

BUSINESS STRATEGY

Time allowed – 3 hours

Total marks – 100

[N.B. - *The figures in the margin indicate full marks. Question must be answered in English. Examiner will take account of the quality of language and of the way in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence*]

Marks

1. (a) Ethics are pivotal in developing sustainable business strategy. While good strategies are firmly grounded in good ethics, there may be conflict between ethics and business strategies in many areas. Discuss potential areas for conflict between ethics and business strategy.

5

- (b) Supavac Limited (“Supavac”) is a company listed with Dhaka and Chittagong Stock Exchanges and manufactures vacuum cleaners. Some 75% of its output is sold to Avold Limited (“Avold”), a major countrywide chain of electrical stores. Vacuum cleaners are sold under Avold’s own level and are regarded as being in the mid to upmarket range. Manufacturing takes place at Supavac’s two factories, both of which are in Dhaka area (Savar and Narayanganj) and are of approximately equal size.

The workforce of Supavac is largely unskilled or semi-skilled and is not unionised.

Avold has been a major customer of Supavac for last 12 years, but a new management team recently took over at Avold. It informed the board of Supavac that a new annual contract is to be arranged which would involve a major reduction in prices offered, and that the volumes purchased next year would be only 60% of previous years. It was also made clear that further price reductions would need to take place in future years if the contract were to be maintained at the new lower volumes.

As employees became aware of the increasingly competitive conditions, the possibility of factory closure emerged.

The board of Supavac identified two strategies:

Strategy 1. Close one factory and attempt to cut costs at the other by a policy of efficiency improvements and redundancies.

Strategy 2. Close both Dhaka factories and open a new factory in Chittagong area where labour costs are significantly lower than in Dhaka area.

Required:

Identify and justify the position of each of the following stakeholder groups of Supavac in Mendelow’s power-interest matrix with respect to the two strategies.

- (i) Dhaka-based employees
- (ii) Shareholders in Supavac
- (iii) Avold

12

2. (a) RB is a recently qualified accountant. He has just started a job as a Marketing Accountant for a newly built hotel, the Lake Sure. Currently, the Lake Sure has no marketing staff. The hotel, which has not yet opened for business, intends to generate profit from its rooms and its restaurants. However, other hotels in the local area get much business by providing a ‘wedding package’. A wedding package usually includes the provision of a venue for the wedding ceremony, a meal for the wedding guests, and entertainment after the wedding and overnight accommodation for the bride and groom.

These competitor hotels market their weddings in a number of different ways. One hotel, the ‘Sun Moon’, situated in a castle in a beautiful, rural setting, charges a minimum price of Tk.500,000 for its wedding package which includes a meal for 100 guests and rooms for a bridal party of 10 guests for one night. The Sun Moon has won many international awards for its food and for the high standard of its facilities and bedrooms.

In contrast, another competitor hotel, the ‘Nabab’ offers its wedding package for 100 guests for a total cost of Tk.100,000, with no overnight accommodation provided in the basic price. The Nabab is a budget hotel situated next to a busy transport inter-change in the suburb. There are other five hotels which the Lake Sure regards as competitors: these other hotels charge between Tk.350 and Tk. 500 for each guest attending a wedding at their hotel. RB has been asked to join a team consisting of the hotel’s General Manager and the Restaurants Manager to formulate a strategy for the Lake Sure to offer a wedding package.

Required:

- (i) Explain how an understanding of Porter's three generic competitive strategies could help the team design a successful wedding package strategy for the Lake Sure hotel. 6
 - (ii) Advise the team how information systems strategies could support the three generic competitive strategies. 4
- (b) Bangladesh is among selected least developed countries where the pace of GDP growth accelerated, poverty dropped sharply and inequality fell since 2000. Prudent macroeconomic management, characterized by low fiscal deficit, contained inflation, balance of payments surpluses, and a very comfortable reserve position served as the solid foundation for the continued strong growth. Average growth of 6% since 2005 has been sustained, notwithstanding global recession, political disturbances, commodity price shocks and natural disasters.

Bangladesh’s export has grown to USD 35 billion in 2017 from USD 5 billion in 2000. However, this superior performance is clouded by the fact that the surge was limited to one product group – readymade garments (RMG). With over four million jobs and 80 percent of export earnings, too much of country’s fortune is riding on this one sector. Export concentration in RMG makes the economy, jobs and income extremely vulnerable to external shocks arising from changes in global economy.

