

CA



THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA

SUGGESTED SOLUTIONS

14304 – Strategic Management Process

CA Professional (Strategic Level I) Examination
June 2014

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Answer No. 01

(a) SWOT Analysis

The students are expected to do a SWOT based on factors impacting the market, products, value chain, stakeholders, technology/processes etc., and briefly explain the impact

1. Strengths

- SLHE's experience of over 65 years. Heritage brand.
- Strong linkages with rural craftsmen
- New management structure accountable to the board
- Young and dynamic workforce with clear performance metrics
- Repositioning of the organisation etc.

2. Weaknesses

- Some showrooms are unprofitable
- High staff turnover of the contractual employees
- Core customers unaware of changes done
- Poor new product development process
- No SKU (Stock Keeping Units) rationalisation
- Weak MIS (Management Information System) and costing standards
- No plans to develop additional channels i.e. exports

3. Opportunities

- Post war economic growth
- Influx of tourists; 2.5 million tourist arrivals expected by 2016
- To develop personalised customer relationships through social media
- Ability to get financial support from lending institutions due to profitable going concern
- Untapped markets/segments in the developed world and Far East

4. Threats

- Heavy dependency on tourist arrivals
- Cheaper imports from the Far East
- 2nd generation not motivated to take over the handicraft and related industry
- Dwindling heritage and traditional skills
- Lack of exclusive products due to poor R & D

- (b) Primary financial drivers of shareholder wealth (SHW) are profitability, liquidity/cash flow and growth; hence growth is one of the primary drivers of SHW.

Growth is important as if there is no growth in a growing industry, if an enterprise does not achieve commensurate growth, its market share and hence the competitive position will decline. Therefore the statement is not quite an accurate comment.

(c)

Market Penetration	Market Development	Product Development
<ul style="list-style-type: none"> ➤ Enhance customer experience by improving showroom space and ambience ➤ Increase business acumen and sales productivity of the commercial team. ➤ Attract more customer foot-fall through strategic showroom locations ➤ Develop a Customer Relationship Management (CRM) program to entice repeat visits 	<ul style="list-style-type: none"> ➤ Effectively reach new customers via E-based, integrated export marketing drive ➤ Establish a strong presence at key International Trade Forums to penetrate untapped markets ➤ Leverage foreign mission network and synergize with more private public partnerships (PPP) to go global. ➤ Develop a franchising network for emerging markets to facilitate market entry 	<ul style="list-style-type: none"> ➤ Develop sharper customer insights by structured market research initiatives ➤ Optimize the R & D capability with help from public and private research expertise ➤ Commercialise the above insights to expand the Gift & Souvenir business

(d) Expansion of the three strategic initiatives

(1) **Re-define the category**

- This is a positive step. However, the SKU (Stock Keeping Units) have proliferated without any proper methodology or control. This has to be brought under control, and a SKU rationalisation scheme based on sales and gross margin evaluation can be proposed. This will enable to focus on faster moving stocks, and more space in the showrooms can be allocated accordingly. The student can highlight the need for a good ERP system and costing standards and smarter procurement strategy here.
- From a marketing point of view, expanding the category will enable SLHE to attract better customer foot-fall due to range expansion. However, this will require extra marketing funds/budgets as the consumer awareness is low, as per the consultant's findings. A "one stop shop" concept has to be communicated

which will increase consumption occasions. Students can also suggest public private partnerships i.e. tying up with banks, credit card companies and corporates for mutually beneficial store promotions.

- Students can also suggest how to attract new customer segments to the showrooms instead of relying on foreign and local shoppers who walk in. They can suggest briefly how to attract the following segments.
 - (i) Attract foreign customers interested in Gifts and Souvenirs with web based marketing, web portals, internet pop-ups etc.
 - (ii) Take part in international trade fairs in collaboration with other allied institutions e.g. Tourism Ministry, EDB, BOI etc.
 - (iii) Attract middle and upper income local shoppers by offering seasonal promotions, special events at SLHE show rooms etc.
- Opportunities for MICE tourism (Meetings, Incentives, Conferences, Exhibitions). Tie up with tour operators, travel clubs, airlines, professional associations conducting exhibitions, in order to attract tour groups to SLHE showrooms.
- Outbound tourists; SLHE staff can attract more outbound tourists by having a showroom located at the airport. Duty Free Shops can be located for publicity at airports. Another strategy could be to tie up with Sri Lankan Embassies.

