value chain and actually adds little value to the customer. It is also being undertaken in a relatively high cost country. Bwana might wish to re-visit the current arrangement.

Outbound logistics: Customer feedback shows that this is greatly valued. Products can be picked up from stock and delivery and installation is provided if required. Most of the company's larger competitors cannot offer this service. However, it is unlikely that this value

can be retained when Bwana begins to increasingly supply outside the geographical region it is in.

Marketing and sales: This is very low-key at Bwana and will have to be developed if the company is to deliver the proposed growth. The limited functionality of the web site offers little value to customers.

Service: Customer feedback shows that this is greatly valued. Most of the company's competitors cannot offer this level of service. They offer support from off-shore call centres and a returns policy that is both time consuming to undertake and slow in rectification. However, it is unlikely that this value can be retained when Bwana begins to increasingly supply outside the geographical region it is in.

(b) Organizations that have embraced ICT have competitive advantage gained through reduced costs in purchasing processes and marketing of its products. The operations become efficient.

Bwana through embracing ICT is able to do and benefit from the following:

- Places orders through SISK website
- Pays for these orders by credit card
- SISK emails Bwana confirmation of order
- SISK sends a note of dispatched order through email
- Advertises its products through regional newspaper electronically
- Bwana has a website which provides product details
- Communicates with customers through e-mail.

However, the demerits are:

- Competition is able to easily imitate the firms systems and processes
- Information is exposed to hackers

Therefore ICT might not give a firm sustainable competitive advantage

SOLUTION THREE

The key element in the effective implementation of corporate strategies is the design of the organisational structure itself. Without a suitable organisational structure, decision making is likely to be slow, expensive, ineffective, or all of these. However, there is no one right form of organisation structure. The type of structure which will be most appropriate varies according to, the size of the company, its geographical spread of markets, the rate of change in the environment, and so on. However, of which type of structure is eventually determined as being most appropriate the corporate planner must obviously first appreciate and understand the different types of structure which are/can be used. Outlined below are four of the alternative ways of structuring an organisation, together with some of the main characteristics of each and their relative advantages and disadvantages.

The Functional Structure

A functional organisational structure is organised around the primary activities that have to be carried out in an organisation including, for example, marketing, finance, production and so on. This type of structure is often found in smaller companies, or those with relatively

narrow product and/or market ranges. Sometimes, however, the functional structure is found within other types of structure such as the multi-divisional one with the divisions themselves being organized on a functional basis. The main advantages of a functional structure are first that it is relatively simple to understand, establish and operate. In addition, it enables functional specialists, with similar areas of interest and expertise, to be grouped together. However, the functional structure can lead to problems of coordination between the different functional areas of a business. In addition, such structures are often poor in coping with diversity and with rapid environmental and market change.

The Multi-divisional Structure

This type of structure is where the organisation is divided into units on the basis of, for example, products, geographical areas, markets or services. So, for example, one division in the company may deal with, say, the institutional markets, whereas another division in this company may deal with, say, the retail sector. The multi-divisional structure is particularly useful where there is considerable diversity facing the organisation. Each division can concentrate on the specific issues and skills required for its particular business environment. This, in turn, enables strategies to be developed to meet the requirements of each division, thereby improving competitive strategy. In addition, multi-divisional structures enable measurement of each division's performance and can be very useful for developing managerial and staff expertise. The disadvantages of the multi-divisional structure include: possible conflict between divisions, potentially high costs of administration and staffing and potential complexity in achieving co-ordination between the different divisions in the company.

The Holding Company Structure

This type of company structure usually comprises an investment parent company which holds shareholdings in a number of separate business operations with the parent company exercising simple control. Essentially, the different parts of the business in which the parent company invests operate independently. This type of structure has been particularly popular with companies that have grown through merger and acquisition. The main advantage of this type of company structure is that each of the business units in which the holding company invests can operate within their own product markets and develop their own strategies. This, in turn, means that each part of the business is likely to have a high degree of autonomy in decision making and can operate and develop strategies in ways best suited to the circumstances of each particular part of the business. The disadvantages of this type of structure centres around the dangers of poor coordination and cohesion between the different business units. Often, holding company structures can give rise to duplication of effort, say, in research and development and innovation between the different parts of the business. In addition, individual companies within the holding company structure can often feel isolated and sometimes threatened by the parent company head office.

