

## **Question 1**

KAAS is a major industrialized country in Europe. Over the last few years the economy has performed poorly and businesses have been struggling to survive.

One of the surprise success stories over the last few years has been in the private education sector. Many parents now want their children to go on to higher education (i.e. universities) as this is seen as key to obtaining a good job. Many parents believe the best way to get their child into a university is to pay for them to go to private school to prepare them for university entrance exams.

The country is currently suffering high levels of unemployment and there is a shortage of good quality jobs for young people to apply for. In a bid to raise money, recent governments have introduced tuition fees that make attending university more expensive. At the same time, many tax breaks have been removed from the kind of families who have traditionally sent children to private schools. The government has introduced changes in legislation that mean that private schools are required to provide numerous performance measures to the Education Department. In addition, the government has introduced many regulations to improve Health and Safety across industries

Students at private schools are often provided with manuals and books in electronic format and often email coursework to their tutors. Electronic payments systems also allow supplier payments to be settled quickly and with little need for admin staff involvement.

### **Winners' history**

Winners is one of the larger companies in this sector. It grew from running one school in 1947 to being the largest company in the sector, with 22 schools currently being operated. This growth has not been without its difficulties. Parent expectations are higher than in the past and the standard of tuition demanded has to be higher than previously. Unusually, Winners does not own any of the buildings that are used by its schools. These buildings are all rented from large investment companies, Pupils from schools operated by Winners have consistently been ranked near the top of league table measuring exam success. This is particularly true in Science and IT subjects due to the innovative teaching techniques that Winners uses.

As large investment funds have found it difficult to make money in other areas, they have pushed up rental fees significantly in the last few years.

Details of Winners's performance in this century are set out below:

<b>All figures in \$m</b>	<b>2000</b>	<b>2008</b>	<b>2015</b>
Revenue	12,654	15,980	16,548
Cost of Sales	2,047	2,547	2,587
Salaries	2,879	4,168	7,249
Rental cost	521	550	1,762
Operating costs	2,154	1,587	1,540
Current Assets	256	521	126
Current Liabilities	145	280	98
Debt	25	60	60
Equity	100	120	120

### **Government initiatives**

Because of the faltering economy noted above, the government needs to raise money urgently and is considering selling off (privatizing) one or more government run agencies. Details of four of the possible agencies are outlined below.

#### ***Welfare payments***

There is a specialist section within the Department for Work that deals with welfare payments. These are payments made to low-income households to supplement their income. There have been frequent newspaper reports over the last few years stating that many payments are made incorrectly or late and that there is a complex application process. Public opinion of this process is negative

#### ***Road Tax***

Motorists pay tax on their cars to fund road improvements, although motorists do not like paying the tax they accept that it is needed and generally support the current system. The process is highly automated and the majority of the drivers find the system to be easier to use and more convenient than the manual system it replaced.

## ***Detention Centres***

There has been a history of crime, much of it violent, in KAAS. Past governments built increasing numbers of detention centres to accommodate the rising prison population.

However, in the last twenty years, crime rates have fallen and public opinion has moved away from the view that locking people up is beneficial. Many of the existing centres are new and highly automated, resulting in low running costs. Costs are also kept down since most of the employees are not in unions.

## ***Schools***

The current government was elected with a promise to improve the state of education in KAAS. The current school system is overseen by local councils who have to agree all appointments / dismissals of staff made by individual schools. This, linked with strong trade unions, means that many parents do not feel that schools use tax money wisely or employ the best staff.

## **Qabas High School**

Qabas High school operated in one of the major cities of KAAS. The local council has been criticized widely in both the local and national newspapers for the poor performance of their schools. Exam results are poor and teaching staff are demotivated. The KAAS government has announced that it is tendering bids from companies willing to run Qabas High School. The company will pay all the costs of running the school and the government will pay an amount based on current costs, plus inflation, plus a 5% gross profit margin. The contract will be renegotiated after five years. Winners is considering bidding for this contract

This announcement provoked a lot of comments, both for and against. Teaching unions in the area are against the proposals and have threatened strike action if the sale goes ahead. On the other hand, the response from parents has been overwhelmingly positive. Winners has already stated that if it wins the contract to run Qabas High School it would initially only change teaching methods in the science and IT departments. The Head teacher of Qabas was initially against the idea of being run by a private company but

since the government announced it was definitely happening her attitude has been that “if it going to happen we might as well get on with it”.