Governments focus on export diversification as a cornerstone of its export policy for several years now is no doubt appropriate. Despite the growing dependence on certain items, Bangladesh has been successful in increasing the number of export items, but export concentration remains an acute problem as these new items have not shown enough dynamism in terms of their shares in total exports.

However, leather sector is an exception to this. Leather is the second largest export sector of Bangladesh next to RMG. There is great potential for the leather industry in Bangladesh to become one of the country’s major foreign exchange earners, experts say. After readymade garments (RMG), this sector is playing a vital role in our national economy, earning us huge amounts of export earnings. Most leather goods and footwear manufactured here are export oriented. According to the Export Promotion Bureau (EPB), leather exports totalled USD 1.17 billion in the last fiscal year (2016 - 2017); the amount was USD 0.93 billion the previous year. Apart from the export market, rising domestic disposable income of the middle and upper middle-class families are pushing the domestic demand. Bangladesh Bureau of Statistics figures (2016) show that the domestic footwear market is approximately USD 2 billion and is growing.

Self-sufficiency in raw materials, quality products, market access facilities, growing demand for leather and leather products, abundant and competitive labour cost, preferred sourcing by several international brands make Bangladesh leather sector an attractive destination for public and foreign investment. Bangladesh is set to emerge as the next manufacturing hub for the global leather industry.

The government has declared leather industry as a thrust sector, with considerable growth, investment and export earning potential. Prime Minister has announced leather products as ‘products of the year’ in January 2017. The seventh five-year plan (2016-20) of the Government of Bangladesh is specially focused on leather sector as a highly potential export sector after readymade garments. It is now growing at a healthy pace and the growth rate is expected to accelerate with new factories coming into operation, and growing interest of foreign investors in the footwear sector.

Leather sector enjoys concessionary financing, duty free import for all types of raw materials and machinery, concessional duty on import of specified machinery. Bangladesh Bank increased the cash incentive for export of leather goods to 15% from 12.50%. As per Export Policy 2015-18, credit rescheduling facilities will be provided to the sick leather industries through policy support.

Government has a plan to set up two more leather industrial estates --one each in Rajshahi and Chittagong which reflects the importance the government attaches to the development of the industry. The plan is indeed big in that the country is eying to earn USD 5.0 billion from the sector by 2021 when its total export target is going to be USD 60 billion.

But, there may be a gap between the lips and the cup. Until recently, there was absence of modern technology in tanneries, since they were established long time ago. The newly established footwear and leather goods factories use some latest technologies, like CAD (computer aided design) and CAM (computer aided manufacture). Immediate intervention is required to introduce modern tannery processing technology, particularly in respect to cleaner and resource efficient production, chemical and solid waste management, ETP (effluent treatment plants) operation, and overall operational management to meet the global demand.

The greatest challenge will come from the environmental concern. No industrial development can be made at the cost of environment of this tiny land. It has to be sustainable development all the way. Tannery possibly has the highest level of waste disposal among the industries. It has been reported that only about 20% of the large number of chemicals used in the tanning process is absorbed by leather, the rest 80% is released as waste. Occupational Health hazards among the workers of tannery industries are not only a matter of concern in developing country like Bangladesh but in western countries as well.

The tannery industries of Hazaribagh area of Dhaka city used to process some 220 metric tons of hide a day with an associated release of 600 -1000 kg of solid waste for each ton of processed hide. The pollution of Buriganga River water and the Hazaribagh locality had gone to the extreme level and there was no other alternative left for the government but to shift the tanneries from the heart of Dhaka city. However, the shifting of tanneries from Hazaribagh to Savar has become an unending tale, the government is giving fresh deadlines to tannery owners at regular intervals to complete shifting the tanneries from Hazaribagh.

The delay in relocation of leather factories from Hazaribagh to Savar has not helped the cause. Even the Savar leather estate still faces numerous problems, disposal of solid waste and the failure of the central effluent treatment plant to run to its potential being the principal ones. The hope that the environment of the new location will ease the many mismanagement and problems facing the factory workers, has not yet materialised. Additionally, a number of tannery units have allegedly started polluting the Dhaleswari River in the same way they did the Buriganga earlier. Bangladesh Supreme Court has already issued a notice to the government to ensure that the waste of the tanneries, which have been relocated to Savar from Hazaribagh to save Buriganga River, do not pollute Dhaleswari river as well.