The Matrix Structure

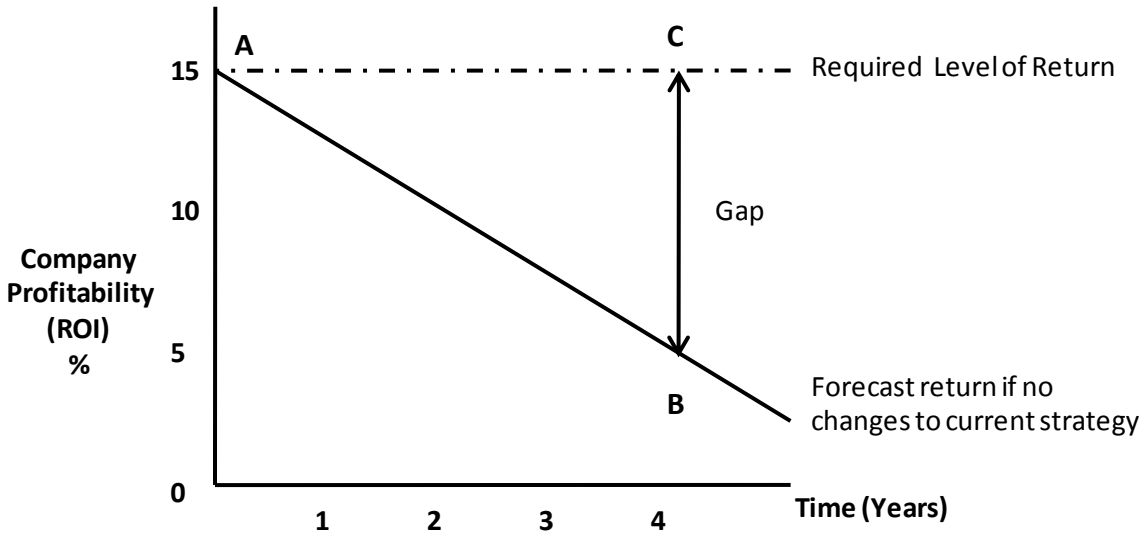
Originally developed for managing one-off projects such as the development of new products, this type of structure consists of a combination of structures, so for example, it may take the form of a product divisional structure operated in combination with a geographical divisional structure. The matrix structure is usually used where a single divisional or functional structure would be inappropriate. So, for example, if a company was extending its international markets whilst at the same time developing new product lines, it may operate a structure based on divisions combining geographical and product areas. The advantages of a matrix structure principally lie in the flexibility which such a structure has to meet the needs of specific situations. For example, combinations of product and market expertise may be achieved. However, matrix structures can be problematical in that they are more complex to understand and operate. They can also lead to conflicts between the different personnel and divisions brought together in the matrix structure. Finally, matrix

structures can lead to slower decision making and problems of determining and identifying responsibilities for decisions and control etc.

SOLUTION FOUR

(Tools and techniques in strategy formulation, Marketing and Corporate Strategy, Strategy Direction – Strategic Analysis and Choice – 10%,)

Gap analysis is a technique used in corporate strategic planning to identify the extent to which existing strategies will fail to meet the performance objectives in the future. This will consist of listing the characteristic factors (such as attributes, competencies, performance levels) of the present situation. The cross listing of factors required to achieve future objectives, and finally highlighting the GAPS that exist and need to be filled. This is most easily explained using a simple diagram as shown below.



In the diagram it has been assumed, that the firm is a single product/single market company. The company is currently achieving a 15% return on capital and wishes to at least maintain this level of performance over the next four year period. This is shown by the line, AC, indicating the required level of return. However, the line, AB, in the diagram illustrates what the likely rate of return will actually be if the company simply continues with its existing strategies over the planning period shown. The forecast for this likely level of performance shows a steadily declining return on capital perhaps. This might be due to increased competition, increasing labour costs and deteriorating plant and equipment. Because of this, if the company has unchanged strategies over the next four years it will have a 'gap' between its desired and actual level of return on capital. Once this gap has been identified and the reasons for it established, then the company can decide how to best fill the gap by developing new strategies. Gap analysis is a useful technique for beginning to explore required new strategies for the future.