The Board of Directors are meeting next week to make a final decision about whether to bid to run Qabas and have asked you to provide a report to assist in their decision-making.

**Required:**

**(a) Write a report to the Board of Winners which:**

**Analyses the macro-environment for Winners and uses this to comment on their financial performance since 2000 as well as their current financial position.**

(16 marks)

Professional marks will be awarded in part (a) for the clarity and structure of the answer.

(4 marks)

**(b) Use any appropriate models, discuss the four areas identified by the government for possible privatization and advise them what course of action to take with regards to each. (12 marks)**

**(c)**

**(i) Evaluate the potential influence of the four contextual factors time, scope, capability and readiness for change at Petra High School on any strategic change proposed by Winners.**

**(ii) In light of your discussion in c (i) evaluate whether Winners should bid to run Qabas high school.**

(18 marks)

**(50 marks)**

## **Question 2**

Elnakhla is the largest plastic manufacturing company in the country of Sudan. Elnakhla has a market share of 60%. Plastic manufacturing is a capital intensive industry, since it requires a lot of investment to set up production facilities. Most of their sales go to large companies in the construction industry. Until 2008, Hobbs's revenue and profits expanded but since 2008 both have declined.

Over the last seven years, the number of construction projects has declined, due to poor economy in conditions in Sudan. This has been made worse by some of Elnakhla's customers having to cut their own costs to maintain profitability. At the same time, new technology has been developed which allows a strengthened cardboard product to be used in place of the plastic that Elnakhla produces. In addition, new construction methods are being developed which mean construction companies have no need to use plastic or cardboard at all.

Last year, Asia, the largest plastics manufacturer in the world, announced that they would commence selling to construction companies in Sudan later this year. The Government in Sudan is under pressure to increase competition in certain industries and are planning to pass legislation this year limiting the largest company in any industry to a market share of 70%. Oil is one of the main materials used to produce the type of plastics manufactured by Elnakhla and the price has risen steadily over the last few years. Industry analysts expect the market to stay at the same total size for the foreseeable future.

The directors of Elnakhla are concerned about the disquiet expressed by major shareholders regarding performance over the last two years. During this period it has consistently increased dividends, but its share price has not grown at the same rate as it did previously.

Tiga, has 25% market share and is the closest company to Elnakhla in size. Tiga has been criticized for under-investment and has achieved no product development over the last two years. Following a concerted media campaign, Tiga is facing prosecution for discharging untreated pollutants into a river.

Elnakhla is seriously considering making a bid to acquire Tiga. The directors of Elnakhla, however, are divided as to whether Tiga should be

closed down or permitted to continue production post-acquisition if a bid is made. In either situation, significant staff redundancies would follow.

**Required:**

**(a) Analyse the competitive environment faced by Elnakhla.**

(10 marks)

**(b) (i) Discuss the legal and ethical implications if the acquisition goes ahead.**

(8 marks)

**(ii) Discuss the pollution issues that would face the directors of Hobbs if it proceeds with the acquisition of Tiga.**

(7 marks)

**(25 marks)**

### **Question 3**

Aooba is a medium-sized retailer of sports equipment and leisure clothing. Aooba was established in 1997, and currently operates from thirty retail shops in town centre locations. The management team of Aooba is very careful about how it recruits staff. In addition to the specific skills required to do the job, any applicant must also have a 'passion' for sport. This has resulted in Aooba gaining a reputation for excellent customer service and enthusiastic staff. A large proportion of staff time is also devoted to training, both on the product range and customer service techniques. According to a recent survey conducted by the store managers, the customers believe that Aooba employees are 'helpful and knowledgeable'. The customers also praised the Aooba shops for being 'well designed' and said that it was 'very easy' to find what they were looking for.

Another feature of Aooba that is appreciated by the customers is the range of goods stocked. By developing close relationships with the major manufacturers of sports goods and clothing, Aooba is able to stock a far wider range of items than its rivals. Control of this stock was made easier, last year, by the development of a sophisticated computerised stock control system. Using the system, any member of staff can locate any item of stock in any of the shops or the warehouse. If the required item is not 'in stock' at Aooba, it is also possible to automatically check the availability of stock with the manufacturer.

Aooba advertise heavily in local newspapers for the areas where they have stores, the adverts often feature comments from satisfied customers. Aooba also operate a "no questions" return policy. This means that a customer can return any item for any reason (Aooba ask "no questions about why it is being returned) within three months of purchase as long as the item is in a state where it can be sold and they have a receipt.

