CHARTERED ACCOUNTANTS EXAMINATIONS

PROFESSIONAL LEVEL

P5: STRATEGIC MANAGEMENT

WEDNESDAY 16 DECEMBER 2015

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 (1) compulsory question.
   Section B: Four (4) 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. **Cell Phones** are **NOT** allowed in the Examination Room.

6. 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.

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

8. Present legible and tidy work.

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

SECTION A

Question one is compulsory and must be attempted.

QUESTION ONE

THE ZAMCHICK INN (ZCI) BUSINESS ENTRY INTO BAROTSELAND

It has been said that many investors find it difficult or a trick exercise to set up business in Barotseland. Zambeef decided to enter this market with their fast food business. Although the initial reception in Mongu was great, Zamchick Inn (ZCI) still had a number of obstacles to overcome. The local people were uncomfortable with the idea of fast food and franchising. They saw fast food as artificial – especially with non-village chickens, and the process which is mechanical and unhealthy. ZCI's agency in the area - Western Café Fast Foods Limited, knew that it had to build trust in the ZCI brand and it went to Zambeef in Lusaka to do it.

There it filmed the most authentic version of the process possible. To show the philosophy of ZCI – the Lusaka city hospitality and authentic home cooking, the agency first created the quintessential western Barotse mother. With "My original Zamchick Home" and local lozi music playing in the background, showing a mother in a local traditional dress – the musisi making and feeding her grandchildren the ZCI chicken made with 11 secret spices.

It conjured up scenes of good home cooking from the Central Province town of Chisamba where Zambeef originates delivered straight to the people of Barotseland. In the end, the Barotse people could not get enough of this special chicken made with 11 spices. The campaign was largely successful, and in less than 4 years, ZCI expanded its presence to all the towns in Western Province across the Kafue National Park down to Sesheke and Shangombo. Many people in Barotseland now know the delicious chicken from the home of Zamchick Inn by heart.

Required:

(a) Discuss any four (4) strategies that may have been available to Zamchick Inn to enter the Barotse land market. (16 marks)

(b) Discuss any five (5) promotion methods, Zamchick Inn and any of its agents would use to make its targeted customers be aware of its product in Barotseland. (15 marks)

(c) Evaluate three benefits Zamchick Inn would gain from the strategic alliance with Lusaka City hospitality and authentic home cooking. (9 marks)

[Total: 40 Marks]

SECTION B

Answer any Three (3) questions in this Section.

QUESTION TWO

(a) In the context of Zambia, discuss how an organization can use the Boston Consulting Group matrix in the formulation of strategy. (10 marks)

(b) Using the case of Zambia, explain how government (political activity) has influenced business strategy. (5 marks)

(c) Explain the role of organizational culture on an organisations' strategy. (5 marks)

[Total: 20 Marks]

QUESTION THREE

Discuss the significance of the following in strategic management:

(a) The Product Life Cycle (5 marks)

(b) Risk management (5 marks)

(c) The balanced scorecard (5 marks)

(d) Scenario planning (5 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) The overriding purpose of industrial situation analysis is to probe the industry's long – term profit potential and discover the factors that make the industry more or less attractive.

Explain four (4) important questions that must be answered to come up with the impact of industry on the organization. (8 marks)

(b) The value-chain looks at a chain of activities in an organization that transforms inputs into outputs or products that the customers value.

Discuss any six (6) strategic ways an organization can use to address the unfavourale contribution to the value chain of a product that originates from the internal operational side of a business firm. (12 marks)

QUESTION FIVE

(a) Many firms are realizing the potential benefits of e-commerce in driving forward strategy.

Discuss any three (3) advantages and any two (2) limitations of e-commerce to strategy in the context of Zambia. (10 marks)

(b) Discuss the significance of the relationship between market segmentation and corporate strategy? (10 marks)

END OF PAPER

P5 – STRATEGIC MANAGEMENT

SUGGESTED SOLUTIONS

DECEMBER 2015 EXAMINATIONS

SOLUTION ONE (Compulsory)

(a) There are a variety of distant market entry strategies from which to choose. Each has particular advantages and shortcomings depending on company strengths and weaknesses, the degree of commitment the company is willing or able to make, and market characteristics. These strategies are discussed below.