BCG Matrix

The Boston Consulting Group (BCG) matrix method is based on the product life cycle theory that can be used to determine what priorities should be given in the product portfolio of a business unit. The BCG Matrix is a four celled (2 x 2) graphical portrayal of differences

among divisions (of a firm) in terms of relative market share position and industry growth rate.

Divisions in the respective cells in the BCG Matrix are called **Stars, Question Marks, Cash Cows, and Dogs**. As a means to ensure its long-term value creation, a company develops a portfolio of products that contains both high-growth products in need of cash inputs and low-growth products that generate a lot of cash. This means that the company will look at two aspects of its strategy and these will be **Market Share** and **Market Growth**. The basic idea behind it is that the bigger the market share a product has or the faster the product's market grows the better it is for the company.

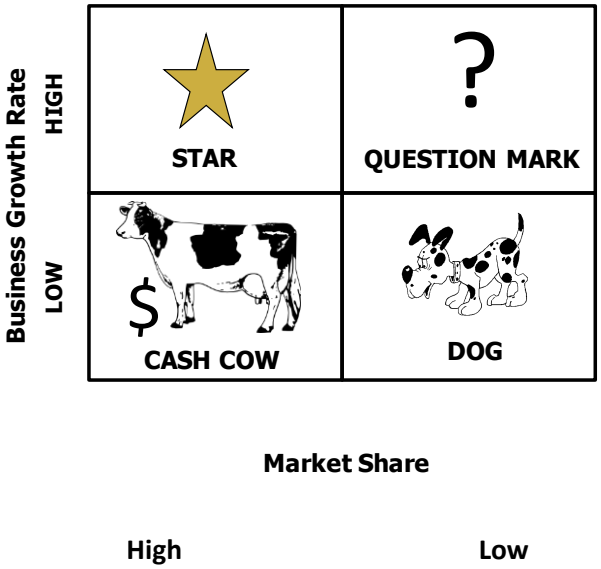


Figure: BCG Matrix

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate.

Resources are allocated to the business units according to their situation on the grid.

Stars - (=high growth, high market share)

Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU's located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.

Cash Cows - (=low growth, high market share)

Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBU's are the corporation's key source of cash, and are specifically the core business. They are the base of an organization. These

businesses usually follow stability strategies. When cash cows lose their appeal and move towards deterioration, then a retrenchment policy may be pursued.

Question Marks - **(= high growth, low market share)**

Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.

Dogs - **(=low growth, low market share)**

Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

SOLUTION FIVE

A 'conglomerate' is a group of companies which do not have any common denominator in the way of products or markets.

(a) The **advantages of the conglomerate** are as follows.

- The overall group cash flow is secure, in that a weak cash flow may be offset by that of a stronger firm.
- As the subsidiaries operate in different areas, it is unlikely that they will all be susceptible to the same aspects of a recession or a falling-off in demand.
- Tax losses may be offset through group relief.
- Constituent firms can utilise the efforts and management expertise of each other (e.g. firm X, a manufacturing company, can use the facilities of firm Y which is a transportation company).

Disadvantages are as follows.

- There might be a fight for the group's financial resources between member companies.
- Senior management finds it difficult to create a 'team' approach within the group because of the widely differing activities.
- Detailed corporate planning on a group basis is very difficult because of the different problems, needs and environmental influences on the subsidiaries.

(b) The value creating roles of a corporate parent to its SBUs are:

Envisioning (Corporate intent): The corporate parent is concerned with the overall purpose and scope of an organisation. This is then communicated to individual SBUs through objectives.

Intervention (Controlling and developing): SBUs are subject to financial discipline at low shared costs. There is also provision of some key competences at lower costs than could be acquired outside by the SBU

Resources allocation and co-ordination: Finance expertise and offering central services in all activities, in an attempt to get economies of scale. (Different examples to be stated)

(c)(i) Divestment means getting rid of something. In strategic planning terms, it means selling off parts of the group's operations as a possible way of promoting future growth in key identified activities. Mukuba Group has chosen to pull out of certain product-market areas which it considers to be non-core. This decision has probably been taken for the following reasons.

