



THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA

Corporate Level Examinations

KC5 Corporate Strategy & Contemporary Issues

Section 1: Assignment

(Pilot Paper)

Introduction

AFC Holding PLC (AFC Food Chain) was incorporated in Sri Lanka as a limited liability company in 1912 to sell branded products. It was a family business and in the late 1980s the management introduced a supermarket to meet the demand due to the changes that had taken place in the life style immediately after the introduction of the market economy in 1977.

At present, the company has more than 100 supermarkets in its chain which added during the past 35 years and enjoying a larger portion of the market share in Sri Lanka. It took the supermarket to the masses with the innovative leadership quality of the Chairman Mr. Arnold de Silva, who was the elder son of the founder / owner Mr. Henry de Silva.

In 2005, the owners decided to go for an IPO (Initial Public Offer) to expand the ownership and get more equity from public investors to expand the supermarket chain throughout the island. Through the IPO only 40% of the voting shares were released to the public and the controlling interest of the company was kept within the family itself.

The vision of the company is "*To be a Global Corporate Role Model in Community-Friendly National Development*".

AFC Holdings PLC has gathered ideas together to help and satisfy our nation's needs while collaborating with customers to create better products and services, streamline e-supply chains, save energy, reduce costs and move goods to every corner of Sri Lanka. The company helps farmers to get higher yields from a lesser acreage, and store crops to have greater flexibility in marketing their harvest. The management always mentions that the company must give back to the communities where it does business through continuous efforts to improve nutrition, health and education, and protect natural resources. The chairman has told recently in a public briefing that,

"Our sustainability strategy is making social responsibility an integral part of everything we do. It is a company-wide commitment that channels our expertise and knowledge to create sustainable value for every direct and indirect stakeholder we touch."

Future Growth Strategy

Mr. Desmond Fernando, CEO (Chief Executive Officer), explained the company's goals to be achieved under its five (5) year plan. He stressed that the growing competition locally and the tax regulations enforced will have an adverse impact on the company's growth as well as profitability. "Hence we should look at other markets outside Sri Lanka to establish our brand name "AFC Food Chain as our growth strategy."

In order to make the above strategy a reality, the Chairman & the Board of Directors are keen on the following two (2) markets. The total project cost/revenue for each country has been estimated as follows:

Country: India

Currency in USD					
Description	Year 1	Year 2	Year 3	Year 4	Year 5 onwards
Capital Cost	1,500,000	1,000,000			
Working Capital		1,000,000			
Net Operating Profit before Interest /Taxes		200,000	250,000	300,000	650,000

Country: Bangladesh

Currency in USD					
Description	Year 1	Year 2	Year 3	Year 4	Year 5 onwards
Capital Cost	750,000	500,000			
Working Capital		750,000			
Net Operating Profit before Interest /Taxes		150,000	175,000	200,000	350,000

The Chairman advised the Board to review this strategy and he also pointed out that the company does not have any previous experience of doing business outside Sri Lanka.

Required:

You are a newly appointed corporate strategist and the Board has approached you for a comprehensive report which would be considered if the company decided to extend their super market chain to India and Bangladesh markets initially.

Compile a report to the Board addressing the below areas:

1. Economic outlook of the two countries.
2. External environmental analysis of each market.
3. Comparison of the taxation issues in both countries as well as the tax impact on AFC Holding PLC.
4. Evaluation of alternative methods of entering the two markets and suggesting the best method for each country.
5. Comprehensive analysis of the risk and your suggestion to minimize the risks which you have identified.
6. Evaluation of the financial viability of the two projects using an appropriate method.
7. Conclusion.

(You should clearly mention your assumptions)

(Total 20 marks)

Your assignment will be marked against the following assessment criteria:

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| 1. Understanding the issue | (2 marks) |
| 2. Illustration of the issue with the facts | (3 marks) |
| 3. Analysis of the issue | (6 marks) |
| 4. Use of technical knowledge | (3 marks) |
| 5. Applicability to Sri Lanka | (2 marks) |
| 6. Conclusion | (2 marks) |
| 7. Overall presentation – Professional writing | (2 marks) |

(Total = 20 marks)