(i) DIRECT INVESTMENT

This is the biggest involvement any national company will venture in. It is the entering of a distant market like is the case with Barotseland by developing distant based assembly or manufacturing facilities in that area.

Advantages

The firm may have:

(a) Lower costs in form of cheaper labour or raw materials

(b*)* Barotse Royal Establishment authority investment incentives,

(c) Foreign savings for invest

(d) The firm keeps full control over its investments and hence long term investment efforts can be created

The firm may improve its image in Barotseland because it creates jobs and secondary services.

Disadvantages

The main disadvantage of direct investment is that the firm faces main risks such as:

(a) Hostile cultural environment

(b) Falling or worsening markets

(c) Government takeovers

(d) Unstable or violent political situations

In some cases the firm has no choice but to accept these risks if it wants to operate in a host market area.

(ii) CONTRACT MANUFACTURING:

A major means of foreign market development is manufacturing within the distant market. This strategy is employed when the demand justifies the investment involved. A company may manufacture locally to capitalize on low-cost labour, avoid, reduce the high costs of transportation to the market, gain access to raw materials, and/or as a means of gaining entry into other markets.

The disadvantages of this form of entry include:

(a) Social hostility to company and its products that is coming from somewhere else;

(b) Excessive loyalty to local and indigenous companies and products;

(c) Cultural norms and practices that are against products offered by ZIC; and

(d) Lack of cooperation by or poor relations with the local leadership.

(iii) FRANCHISING:

Franchising is a rapidly growing form of licensing in which the franchiser provides a standard package of products, systems, and management services, and the franchisee provides market knowledge, capital, and personal involvement in management. The combination of skills permits flexibility in dealing with local markets conditions and yet provides the parent firm with a reasonable degree of control. The franchiser can follow through on marketing of the products all the way to the point of final sale. It is an important form of vertical market integration. Potentially, the franchise system provides an effective blending of skill centralization and operational decentralization, and has become an increasing important form of international marketing.

(iv) MANAGEMENT CONTRACTING:

Quite a different kind of arrangement is the management contract where a management company agrees to manage some or all functions of another company's operations in return for management fees, a share of the profits, and sometimes an option to purchase stock in the company at a given price. The management contract can assure operating control in joint ventures or consortia or be used when a company wishes to gain an immediate return for services rendered. A company that has been expropriated or "purchased" by a local government may be able to maintain a profitable position by consenting to operate the enterprise through a management contract. It often permits participation in a foreign venture without capital risk or investment and is a major toll for maintaining managerial control in situations where governments require nationals to own a majority of stock interest.

Regardless of the alternative market entry strategies used or the number of countries where a company markets, operating without some overall integrating process can result in spotty world marketing performance. The complexities encountered in multinational marketing make it difficult to coordinate worldwide process that focuses simultaneously on a broad range of environments

(b) Promotion Mix

Once a product is developed to meet target market needs and is properly priced and distributed, the intended customers must be informed of the products availability and value.

Advertising and promotion are basic activities in an international company's marketing mix. A well – designed promotion mix that ZCI will use may include

- o Advertising
- o Sales promotion
- o Personal selling
- o Direct Mail
- o Public relations

ADVERTISING

Intense competition for distant markets and the increasing sophistication of consumers have led to a need for more sophisticated advertising strategies. Increased costs, problems of coordinating desire for common countrywide company or product image have caused large diversified companies to seek greater control and efficiency without sacrificing local responsiveness. One of the most widely debated policy areas pertains to the degree of advertising variation necessary from place to place. One view sees advertising customized for each area or region because every market is seen as posing a special problem. At the other extreme end of advocates are those who suggest that advertising should be standardized for all markets.

SALES PROMOTION

Other than advertising, personal selling, and public relations, all marketing activities that stimulate consumer purchases and improve retailer or middlemen effectiveness and cooperation are sales promotion. Discounts, in-store demonstrations, samples, coupons, gifts, product tie-ins, contests/raffles, sweepstakes, sponsorship of special events such as concerts and fairs, and point of-purchase displays are types of sales promotion devices design to supplement advertising and personal selling in the promotion mix. Sales promotions are short-term efforts directed to the consumers and/or retailers to achieve specific objectives.