(2) **Upgrade store visibility and marketability**

- Rationalise un-profitable stores (after a proper audit)
- Identify the key nationalities visiting the stores and provide specific attention e.g. ethnic food, music, language ability of store salespeople
- The showrooms should be located based on the highest tourist visit locations (this can be obtained from Tourism Ministry data).

(3) **Improving customer service levels**

Students can suggest how to retain young talent by offering attractive performance incentives, recognition and a career path for the high performers.

- Continuous training and development of staff for better marketing orientation must be done, with an eye on skill improvements e.g. foreign language ability, product knowledge specialisation, social etiquette etc.
- Customer feedback, e-based initiatives, loyalty offers and loyalty cards too can be considered here. A good ERP system can analyse customer specifics, preferences, purchase patterns etc., which can be used for future strategizing.
- Introduce contemporary performance management practices including reward systems that recognise good customer service levels.
- Increasing the levels of supervision

Answer No. 02

- (a) A strategic decision:
- Is a decision taken at top management level
 - Has long term implications for an organisation's survival and growth
 - Is concerned with the scope of an organisation's activities
 - Seeks to achieve an advantage over competitors
 - Addresses changes in the environment
 - Builds an organisation's resources and competencies
 - Aligns with the values and expectations of shareholders

Operational decisions are taken by supervisory or first level managers. Production scheduling and arranging a shift system in a factory is an example of an operational decision.

- (b)
- (i) Disagree. It is true that an organisation cannot plan for every eventuality. However, the process of planning is valuable as it forces management to analyse both the external and internal environment of the company and industry competition so that the company is better prepared to meet the challenges confronting it. It is environmental uncertainty that necessitates planning.
- (ii) Advantages of strategic planning
- Identifies environmental threats and helps in managing risks
 - Forces managers to think and encourages creativity by tapping the ideas of the management team
 - Clarifies objectives and forces managers to define what they want to achieve
 - Enforces consistency at all levels. Long term, medium term, and short term objectives, plans and controls can be made which are consistent with one another.
 - Allocates responsibility and shows employees where they fit in
 - Facilitates coordination
 - Facilitates control

Disadvantages of strategic planning

- Costly
- Time consuming
- As it is time consuming, there can be a loss of initiative to more enterprising firms
- Excessive formalisation and lack of flexibility
- Lack of realism in the context of a dynamic environment
- Prescriptive in nature

- (c) (i) A company **mission** statement sets out the overriding purpose of an organisation (i.e. its societal purpose). A mission statement describes the company's current business and purpose – “who we are, what we do, and why we are here”. It defines the scope or competitive sphere within which the company will operate. This mission directs strategy, embodies values and expectations of stakeholders and influences policies and standards of behaviour.

A **goal** is a general statement of the broad purpose or aim of the organisation.

An **objective** is short term. It is a quantification or more precise statement of the goal. At times, the words goals and objectives are used interchangeably. However, it is useful to keep in mind the difference between those goals which can be expressed as objectives (quantitative and SMART) and goals which are not quantitative. Well-stated objectives are specific, measurable, achievable, relevant to the firm, and time bound (i.e. contain a deadline for achievement).

- (ii) The examples below, developed for the above financial organisation, would help to clarify these terms:

Mission: To be a versatile provider of excellence in a wide range of financial services that creates opportunities for more people while being committed to the professional development of our employees.

Goals: To maintain financial stability and growth
To increase market share

Objectives: To increase profits from Rs.m. in 2014 to Rs.m. ... in 2015
To achieve a ROI of % by
To increase market share from % (current) to(%) by the year-end.