If such lapses cannot be taken care of, foreign investment, one of the key components, and technology transfer will be hard to come by. The zero-tariff incentive as offered for foreign investors will be a temptation but it has to be complemented by further facilitation of working environment.

Required:

- (i) Analyse the macro-environment of Bangladesh leather sector using a PESTEL framework. 20
 - (ii) Briefly discuss how Bangladesh leather sector can help in achieving our long term export targets and overcoming dependency on one single sector. 5
- (c) KKS is a long-established retailer which specializes in the sale of antiques. KKS is owned by a married couple who both work in the business. They have no employees. Their premises consist of a large modern shop and there is an apartment above this in which the owners live.

Over the last five years the local area has become very fashionable and the shop is now surrounded by smart restaurants, cafes and up-market fashion outlets. This area has also become a very popular place to live which has meant that property values have increased substantially. The owners believe that if they disposed of their premises they would make a substantial capital gain. The owners have

noticed that the fixed costs of their property, including insurance, local tax, security and maintenance have risen very sharply during the last five years.

Since establishing the business the owners have developed their expertise. They now have a national reputation in the antiques trade and many repeat customers. They traded profitably between 2000 and 2015 but in the last year have made an operating loss for the first time.

The owners are often consulted by other antique traders and collectors by letter and telephone and they have developed a considerable income stream by charging for their advice. However, they have found that their location is becoming increasingly problematic.

Although the popularity of their area of town has increased and led to many more people living and visiting the area, unfortunately for the owners most of these people are not interested in antiques. They are young people who like the area but do not have the disposable income to spend on antiques.

A further problem is that the shop is not situated in the prime part of the city and it is very inconvenient for many antique traders and collectors to visit. The owners believe the location has recently restricted the success of their business. The owners know that a very popular development in the antiques trade has been the establishment of 'Antiques Fairs' where antiques are bought and sold. Some of these have established international reputations and have many thousands of visitors. However, because of KKS's location and the need to keep their shop open, the owners do not attend these.

The owners recently set up a website which has basic information about their business on it such as their address, telephone number and the opening times of their shop. The website has received a large number of hits but it does not seem to have increased sales.

Required:

- (i) Analyze the strengths and weaknesses of KKS using the value chain model. [Not required to draw a value chain diagram]. 6
- (ii) The owners propose to convert their website to facilitate e-commerce in order to increase turnover and profit. Advise the owners of KKS what they will have to do immediately, and also on a continuing basis, to carry out this e-commerce solution. 6
- (iii) Evaluate how the introduction of e-commerce could affect KKS's value chain. 6

3. Papricorn is a Bangladeshi national chain of fast food restaurants with locations in Dhaka, Chittagong, Comilla and Sylhet. Papricorn has 100 restaurants in these locations, and has been committed to opening another 100 new restaurants in next three years. Papricorn was founded in Comilla in 1958 by Faizul Kabir and his wife Rehana Kabir. Head office of Papricorn is in Dhaka and the current owner is Nancy Kabir, Faizul Kabir's only grandchild.

Papricorn has benefited from consumers wanting quick and filling foodstuffs, and has met this need with its style of product for both adults and children. The company has also had many tie-in arrangements with sports and films, to encourage consumers to buy its product range. The range is very limited, focusing mainly on burgers, fries and soft drinks.

Papricorn operates mainly via a combination of owned and franchised restaurants, franchisees sign a 10-year deal in which they are given the right to use Papricorn trademarks, restaurant décor designs, formulae and specifications for menu items, use of Papricorn's inventory control systems, accounting, marketing and the right to occupy the restaurant premises.

In return the franchisee agrees to operate the business in accordance with Papricorn's standards of quality, service, cleanliness and value. The company is anxious to avoid any negative publicity, so it employs 'secret shoppers' who randomly visit and assess restaurants on the above criteria. The company pays relatively low wages and has high staff turnover; this has prevented Papricorn being able to recruit high calibre staff, as the image of the jobs offered is poor.

Papricorn has had stagnant profits and sales growth in the last two years. The main reasons for this are increased health concerns in its major markets. The company's products are high in both fat and carbohydrate content, and stories in the media about preventable obesity, heart disease, diabetes and

cancer have caused turnover to falter. Furthermore, new style diets, whilst promoting meat consumption, have discouraged many consumers from eating bread or fries due to their high carbohydrate content. Initially Papricorn claimed that its products were nutritious and healthy, but this policy was deemed to be a failure as it did not reverse the stagnation of sales. Some high profile legal claims against fast food companies from consumers claiming that fast food products caused health problems have also had a negative impact on the company's image.