- It undertook a strategic appraisal and decided to **concentrate on core businesses** and hive off (although retain a minority stake in) fringe activities.

- Mukuba may have decided that some of the larger companies have an **uncertain future** and want to hand over control while the going is good, whilst retaining a stake.
- It may be very **profitable** for Mukuba to sell these companies. For example, they may have developed significant goodwill which can be realised.
- The divestment may be intended to **raise funds** that the group can invest elsewhere, say in further core activities.

(ii) The disposal of the controlling interest will generate new sources of capital specifically to that subsidiary, leaving the group to concentrate on other activities and possibly invest in new acquisitions that are easier to control or perhaps related closer to the mainstream or 'base industries' of the conglomerate.

Resulting decisions after the divestment would include the following.

- The reconsideration or revision of the capital structure, possibly replacing loan funds with equity
- A review of the relationship of the remaining subsidiaries with HQ
- Possibly the revision of the organisational structure
- New cash flow, profit and ROCE forecasts
- Compilation of a new corporate plan

MARKING KEY

MARKING KEY FOR QUESTION ONE (1)

Report Format Given	= 1 X 2 Marks	=	2
Introduction	= 1 X 2 Marks	=	1
Analysis of Strengths	= 1 X 8 Marks	=	8
Analysis of Weaknesses	= 1 X 4	=	4
Strategic Options and Recommendations	= 2.5 X 4	=	10
Strategy Implementation	= 3 X 5	=	15

MARKING KEY FOR QUESTION TWO (2)

Gap analysis - Listing characteristic factors such as attributes, competencies and performance levels of the present situation. = 2 Marks

Cross listing of factors required to achieve future objectives

= 2 Marks

Diagram of Gap analysis = 4 Marks

Example to illustrate the GAP = 2 Marks

BCG Matrix

BCG Matrix - Mention of matrix based on the product life cycle theory and product portfolio

= 1 Mark

Diagram of BCG Matrix = 1 Mark

Brief descriptions of the 4 cells of the matrix = 2 x 4 Marks

Stars - **High growth, High market share**

Cash Cows - **Low growth, High market share**

Question Marks - **High growth, Low market share**

Dogs - **Low growth, Low market share**

MARKING KEY FOR QUESTION THREE (3)

The Functional Structure -

Description of functional structure. (1 mark)

Advantages of functional organisational structure in ensuring corporate strategy is implemented:

- simple to understand, establish and operate.= 1 Mark
- It enables functional specialists, with similar areas of interest and expertise, to be grouped together. = 1 Mark

Disadvantages of functional organisational structure

- Problems of coordination between the different functional areas of a business.

  = 1 Mark

- Poor in coping with diversity and with rapid environmental and market change.

  = 1 Mark

The Multi-divisional Structure

Advantages of the multi-divisional structure

Multi-divisional structure is very useful where there is considerable diversity facing the organisation. = 1 Mark

Enables strategies to be developed to meet the requirements of each division, thereby improving competitive strategy. = 1 Mark

Very useful for developing managerial and staff expertise.

Disadvantages of the multi-divisional structure

Possible conflict between divisions, = 1 Mark

Potentially high costs of administration and staffing = 1 Mark

Potential complexity in achieving co-ordination between the different divisions in the company. = 1 Mark

The Holding Company Structure

Definition of Holding Company Structure =2 Mark

Mention of mergers and acquisition resulting in this type of structure = 1 Mark

Mention of one advantage of this type of structure =1 Mark

Mention of one disadvantage of this type of structure =1 Mark

The Matrix Structure

Definition of Matrix Structure= 2 Mark

Mention of management of projects = 1 Mark

Mention of one advantage of this type of structure = 1 Mark

Mention of one disadvantage of this type of structure =1 Mark

Question Four

2 marks for a good explanation of each activity of the value chain	10 marks
Ability to link the activities well and inclusion of a diagram	2 marks
Merits and demerits of ICT drawn from the case up to 8 points	8 marks

Question Five

2 marks for each well explained role of corporate company	6 marks
1 mark for each well explained advantage and disadvantage of conglomerate up to 5 points	5 marks
4 reasons for divestment decision	4 marks
5 decisions implied for the group when divestment has been implemented.	5 marks