At a recent management meeting, one of the store managers suggested that Aooba consider developing its very basic website into one capable of e-retailing. At present, the website only gives the location of stores and some very basic details of the range of stock carried. Although the development of the website would be expensive, the managers have decided to give the suggestion serious consideration.

**Required:**

**(a) Using the value chain model, explain those activities that add value in the Aoba organization, BEFORE the e-retail investment.**

(15 marks)

**(b) Identify those activities in the value chain of Aoba that may be affected by the e-retail investment, explaining whether the value added by each of them may increase or decrease as a result of the e-retail investment.**

(10 marks)

(25 marks)



#### **Question 4**

Noor has a reputation for quality, traditional products. It has a group of optician shops, both rented and owned, from which it sells its spectacles. Recently, it has suffered intense competition and eroding customer loyalty, but a new chief executive has joined from one of its major rivals Mahaglass.

Mahaglass is capturing Noor' market through partnership with a high-street shopping group. These shops install mini-labs in which prescriptions for spectacles are dispensed within an hour. Some competitors have successfully experimented with designer frames and sunglasses. Others have reduced costs through new computer-aided production methods.

Noor has continued to operate as it always has, letting the product 'speak for itself' and failing to utilize advances in technology. Although production costs remain high, Noor is financially secure and has large cash reserves. Fortunately, the country's most popular sports star recently received a prestigious international award wearing a pair of Noor' spectacles.

The new Chief Executive has established as a priority the need for improved financial performance. Following a review she discovers that:

- (i) Targets are set centrally and shops report monthly. Site profitability varies enormously, and fixed costs are high in shopping malls;
- (ii) Shops exercise no control over job roles, working conditions, and pay rates;
- (iii) Individual staff pay is increased annually according to a pre-determined pay scale.

Everyone also receives a small one-off payment based on group financial performance.

Market analysts predict a slowdown in the national economy but feel that consumer spending will continue to increase, particularly among 18-30 year olds.

#### **Required:**

**(a) Produce a SWOT analysis of Noor, taking consideration of internal and external factors.**

(12 marks)

**(b) Recommend, with reasons, strategies from your appraisal that would enable Noor to build on its past success.**

(13 marks)

**(25 marks)**

P3 June 2018 Answer

QUESTION ONE

(a)

Each element that is identified / calculated AND significance explained

1 mark (max 16)

Professional marks for

Report format with clear introduction

Clear headings and indication of each section being organised

Clear conclusion to each part (so the report is useful to the client)

Logic, your conclusions to a) and B0 will affect your recommendation in c)

(b) For each of the four areas

1 mark for discussion of support

1 mark for discussion of how well currently performed

1 mark for action government should take

(c) (i)

For each area

1 mark for definition

1 mark for each area identified and discussion of how it makes changes more / less

likely to succeed

Max marks 10

(c) (ii)

1 marks for area identified and its significance to decision

Max marks 10

Total maximum marks for (c) = 12

Total marks available 50 marks

1(a)

To Board of Directors of WINNERS

From: A N Accountant

Date: Today

Subject Strategic analysis and change

The first part of this report will examine the macro-environment of the private school

industry using PESTEL analysis

Political

This examines the impact on WINNERS of government decisions

The government has introduced tuition fees which will make it more expensive to attend

university leading to lower demand. Since WINNERS prepares students to attend

university this will have an impact on demand at WINNERS and will lead to lower

revenue.

Economic

This looks at the impact of the economy and taxes on WINNERS

The government has removed tax breaks from the type of market segment likely to

demand WINNERS's services, this will lead to families having lower income and could

lead to a fall in revenue for WINNERS.

The lack of good quality jobs will lead to more emphasis on the educational standard of

applicants leading to higher demand for WINNERS.

Social

This looks at how changing attitudes will impact WINNERS

Parents are willing to pay for private education to improve the chance their children will

get to university, this will increase revenue for WINNERS

Technological

This looks at how changes in technology will impact WINNERS

Manuals and eBooks are provided for students which should lead to lower costs

Electronic payments to suppliers reduce the need for admin staff which leads to lower

costs

Legal

This looks at how changes in the law will impact WINNERS.

2The government requires that schools report various performance measures, there is a

cost involved in collecting, compiling and reporting these which will increase costs.