PERSONAL SELLING

A national salesforce is composed of personnel from the parent company, local personnel directed by a national sales or local sales managers operating in area of operations, or a group of individuals from both the parent company and Barotseland in which business are being sought. Although the trend for large companies is to hire local personnel to conduct sales, the Barotseland salesperson remains important for a vast number of companies. Communications and the art of persuasion, knowledge of the customer and product, the ability to close a sale, and after-sale service are all necessary for successful selling.

DIRECT MAIL

Direct mail is a viable medium in distant market areas. It is especially important when other media are not available. As is often the case in distant marketing, even such a fundamental medium is subject some add and unconventional problems. For example, in some districts in Barotseland, direct mail is virtually eliminated as an effective medium because the house and postal addresses are poorly labeled or developed if they exist, which may attract extra costs to customers for receiving such mails . The advertisers cannot afford to alienate customers by forcing them to pay for unsolicited advertisements.

Despite some limitations with direct mail, many companies have found it a meaningful way to reach their markets. This form of entry would to a large extent be effective in Mongu which is urbanized and organised.

c) Strategic appeal or benefits for such Strategic Alliances may include:

(i) Gaining better access to attractive markets.

(ii) Capturing economies of scale in production and/or marketing cost reduction can be the difference that allows a company to be cost-competitive.

(iii) Filling gaps in technical expertise and/or knowledge of local markets (buying habits and product preferences of consumers, local customers and so on.

(iv) Sharing distribution facilities and dealer networks, thus mutually strengthening their access to buyers.

(v) Distant or Cross border allies can direct their competitive energies more toward mutual rivals and less toward one another, teaming up may help them close the gap on leading companies.

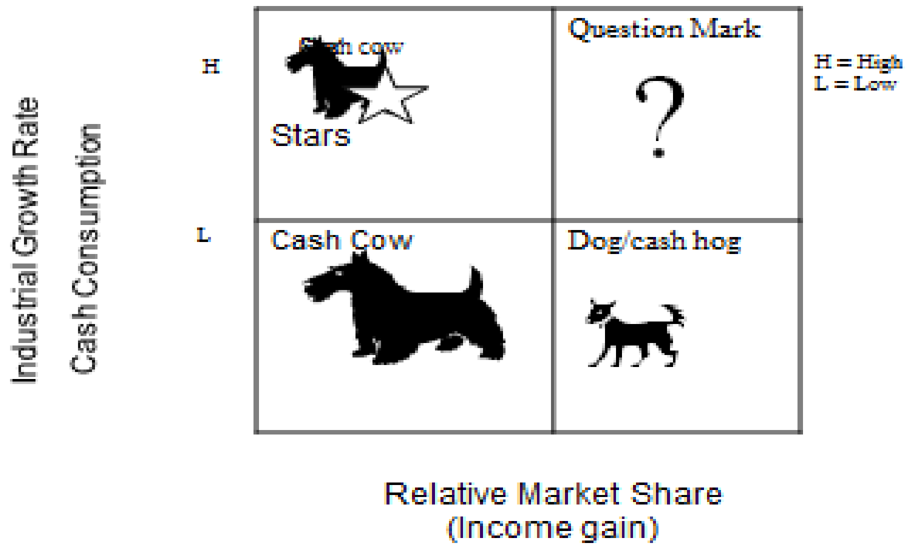
(vi) Benefit comes into play when companies desirous of entering a new distant or isolated market, conclude that alliances with local companies are an effective way to tap into a partner’s local market knowledge and help it establish working relationships with key officials in the local area leadership.

SOLUTION TWO

This question has three parts weighted 10, 5, and 5 marks respectively. Part (a) requires the candidate to explain the importance of the Boston Consulting Group Product Portfolio matrix in strategic management with some illustration from Zambia. Part (b) requires the candidate to illustrate the opportunities and threats to corporate emanating from government pronouncements or actions. Part (c) requires the candidate to describe pertinent aspects of an organization and their influence on the implementation of strategy.