Answer No. 03

- (a) Demographic factors refer to population-related variables. Therefore, changes in demographic factors refer to changes in the characteristics of a population such as age, gender, ethnic origin, race, social class etc.
- (b)
- i. **Population growth** – If the population growth rate is high, there will be a young population and a need to provide for basic needs such as food, housing, and education.
 - ii. **Changes in age composition of the population** – The worldwide trend (also applicable to Sri Lanka) has been towards an ageing population which signals an increased demand for healthcare services, walking aids, hearing aids etc. However, one has also to consider the demands of the Gen – Y cohort (i.e. those born after

1980). They have grown up in “a wired world” and the demand will be for mobile phones, laptop computers, i-pads, i-pods etc.

- iii. **Increase in working females** – An expanding female workforce gives rise to a demand for appropriate office wear, fashion clothing, shoes, hand bags and other accessories. In addition, there will also be an increased demand for fast food and ‘take-away’ food.
- iv. **Changes in family size** – As a result of rising cost of living and the desire to enjoy greater material comforts, the general trend (which is also true for Sri Lanka) has been towards small-size families. With fewer children, women are able to seek employment. In order to meet the high time pressure on working couples, companies will provide labour-saving products such as washing machines, microwave ovens, and kitchen appliances.
- v. **Ethnic composition of a population:** Population might consist of persons belonging to different ethnic groups and companies would have to cater to differences in attire/clothing and food preferences.

(c) The steps are as follows:

- Human resources planning: To ensure the right number of the right quality personnel are available to carry out the activities as planned under the company strategy.
- Recruitment: Attract as many eligible candidates as possible for potential employment
- Selection: Hire applicants with the required knowledge, skills, and attitudes for the vacancies
- Training: Prepare recruits for the current jobs through orientation and skills training
- Performance evaluation: Assessing how well they do their jobs
- Rewarding: Recognising the efforts of employees through monetary and non-monetary means to enhance employee motivation and (perhaps) chances of their retention
- Employee development: Provide for career advancement of employees, enlarging their skills and competencies so that they would be ready to assume higher responsibilities

(d) Measures a company could adopt to encourage innovation are:

- A leader must create an environment and a culture that encourages creativity & innovation.
- Some experiments and initiatives carried out by employees might fail. These must be accepted by management. Employees should not be punished for failed experiments unless mistakes are being repeated.
- Recruitment/selection: Design procedures to attract individuals with the right capabilities and right attitudes

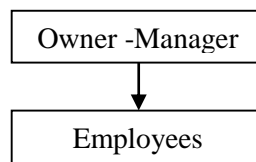
- Continuous upgrading of employee skills
- Always insist on high performance standards
- Reward outstanding performance - performance targets should be linked to company objectives and their achievement should be adequately rewarded so that employees would be motivated and committed to strategy implementation.

Answer No. 04

Simple structure

As a young organisation producing and selling a single product, a simple structure would have been adequate. (Figure 1)

Figure 1: Simple Structure



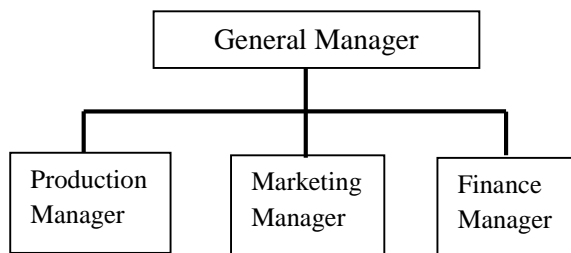
The challenge faced by the owner-manager is that he would be overburdened with day-to-day activities as all decisions have to be made by him, thereby giving him little time to plan for the future growth of the enterprise. Hence, systems and procedures need to be formalised.

For this, the appropriate structure would be a functional form of organisation.

Functional form

Activities to be undertaken by the company (i.e. production, marketing, finance etc.) are systematically grouped into functions and separate managers will be placed in charge of each function. It is departmentalization according to function (Figure 2).