Increased Health and Safety legislation will increase costs.

Overall

The social and technological factors should improve WINNERS's profitability. On the

other hand, the reduction tax breaks and rise of tuition fees are probably going to have

greater impact on demand for WINNERS's services and so it is probably going to get

harder for WINNERS to be as profitable in the future.

Financial performance since 2000

Between 2000 and 2008 revenue grew by 26.28% reflecting increased demand.

Although gross profit margin was relatively unchanged, there was a significant increase

in net profit margin from 39.93% to 44.61% probably due to the fall in operating costs.

The rise in revenue and stability of fixed costs meant that net profit rose by 41.06%

during the period to \$7,128m

However, 2008 to 2015 has seen a different story. Revenues have risen by just 3.55%

during the seven year period. This may be as a result of the removal of tax breaks from

customers mentioned above

Although the Gross Profit Margin has stayed similar to previous years, the net profit

margin has fallen from 44.61% in 2008 to 20.61% in 2015.

There are two main reasons for this – salaries have risen from 26.08% of revenue in

2008 to 43.81% in 2015, this is probably due to the higher standard of tuition demanded

driving up costs.

The second is that investment funds have pushed up rents, the amount WINNERS are

paying has risen from 3.44% of revenue in 2008 to 10.65% in 2015.

Financial position

The current ratio has fallen from 1.86 in 2008 to 1.29 in 2015 but does not appear to be

worryingly low (although we have no industry average to compare to).

Gearing rose from 20% in 2000 to 33.33% in 2008 and has stayed constant.

This low

level is probably due to the fact that WINNERS does own the buildings it uses as

schools, so they have had less need to borrow finance to make purchases.

3Overall the financial position in 2015 does not seem too bad but the performance has

declined sharply over the past seven years.

Given that the macro-environment is going to become more difficult for WINNERS, it is

likely that this deterioration in performance will continue in the future.

(b) The public sector portfolio model can be used to look at each of the four areas. This

model looks at two areas, does the process have high or low support from the public

and is it carried out well or poorly

Welfare payments

The current system of making welfare payments seems to be unpopular given the

complaints in the press about it.

It also appears to be ineffective due to the complex application process as well as the

delay in receiving payments.

This would be referred to as back drawer area, where the government could look to

involve private contractors to improve efficiency.

This may prove difficult however since the number of payments would mean only large

contractors would be able to take on such

Road Tax

Motorists do not like paying road tax - but they seem to accept that the current system

is a reasonable way of it being collected.

It also appears that the system is efficient and effective due to the automation.

This can be classified as a public sector star and the government should continue to

operate it.

Detention Centres

In the past, operating detention centres was probably popular due to the high levels of

violent crime, this is less so now due to changes in attitude.

The centres themselves are run efficiently due to the level of automation and non-union workers.

This is classified as a golden fleece, an area where the government should continue what they are doing at the moment.

#### 4Schools

Improving schools has the support of the public since they elected a government pledged to improving them.

The operation of the schools appears to be inefficient since many parents are complaining about them.

This is an example of a political hot box issue and the government should look to the private sector to help improve things.

(c)

(i) The contextual factors suggested by Balogoun and Hope Hailey look at how likely it

will be that any proposed changes are successful.

This is important to WINNERS when deciding whether or not to bid to run QABAS. At the moment the school is not being run efficiently or effectively.

#### Time

This refers to how quickly changes need to be carried out. Usually the faster changes



need to need to be implemented, the less likely they are to be successful.

The contract is for five years and may be extended further than this, so there is no

urgency to change things.

This means that change can be undertaken slowly and so is more likely to succeed.

Scope

This refers to how much needs to be changed. Usually the more things that need

changing the less likely it is that change will be successful at QABAS it appears that

reform is needed in all teaching departments since exam results are poor.

On the other hand, WINNERS has stated that, in the short term, it is only going to

change the teaching methods used in the science and IT departments.

This limits the scope of early changes to those two departments and so change is more

likely to succeed.

A different issue is that the school staff are demotivated. This needs to change but will

affect all staff. This might be hard to change and may be unsuccessful.

5Capability

This looks at whether WINNERS have the skills, knowledge, resources etc. to carry out

any required changes.

WINNERS have never run a non-private school before and so they may find some

methods they are used to using will not work, this will make change harder.

