



KC 5 Corporate Strategy & Contemporary Issues
Section 1: Assignment
Suggested Marking Grid

Marking grid

Your assignment will be marked against the following assessment criteria:

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)

Please note that this is a learning guide only.

Use an appropriate report format.

To:

From:

Date:

Subject: Project Report on evaluation of the Future Growth Strategy

1. Introduction

I would like to inform you that I have thoroughly studied the proposed growth strategy of the company to open two supermarkets in India and Bangladesh. The current status of the company has been critically analyzed in order to understand the financial position of the company and to assess the possibility of launching new projects and their sustainability in the current business environment. I have also considered the current economic, cultural and political situations in India and Bangladesh to assess the threats and opportunities in those markets which provide information for assessing the market viability. I have also considered the fact that the company does not have experience of operating in foreign markets before.

2. Economic Outlook

Students should critically analyze the economic indicators of both countries and identify the salient features of the two countries, for example, forecast of inflation, exchange rate against USD, growth rate, unemployment, etc. for the next 10-15 years.

3. Environmental Analysis

Students should analyze the External Environment covering Political, Cultural, Technological and Legal Environments of both countries.

Political Environment:

Student should discuss the current political situation in both countries and how it would affect the proposed project.

Cultural Environment:

Since there are two different cultural backgrounds and pressure groups and extremely different cultures and religious environment, it is important to study the issues against multinational organizations which are already established in both countries.

Technological Environment:

The student should check the infrastructure available in Information Communication Technology (including the quality of downloading data electronically as well as the possibility of arranging video conferences, etc.)

Legal Environment

Students should study the legal restrictions in entering these two markets and the available remedial strategies to overcome such restrictions.

4. Taxation

Students should study the double tax treaties signed by Sri Lanka with each country and advise whether there is provision to cover this nature of business.

They should also advise about the local taxation in each country relevant to the supermarket business. They also should look critically at Transfer Pricing issues (if any) and if there are issues pertaining to Transfer Pricing. The Board must be advised about the available remedial strategies to overcome them.

5. Alternative Method of Entering Foreign Markets

Students should discuss the following methods:

- a. AFC Plc will form a new company in each country and invest money as equity in each country.
- b. AFC Plc will enter into a Franchise Agreement / Strategic Alliance with a local counterpart to provide know-how and technical assistance on a Royalty or Franchise Fee
- c. Joint Venture
- d. Any other creative method

They should critically analyze the methods and advise about the advantages and disadvantages of each method and creative methods, if any.

6A. Risk Analysis

Students should understand the risk factors in entering foreign markets.

Country Risk

1. Political Risk
2. Economic Risk
3. Foreign Exchange Risk
 - a. Translation Exposure
 - b. Transaction Exposure
 - c. Operating Exposure

6B. Managing the Risk

Students should advise about the remedial strategies suitable to mitigate the identified risk.

7. Project Evaluation

- a. Students should use the Discounted Cash Flow method to evaluate the projects.
- b. They should advise about the appropriate Discount Rate for foreign investment. Both project risk and project financial structure can vary from the corporate norm. The project capital structure can also vary from the corporate norm.
- c. Students should assume the different financing method assuming the company has the capacity do so.
 - i. 100% equity capital
 - ii. Mix of Debt and Equity (suggest a best combination)

$$WACC (K_o = (1-L) K_e + L K_d (1-t))$$

8. Conclusion

Students should consider the net result of the Project Evaluation in both countries NPV and the qualitative analysis done above. The result should be comprehensively analyzed and a conclusion reached as below:

- i. Entering the foreign markets as a growth strategy should be rejected.
- ii. The proposed growth strategy should be accepted.
- iii. Only one market should be accepted and the other market should be rejected.