(a) Once an organization has determined what strategy it might pursue, the next step is to analyze its capability to prosecute the chosen strategy. This involves looking at the separate activities that are undertaken and at the way linkages between the various activities should be linked in order add value. Additionally, strategic capability involves analyzing the extent to which an organization's business units are balanced as a whole. The Boston Consulting Group Analysis is one of the techniques used to assess this balance. It involves balancing an organization's external environment with its capability. Specifically, it seeks to balance market growth and relative market share. These two variables can be classified as high and low. The resulting matrix is illustrated in Figure 1 and depicts four scenarios.

Figure 1: Boston Consulting Group Matrix



A Star product has a high market share in a growing market. It may be spending heavily to achieve high market share but it has a higher profitability than competitors. A growth strategy would be appropriate.

A Question mark is also in a growing market, but does not a high market share. It has relatively low market share and it may be necessary to increase an increase in resources and competence to enable it exploit the opportunities in the growing market. Developing countries with vast investment opportunities but lacking in funds typify this scenario.

The cash cow has a high market share in a mature market. This implies that investment opportunities are low in the existing industry but the high market share implies that it can use its resources to finance the question mark. Investors who come to developed countries and seek to invest their resources illustrate this scenario.

A Dog has a low market share in astatic or declining market. This represents the worst scenario and an appropriate strategy would be to exit from this industry/market.

(b) A Government is considered as an external factor in the formulation of strategy. The analysis of the external environment is intended to identify opportunities and threats. This suggests what might be done or what might not be done. It points to the future direction firm might or might not follow. The Zambian experience provides many examples of this. In 1991, the government of the day decided to move away from the socialist principles of the previous government whose ideology was socialism through government participation in the economy and government regulation to a free market economy characterized by privatization and liberalization. This change of policy opened up opportunities for private individuals not only to enter business but to expand their business beyond the horizons of the national borders.

On the negative side, the recently announced upward revision of royalty taxes has raised concern among mining companies about their future in Zambia. The owners of Lumwana mines have threatened to pull out of Zambia if the proposed tax is not revised or withdrawn. Yet another example that could be cited is that of Finance Bank Zambia Limited. The bank had soured relations with the previous government which resulted in Government taking possession of the bank and selling it. When the current government came to power, it reversed the sale of the bank and returned the bank to its previous owners. It is an acknowledged fact that the bank is openly friendly with the bank and its actions are perceived to be 'politically correct' by the Government of the day.

(c) Organizational culture is taken here to mean a rich system of values, beliefs, attitudes, and customs of an organization, shared by its members, that distinguishes it from other organizations. Kenneth Andrews argues that Organizational culture rests on the premise that group effort or influence can positively affect performance. It draws heavily on general systems theory where, through synergy, parts of a system produce more in working together than they can if they worked apart. Stated simply, it is the proposition that while

$$2 \quad + \quad 2 \quad = \quad 4;$$

the systems theory, on which organizational culture is based, holds that

$$2 \quad + \quad 2 \quad = \quad 5$$

That is, an organization working as a system, can entice from its members more than the individuals would produce if they worked apart. This is attributable to a motivational element which obtains when people work in groups. Groups, as working system, are said to have a mood, atmosphere or chemistry, intangible yet real, which induces effort over and above the ordinary. This mood, atmosphere or chemistry is the driving or influencing force of collective behaviour and is rooted in an ideology.

Among the factors that influence organizational culture are (i) the founder whose strong belief in some ideology will influence not only the mission of the organization but will pervade to those who surround him who must share in the ideology of the founder; (b) the organization's history will have been characterized by a way of doing things, that is, repeated actions which translate into tradition precedent; and (c) systems for rewarding those whose performance is in line with the ideology of the organization and systems for punishing those whose performance is at variance with the established way of doing things. In this way, organizational culture influences members of an organization toward the implantation of strategy.

SOLUTION THREE

This question has four parts. The candidate must show not understanding of the nature of the concept but also demonstrate its relationship to strategy.