WINNERS have knowledge of how to teach pupils to pass exam as they have a good

pass rate. This allows them to demonstrate that what they do works and should lead to

changes being more likely to be successful.

They are particularly skilled in preparing students for science and IT and so changes

introduced here are more likely to succeed, this will make it easier to persuade teachers

in other departments to accept change.

Readiness to change

Teachers have proposed strike action over the proposed changes, this indicates it will

be difficult to persuade them that the changes will be beneficial and for them to be

accepted.

The head teacher was initially against the changes but her attitude seems to have

changed to one of acceptance. Due to her position of power as the person running the

school, her acceptance should make change easier to implement.

The parents, although not directly involved, seem to want change to happen and this

will be a very powerful force to make change more likely to succeed.

## Conclusion

Overall there are a number of areas which make change more likely to succeed and

some meaning it will be more difficult. Overall I feel the factors making change likely to

succeed or more powerful.

6(ii) WINNERS are considering bidding for a license to run QABAS. This is a strategic

choice and should be examined using the SFA approach.

## Suitability

This looks at whether the proposed strategy builds on strengths, fixes weaknesses,

exploits opportunities or reduces threats. Running QABAS is an example of market

development since although the product is the same (teaching pupils) the market

segment is not fee paying parents but the general public.

In part a) it was stated that due to external factors such as legal changes and rent

increases WINNERS's profitability from its current corporate strategy will probably

decline.

Moving into a new segment allows another income stream to be developed, this

reduces the threats noted in and makes the strategy suitable.

The contract is for five years and so there is a guaranteed income stream for this length

of time making the strategy suitable

The contract is based on 5% above current costs. This means that if WINNERS can

keep costs at their current level they are guaranteed a 5% net profit margin, this makes

it suitable.

If WINNERS can cut costs at QABAS then the margin there will rise further.

This should be compared with the current net profit margin of 20.61%. It appears that

the contract is unsuitable since the contract NPM of 5% is a lot lower than this.

It should also be noted that the net margin of 20.61% is likely to fall in the future and

that so the difference between the QABAS contract and the current operations may

shrink.

### Feasibility

This looks at whether WINNERS have the resources to carry out the strategy.

Since WINNERS are bidding to win a contract to run a school not acquire it, the capital

outlay is unlikely to be significant and given WINNERS's reasonable current ratio and

low gearing the bid should be feasible.

WINNERS obviously have knowledge of running as well as teaching in schools so this

should also make the contract feasible.

## 7Acceptability

This looks at whether the high power stakeholders feel the strategy will help achieve

their expectations.

The government has high power and wants the school to be run by a private contractor

and so WINNERS's bid will be acceptable to them.

The teaching unions have high power and at the moment seem against the proposal

and so this would make it unacceptable. The point of carrying out the contextual

analysis suggested by Balogoun and Hope Hailey is to see if changes will succeed, the

analysis above suggests they will and so this could become acceptable to the unions.

The other key group are parents (as customers), if standards and results improve then

this will be acceptable to them.

## Conclusion

Overall it appears the strategy is suitable, feasible and acceptable and should be

pursued by WINNERS

I trust you have found this report useful, do not hesitate to contact me with any further

enquires.

Yours

A N Accountant

## 8QUESTION TWO

Marking scheme

(a)

1 mark for each item noted from scenario

Maximum available 10 marks

(b)

1 mark for each item noted from scenario plus one mark for action to take

Maximum available 15 marks

Total marks available 25 marks

(a) The Competitive environment can be analysed using Porter's five forces framework

Threat of new entrants

There are high barriers to entry such as the high capital, costs of building a factory, this makes it harder to enter.

It is also likely to be difficult for a new entrant to establish contracts with the large customers and this is a further barrier to entry.

On the other hand, a major international rival, Asia has announced they will be entering these markets and so there is a high threat from that entrant.

Asia will probably take some of Elnakhla' customers and force prices down leading to

lower revenue.

#### Threat from existing competition

At the moment this seems low since Elnakhla is by far the biggest company, giving

them a competitive advantage by using economies of scale.

This may change once Asia enters since they be able to exploit even larger economies

of scale.

A further point is that the market is not expected to increase in the future, this will lead

to more rivalry as companies will only be able to expand by taking customers from each

other.

#### 9Power of suppliers

The scenario mentions that plastics require oil. Oil suppliers are very powerful since

there are no substitutes. If oil prices rise then Elnakhla will have to pay higher prices

leading to lower profits.