Figure 2: Functional Form



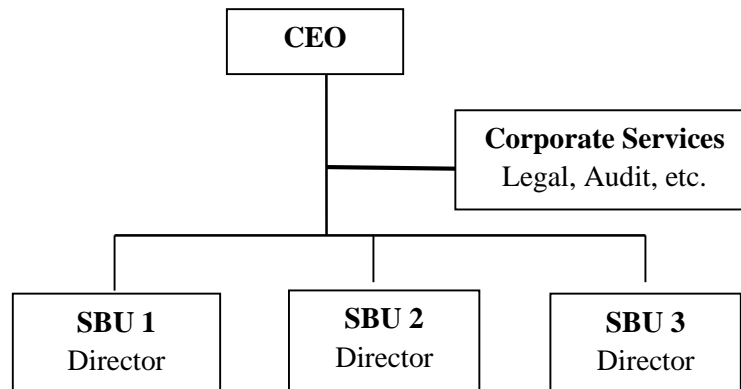
The key challenge here is for the CEO to coordinate the activities of the different functional managers to ensure that they work as a team to accomplish the goals of the organisation. Often disagreements could arise between functional managers. Also, there can be competition for scarce

resources with each functional manager trying to obtain maximum resources for his department in order to achieve his departmental goal even at the expense of others. It is to be seen whether we could overcome this ‘silo mentality’ of managers by giving them more autonomy in decision making while also holding them responsible and accountable for the success of the divisions that they are heading.

Strategic Business Unit (SBU) structure

The next logical step would be to have a strategic business unit (SBU) structure (Figure 3). A SBU is a single business or a collection of related businesses that can be planned separately from the rest of the company. It is a logical method of grouping different activities using product-market scope as the basis of segregation. A SBU has its own set of competitors and its strategic focus is the ability to create a competitive advantage given the product-market scope.

Figure 3: SBU Structure



The question mentions that the company has evolved into a multi-product firm and has also dispersed its activities across a few regions locally. An organisation facing the problem of conducting and controlling its activities across regions is likely to use a geographic structure and group functions into regional divisions to serve customers in different geographic areas. As the company is dealing with both industrial and consumer products, it may not be realistic to expect any individual sales person to successfully market these different products to different customer groups. Hence, it would be logical to have separate SBUs to market these different categories of products. Each SBU head will have his own sales force to serve the different geographic regions.

Answer No. 05

- (a) Strategic control, the last step of the strategic management process, involves monitoring and evaluating the extent to which the strategy is achieving the objectives and suggesting corrective action (or a reconsideration of the objectives). Strategic control focuses on the activities involved in objective setting, strategy formulation, strategy implementation, and strategy control itself – checking that all steps of the strategy management process are appropriate, compatible and functioning properly

Organisational strategies are intended to achieve the strategic objectives agreed upon in the strategic planning process such as profit objectives.

Strategic control will monitor it, evaluating whether the strategy is working as intended. Main areas of control are; efficiency (in relation to org. resources), quality, customer responsiveness, innovation.

Operational controls, on the other hand, involve issues such as the efficient production of goods, the monitoring of financial performance, or the management of a sales force. These are important tasks, but they are essentially concerned with effectively managing resources already deployed, often in a limited part of the organisation within the context of an existing strategy.

Therefore, the scope of strategic control is broad while the scope of operational control is narrow.

- (b) KPIs represent a set of measures focusing on those aspects of organisational performance that are most critical for the current and future success of the organisation.

Relevant KPIs for the company's marketing function are:

- Sales turnover - overall growth in revenue, volume growth
- Sales revenue generated; product-wise and area-wise
- Distribution cost as a percentage of net revenue
- Market share details versus competitors
- New customers acquired
- Customer attrition (losses)
- Outstanding balances held by segments of customers and terms of payment
- Collection of bad debts within customer relationships
- Stock levels as a percentage of sales
- Profitability of customers by demographic segments and segmentation of customers by profitability
- Product rejection rate

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