(a) **Product life cycle** – this concept holds that, like a human being, a product has life which has distinct stages. Each of the stages calls for a strategy to ensure success for the organization. The first stage is when a product is introduced. This stage is characterized by low sales and profit as the product has just been introduced and is little not yet known in the market; the initial investment costs are yet to be recovered; and there few competitors because of the absence of profit and the presence of risk. Appropriate strategies include increase market share through heavy advertising and product differentiation. After the Introduction stage, the product enters the growth stage, which characterized by growing market acceptance of the new product; a rise in sales and profit and possible entry of competitors attracted by the emerging sales and profit. Possible strategies include continued heavy promotion, product differentiation from products offered by competitors and continued growth by seeking new types of customers. The third stage is the maturity stage where profit and sales begin to slow down or stop growing altogether. The market gets saturated and supply begins to exceed demand. An appropriate strategy is for the firm to embark on product development of innovation. The final stage is the decline stage where the sales and profit are on the decline. The product may be superseded by good substitutes or experience radical shifts in market demand and preferences. The appropriate strategies can include market niche and diversification

(b) **Risk Management** – involves reducing the probability of the risk occurring and minimizing the impact on the organisation that it will cause. Risk is the uncertainty associated with any particular strategic action. Risk analysis is a key tool in evaluating a strategy. Strategies deal with the future and the future cannot be precisely determined. The acceptability of any strategic alternative therefore depends in part on the element and degree of risk associated with it. The following are some common types of risk associated with decision making:

The following table contains examples of how businesses can minimum the probability and impact of risk.

Minimising probability of Risk	Minimising impact of Risk
Postponing/abandoning of project until the level of risk is reduced	Continually monitor the environment and be prepared to react quickly
Develop rinks with relevant government departments to help shape policy	Develop contingency plans
Abandon the project	Take out country/political risk insurance

(c) **The balanced scorecard** – was developed upon realization that financial measurements are not enough to measure the performance of overall strategy. A business needs to look at both financial and non-financial measures of performance by looking at the linkages between financial and non-financial measures to prevent a skewed approach to measuring performance. It enables management to look at all relevant measure of performance in an objective and unbiased manner. A scorecard focuses on processes rather than departments. The range of these processes can entail the following:

- Financial processes – increase in monthly turnover, increase in monthly profit, increase in market share, increase in cash flow
- Internal business processes – reduction in inventory levels, reduction in lead times, reduction in waste or errors
- Innovation – product innovation, reward and recognition of staff, adaptability and flexibility of staff, ideas from employees
- Customer – number of new customers, customer retention rate, level of returns, customer satisfaction rating

(d) **Scenario planning** – a scenario is 'an internally consistent view of what the future might turn out to be'. Given the complexity of the environment, scenario planning helps the firm allow for different possibilities of the future and offers them an understanding of the major factors leading to each future scenario. More specifically, Scenario planning allows a firm to identify opportunities and threats that loom in its environment, it compels a firm to look at the wider environment than the one in which it is operating, it helps relate its strategy to its environment, and it helps the firm build the competence it will need.

Gerry Johnson and Gavin Scholes have argued that the use of scenarios I appropriate under the following conditions:

i. Where it is necessary to take a long-term view of strategy

ii. Where there are a limited number of key factors influencing the success of that strategy

iii. Where there is a high level of uncertainty about the influence of such factors

Scenario planning helps managers to examine different strategies against the scenario against some eventuality. The second benefit is that it enables managers understand the impact of different dimensions of the environment.

SOLUTION FOUR

a) Good, solid answers to the questions below will enable a strategist to understand what factors are causing changes in the industry, to make predictions about where the industry is headed and ,to judge the industry's future structure will be like and to conclude whether the industry's attractiveness and profit prospects are bright or dim and why.

(a) How is the industry structured?

(b) What driving forces are causing the industry to change and how important will these changes be?

(c) What economic factors and business characteristics have the most influence on the requirements for competitive success in the industry?

(d) What strategic issues and problems face the industry?

(b) The strategic approaches that an organization can use to address the unfavourale contribution to the value chain of a product that originates from the internal operational side of a business firm will include:

- Initiate internal budget tightening measures.
- Improve production in methods and work procedures
- Try to eliminate some cost – producing activities altogether
- Relocate high cost activities to geographical areas where they can be performed cheaper
- Subcontract certain activities that will be cheaply be done by others than can be done internally.
- Invest in cost saving technological improvements (automation, robotics, computerised controls etc.)
- Innovate around the troublesome cost components as new investments are made in plant and equipment
- Simplify the product design and make it easier to manufacture

- o Reduce internal cost disadvantage by cutting costs in the backward and forward portions of the chain.