#### Power of customers

Elnakhla' customers are large construction companies. The size of the customers will

probably leads to them demanding lower prices which will lower profits.

#### Threat of substitutes

The threat from direct substitutes is low at the moment, Elnakhla' size means it is

probably cheaper than its rivals.

There is a threat from customers switching to using strengthened cardboard, this

indirect substitute will lead to lower sales for Elnakhla.

(b)

(i) The Directors of Elnakhla will need to make a decision about how to treat Tiga post

acquisition. The first issue will be with the market share that Elnakhla will have

The government is planning to change the law to stop any single company having over

70% of the market.

If Elnakhla acquires K then the combined market share will be 85% (=60% + 25%) so it

is unlikely that this will be allowed under the legislation

Alternatively Elnakhla could simply acquire Tiga and close it down. This would give

Elnakhla a market share of 60 / 75 (the market would now be 25% smaller after Tiga is

closed) which results in a market share of 80%, which would still be breaking the law.

It seems as though the only way forward would be for Elnakhla to acquire Tiga and then

close down some of the production facilities to stay under the 70% level.

The main ethical implications, if the acquisition goes ahead, relate to the fact that staff



redundancies will occur. Tiga would be deliberately taking action that they know will

lead to redundancies.

If the acquisition takes place, Elnakhla should review all parts of the combined

operations to make sure that they close only parts that are not needed, this might

10 meaning closing parts of Elnakhla as well as parts of Tiga, rather than just closing parts

of Tiga.

Elnakhla should communicate with all staff and clarify the position relating to job losses

and redundancy as quickly as possible.

It would be ethical to award generous redundancy terms that exceed the minimum

statutory rates. On this issue, management must be seen to be socially and ethically

responsible.

11(ii) Tiga has a poor environmental track record and is facing prosecution for pollution.

If Elnakhla proceeds with the acquisition it must quantify the damage Tiga is facing over

its pollution case. This will include legal costs, cleaning up costs and fines imposed.

A contingent liability exists for this case and must be accounted for in Tiga's value

Elnakhla should assess what needs to be done to overcome the bad publicity resulting

from the case. Action should be taken to ensure Elnakhla does not suffer from this.

Elnakhla should run a media campaign to explain how Tiga's environmental policies will

change

Elnakhla should take action to bring Tiga environmental standards up to those of

Elnakhla.

This will involve changing the culture of Tiga's former employees.

Since this acquisition may be unpopular with the government (because of the law

change mentioned above), Elnakhla must make every effort to make sure that no extra

criticism comes their way.

### 12QUESTION THREE

Marking scheme

Note that in (a) and (b) it is acceptable to classify items into different activities

(a)

Definition of each activity 1 mark each

Application to scenario 1 mark each

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Maximum available

15 marks

(b)

For each change:

Explanation of change

1 mark each

Whether it increases or reduces total value

1 mark each

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Maximum available

10 marks

Total marks available 25 marks

(a) Firm infrastructure

This includes the general nature and fixed assets of the organisation.

The location of the shops adds value because it makes them convenient for the customers.

HRM

This is the way that the organisation uses its staff.

The recruitment of passionate staff will improve customer service levels.

Staff training allows customers to deal with 'helpful and knowledgeable staff'. This

should allow them to find and buy the products they seek.

13Technology development

This is the use of new technology to support a primary activity.

The new stock control system allows Aooba to carry a wider range of stock and to 'call

off' stock from suppliers. This means that customers are more likely to be able to obtain

the right product

Procurement

This is the acquisition of resources (including staff) to support a direct activity.

Good relations with suppliers allow a wider range of goods to be stocked. This also

means that customers are more likely to be able to obtain the right product.

Outbound logistics:

These are the systems and procedures related to getting the finished goods to the

customer.

Store layout makes it easy for customers to find what they are looking for, so they will

buy more

Marketing

This includes any activities relating to increased sales

Aoba advertise in local newspaper in areas where they have stores. This should

increase customer numbers as well as improving the brand image in those areas.

Service

This relates to any activity after the initial purchase has been made

Aoba's "no-questions" refund policy should lead to more sales since customers will be

confident that if they have purchased the wrong item they can return it.

(b) The proposed investment in an e-retail website will both increase and decrease

value added. Reductions in value added assume that some or many of the existing

retail customers choose to use the website instead of visiting the shops.