Papricorn has decided to respond to this deterioration in its financial performance by introducing and promoting a healthier menu, with options that include burgers but no burgers buns, chicken and fish based products, grilled rather than fried meats, salads, fruit and healthier drinks, as well as phasing out extra large portions of food on its menu. The company want to give more autonomy to individual restaurant managers to offer a wider range of products that will vary different locations.

In addition, the company indent to change the company name to "Green Kitchen" to move from the association with burgers and fries. The cost of changing all the company logos, livery, advertising campaigns, and cooking equipment is expected to be massive. Staff will also have to be trained to use the new equipment and promote healthy eating to customers. The company is uncertain how the public and franchisee will respond to these changes in the business. Moreover, Papricorn need to deliver better financial performance to sustain and continue its expansion program.

Required:

- (i) Identify the type of changes that Papricorn is considering. 2
- (ii) Outline the potential barriers to the proposed changes from: 9
 - (a) Franchisees
 - (b) Restaurant staff
 - (c) Customers
- (iii) Prepare a draft blueprint for Papricorn detailing how the company deal with the changes of menus and name. 4
- (iv) Suggest ways in which Papricorn can communicate successfully the changes to customers and franchisee. 2

4. WELL is a manufacturer of biscuits which it sells to retailers. It's current year's revenue of BDT1,200 million represents approximately 3% of the Bangladesh market. WELL has a centralized marketing information system based on a software package bought in 2010.

This package is financial accounts orientated: the only management information provided to support the marketing staff consists of reports showing revenue, profit, inventory value, receivables and payables balances.

WELL's marketing staff and the Marketing Director, M, have complained that they are not provided with information such as customers' profitability, market share and market growth which would support their strategic decision-making.

They consider the inadequacies of the current marketing information system to be so serious that they would like a Big Bang change which would mean moving straightaway to a new marketing information system that would give them the information they need.

They feel WELL is being left behind by its competitors and is losing customers.

The Company Secretary, R, manages WELL's IS/IT staff. R was responsible for buying the existing marketing information software in 2010 and he would also be responsible for the procurement of its replacement. R has identified three possible solutions to meeting the marketing staff's needs: the first two are evolutionary, the third would be a 'Big Bang'. ['Big Bang': any sudden forceful beginning or radical change.]

Solution 1

Modification: the existing marketing information system would be redesigned by WELL's in-house IS/IT staff to meet the needs of the marketing staff.

Although WELL's IS/IT staff have limited experience of the type of work which would be required, they are confident the redesign could be done within a year.

The IS/IT staff are unsure of the cost.

Solution 2

Development: WELL's in-house IS/IT staff would develop new bespoke software to meet the marketing staff's needs.

The IS/IT staff have stated that 'because WELL's needs are unique, costs can only be roughly estimated.

However, this solution is likely to be considerably more expensive than the 'Modification' solution. The final cost would be dependent upon the length of the project.

It should take a minimum of six months to develop new software but it might take as long as two years.

We have little experience of software development but are very enthusiastic about trying'.

Solution 3

Purchase: WELL could purchase the biscuit industry standard marketing information system software: this would be an expensive purchase but the product is well proven.

Some of WELL's marketing staff have experience of using this software in other companies, are very appreciative of its benefits and believe it would help them considerably in their jobs.

The software supplier claims that '90% of the biscuit industry uses our product and if you buy it we guarantee to have it working inside WELL within three months of you buying it'.

R believes that he represents the majority of opinion within the IS/IT staff who very much prefer that change should be evolutionary. They would be very resistant to change if it was carried out in any other way. R also pointed out that WELL has experience of 'Big Bang' organisational change in the recent past which failed because WELL's culture didn't change to reflect this.

R stated, 'It looks straightforward to go out and buy a software package but it's a lot more complicated than people think and it's my department that would have to do all the work.

Required:

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| (a) Explain the circumstances in which it would be appropriate to use | 4 |
| (i) Evolutionary change. | |
| (ii) 'Big Bang' change. | |
| (b) Evaluate each of the three solutions proposed by R. | 9 |