SOLUTION FIVE

There are two parts in this question and marks are evenly divided between the two questions. In part (a), the candidate is expected to show the value of e-commerce and the limitations of e-commerce within the context of Zambia. In part (b), the candidate must show understanding of the concept of market segmentation and its value to both the consumer and the firm

(a) E-commerce is the use of electronic techniques, notably the internet and the Web, to transact business. Commercial transactions involve the exchange of value across organizational or individual boundaries in return for products and services. According to Kenneth Laudon and Caro Traver some of the unique features of e-commerce include:

i. Ubiquity – this refers to the fact that e-commerce is available just about everywhere and at all times. This contrasts with common understanding of a marketplace where transactions are confined to a physical space.
ii. Global Reach – this refers to the ability of e-commerce transactions to cross cultural and national boundaries far more conveniently and cost-effectively than is the case in traditional markets. In e-commerce, the globe is the sphere of operations.
iii. Universal Standards – this refers to the fact that all nations can use a common standard in their transactions with each other. The technical standards of the internet can be universally applied.
iv. Richness – the internet has the potential to offer more complex information and information with greater content than is the case with traditional markets. The internet allows access to a wide range of information and the Web allows retailers to sell far more merchandise than is the case with traditional markets.
v. Interactivity – the technology associated with e-commerce permits for easier communication between the firm and customer. For instance, the Web allows viewers to engage a firm in conversation regarding products and services offered for sale.
vi. Information Density – both the Web and the internet are able to assemble and disseminate a great amount of information to a wider audience and at less cost than obtains in the traditional market. This additionally enables customers to compare prices of products across producers and strike a good bargain.
vii. Personalization/Customization – This refers to the ease with which E-commerce technologies allows merchants to target their marketing messages to specific individuals by adjusting the message to a person's name, interests, and past purchases. In addition, e-commerce technology facilitates customization, that is, the adjusting of the delivered product or service to a user's preferences or prior behaviour.

Limitations

Despite these positive factors, there are notable disadvantages of e-commerce. Some of the drawbacks of e-commerce are as follow:

i. E-commerce involves a mix of all kinds of people – security people, designers, and marketing people – who can be difficult and expensive to manage.
ii. Because of its dimensional dimensions, it may prove difficult to reconcile the laws of all countries.
iii. The compatibility of e-commerce technology to previous systems used by already established businesses may be a constraint to instant use of e-commerce technology.
iv. The lack of appropriate resources is pervasive among many businesses and customers in Zambia. The informal sector is an example of this.

(b) Market Segmentation

A single product item can seldom meet the needs and wants of all customers. Typically, consumers vary as to their needs, wants and preferences for products and services. Successful marketers adapt their programs to fulfill these preference patterns. For example, ice cream has multiple flavours- vanilla, strawberry, chocolate, etc., and comes in different packages-cone, cup and cartons. None of these combinations is equally preferred.

However, while a single product item cannot meet the needs of all consumers, it can almost always serve more than one consumer. Thus there are usually groups of consumers who can be served well by a single product item. If a particular group can be served profitably by a firm, it is a viable market segment. A firm can therefore develop a marketing mix to serve the group or market segment.

Market segmentation is thus the process of dividing a market into groups of similar consumers. However, is not enough to segment a market. A firm should go further and select a group or market segment to focus on. This is what is known as Target marketing.

As already observed, the benefit of market segmentation is that it facilitates the allocation of resources to those market segments where they will produce the most results by providing strategy guidelines for the firm. This is done by helping a firm answer the following questions:

- In what product-markets should the firm engage?
- To what extent should each market be pursued?

A valid basis for market segmentation is the 20/80 principle, which holds that for most businesses, 20 percent of customers account for 80 per cent of the profit of a firm;

conversely 80 percent of a firm's customers account for only 20 per cent of the firm's profit. It is therefore prudent for a firm to focus on the most profitable segment (s) of the market.

It is therefore important that a company relates its strategy to the segment that will provide the highest return on its investment. Therefore segmentation should be one of the issues in its corporate strategy.

END OF SOLUTIONS