Firm infrastructure:

The location of the shops may become less important, as many customers may decide

to shop from home. This reduces the value added by shop location.

HRM

There may be a reduction in value added, as customers never deal directly with staff.

14Technology development

The new e-retail website will introduce a whole new sales channel, thus adding

significant value.

Procurement

There may be a reduction in the value added by recruitment of passionate staff, as e-

retail customers may never deal directly with staff.

Outbound logistics:

Store layout may be irrelevant to e-retail customers, as they may never visit the stores.

Value added in this activity may therefore reduce.

Marketing

Aooba will no longer have need to advertise in newspapers where their stores are

physically located. Value added in this activity may therefore reduce.

Service

It will be harder to assess whether the product is in a fit condition to be resold since staff

will not be able to see item until it is returned. Value added in this activity may therefore

reduce.

Conclusion

The proposed change will probably both increase and decrease value added in the

value chain of Aooba. This should be considered during the appraisal of the investment

project to decide if it will be suitable. The managers should ensure that the proposal

generates a net increase in value.

15QUESTION FOUR

(a)

In SWOT analysis

Each element that is explained

1 mark (max 12)

Maximum marks available for part (a) 12

(b)

Definition of possible options to explore

1 marks each

1 mark (max 4)

Each area identified

Identification and reason why it could be pursued

1 mark

Maximum marks available for part (b) 13

Total marks available = 25

(a) Noor corporate appraisal

Strengths

Noor have a new CEO with a good track record in the industry, intimate knowledge of a

major competitor and willingness to take vigorous steps. This should lead to new ideas

and higher sales.

Noor have a reputation for quality products allowing for higher prices. This should lead

to higher revenue.

Noor have a celebrity endorsement leading to greater customer awareness with a

different market segment. This should lead to higher sales to a new type of customer.

Noor have a strong financial position including large cash reserves allowing for

investment.

Weaknesses

Noor have failed to utilise new technology resulting in higher costs.

Noor have high production costs leading to higher prices.

16Noor have failed to use their reward system to motivate staff, this will lead to poorer

customer service and possibly lower revenue

Noor are over-centralised resulting in poor decision-making and lower revenue or higher

costs.

Opportunities

There is an increasing demand for fashion 'eye-wear', including designer frames and

sunglasses allowing for new product ranges and more revenue

New production technologies are available which could lead to lower costs.

Increased spending among 18-30 year old customers is leading to potentially higher

sales.

Threats

Increasing competition from innovative rivals will result in lower sales.

A decline in customer loyalty will lead to more marketing being needed with an increase

in costs

The slowdown in the national economy could result in customers opting for lower profit

margin glasses, leading to lower revenue.

(b) Noor could use Ansoff to generate ideas for strategic options to pursue in the future.



Noor is fortunate in that its finances are sound and it has large cash reserves. It would

be appropriate to use some of that financial strength to make investments that will

improve the company's competitive position.

Market Penetration

This looks at expanding market share within the current industry i.e. focusing on existing

products and market segment.

Production methods should be examined for opportunities to reduce cost and improve

efficiency.

The one hour laboratory approach should also be considered if it is proving successful

for Noor rivals.

Bonuses for staff and management should be based on the overall performance of

shops and regions, this would lead to more motivated staff and higher sales.

17There should be some delegation of control over such matters as working conditions,

job roles and pay rates, this should lead to lower costs and again, increased motivation

Noor must consider whether it wants to maintain its current locations, or whether some

shops should be closed, because they do not generate a high enough contribution,

particularly those in high cost areas.

## Market development

This looks at expanding to sell the same products to new market segments.

Mahaglass has entered into partnership with a high-street shopping group, Noor could

look at doing something similar since this will lead to more outlets for their products.

Noor could even look to sell products abroad. If so they should look for a country where

the economy is doing well and where customers are willing and able to pay high prices

for quality products. The endorsement of the sporting celebrity would help here.

## Product development

This looks at selling new products to existing customers

A fashion retailer would be a good choice of partner for a new group of in-store shops

concentrating on the new designer styles, this could lead to higher revenue

## Diversification

This looks at selling new products to new customers

The economic downturn means that growth will be most easily achieved in the 18-30

year old market.

Fashion-consciousness is important here, so the design and variety of prescription

spectacles and sunglasses must be improved. At the same time, suitable promotion

must be undertaken, perhaps making use of sports star endorsement.

END