

CA



THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA

No of pages: 7

Business Level
Business Value Creation
(Pilot Paper)

Instructions to candidates

- (1) Time allowed: 3 hours
- (2) Section 1: 5 questions – **all questions are compulsory**
Section 2: 2 questions – **both questions are compulsory**
- (3) Answers to questions should be in the answer booklet provided to you. Begin each answer on a separate page.
- (4) All answers should be in **English**.

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SECTION 1

All five questions are compulsory.

Total marks for Section 1: 50 marks.

Recommended time for the Section is 90 minutes.

Question 01

ABC Company Ltd. is manufacturing plastic home furniture and office furniture, and currently leads the local market. It has recently started to export its product range to some European Union countries. The raw materials for its products are imported from China and India. ABC has five manufacturing plants and 55 manufacturer-owned show rooms for sales and marketing purposes. There are 5,500 employees working at both the plants and show room premises. However, the business still appears to be going ahead in traditional mode even though it holds the market leader position.

Required:

1. **Explain** the primary activities of ABC Company's value chain. **(5 marks)**
 2. **Analyze** three possible ways in which the Company can bring about improvements to profitability/competitive advantage through better management of the 'support activities' in the value chain. **(5 marks)**
- (Total 10 marks)**

Question 02

The apparel industry has been widely criticized for "exploiting" third world workers in sweatshops. Over the past decade U.S. firms and their subcontractors have faced protests from student groups, labour leaders, and some government officials for employing sweatshop labour. Sweatshops are generally characterized as places of employment that have low pay, poor working conditions, and long hours. However, most economists taking a more rationalistic approach tend to view these so-called sweatshops as beneficial, as opposed to being detrimental from a third world workforce perspective. In their view, lobbying by the anti-sweatshop activists may in fact result in lowering much needed investment and could adversely affect employment opportunities, eventually making the workers much worse-off.

Required:

1. **List** the main stakeholders of an apparel manufacturing company as highlighted in the above scenario.

(2 marks)

2. **Explain** the concepts 'stakeholder' and 'stakeholder mapping' and **discuss** the importance of such mapping to an organization.

(8 marks)

(Total 10 marks)

Question 03

JIT Holdings Company is a leading furniture manufacturer. Their sales last year were as follows.

Tables – 500 (batch size 10)

Chairs – 3,200 (batch size 50)

Book shelves – 600 (batch size 5)

Pantry cupboards – 200 (on demand)

Sofas – 360 (on demand)

At last year's stock take, it was found that the age of some of the furniture stock was over 150 days and average inventory days were 92.

Required:

1. Briefly **explain** the possible reasons for the high inventory days and **identify** the items of furniture likely to be in the inventory of JIT Holdings.

(2 marks)

2. **List** the seven wastes specified under lean manufacturing.

(3 marks)

3. **Explain** how the concepts of lean manufacturing would help JIT Holdings to overcome the current issue with inventory.

(5 marks)

(Total 10 marks)

Question 04

Training is the acquisition of knowledge and skills that relate to specific job competencies and plays an important role in bringing about enhanced job performance. Training is largely the contributing factor in an employee performing at an exceptional level of competency resulting in higher productivity compared with average or minimal competency levels.

Required:

1. **Explain** the main training methods available to an organization. **(4 marks)**
 2. **Explain** the importance of measuring the ROI of training in organizations. **(6 marks)**
- (Total 10 marks)**

Question 05

Toy Star is a leading U.S. retail chain specializing in children's toys and having over 300 retail outlets in the United States. They are well known for the high quality and durability of their products. Toy Star uses specially selected suppliers to support their manufacturing. They also hold several exclusive licenses for famous cartoon characters and more than 40% of their revenue is generated through licensed products. They recently opened 30 new stores in Europe.

Toy Star's international expansion plan for the next five years includes the emerging markets of Brazil, Russia, China and India. Whilst they see saturation in the U.S. stores, they expect the international stores in the emerging markets to grow to 150 stores in the next 5 years. However, the market conditions in the new markets are very different to what they experience in their domestic market. There are many established retailers and the market seems to be very fragmented with many small brands operating. The established price points are much lower than their U.S. prices.

Required:

1. **Recognize** the strategy adopted by Toy Star to gain competitive advantage using Michael Porter's Generic Strategy framework. **(3 marks)**
 2. **Apply** Michael Porter's '5 Forces model' of industry competition to **assess** the potential competition that Toy Star will have to encounter in relation to the planned international expansion to the emerging markets. **(7 marks)**
- (Total 10 marks)**

SECTION 2

Both questions are compulsory.

Total marks for Section 2: 50 marks.

Recommended time for the Section is 90 minutes.

Question 06

ABC Food Company Ltd. has been operating in Sri Lanka since 1980 and holds a substantial market share in the biscuit market by offering a variety of brands to all segments. The Company recently carried out some market research to identify new business opportunities in other diversified sectors. The key finding was the possibility to enter the chocolate market as huge opportunities were found in different market segments which were hardly catered to by existing competitors. A deep analysis of the chocolate market further emphasized that the behavior patterns and demographic concerns relating to chocolate consumption should be strongly considered in marketing strategies. While most Sri Lankan consumers traditionally enjoyed chocolate and it was a product with symbolic value on celebratory occasions, in the present context the reality is that chocolate does not have the same product appeal as in the past. Public awareness campaigns by the Health Ministry and mass media on health concerns relating to chocolate consumption have had a considerable impact by discouraging chocolate consumption even among youth and teenage segments of the market. Therefore, new varieties of chocolates need to be carefully positioned to be established as strong offerings in the market. These findings have been an interesting revelation in guiding strategic thinking of the top management team of ABC towards new product development. Nevertheless, the development of such new products not only possesses a huge challenge in the form of new technology and machinery on the one hand, but also has competitive positioning and branding implications on the other.

The female consumer segment in Sri Lanka holds a perception that excessive consumption of chocolate may result in an unattractive increase in body weight and this has had a huge negative impact on the chocolate consumption rate. On the other hand, evidence gained from the market research seems to indicate a considerable propensity of the male youth segment towards consumption of soft drinks and fast food as well as confectioneries such as chocolates. This segment of the market seems to be indifferent towards the potentially harmful effects of such consumption habits.

Therefore, to capitalize on the opportunities, brands which appeal to the male and female youth segments should be considered. In its attempts to enter the chocolate market, ABC Ltd. is targeting young ladies, young gents, the old aged segment and children, with differentiated product offerings supported by strong branding exercises.

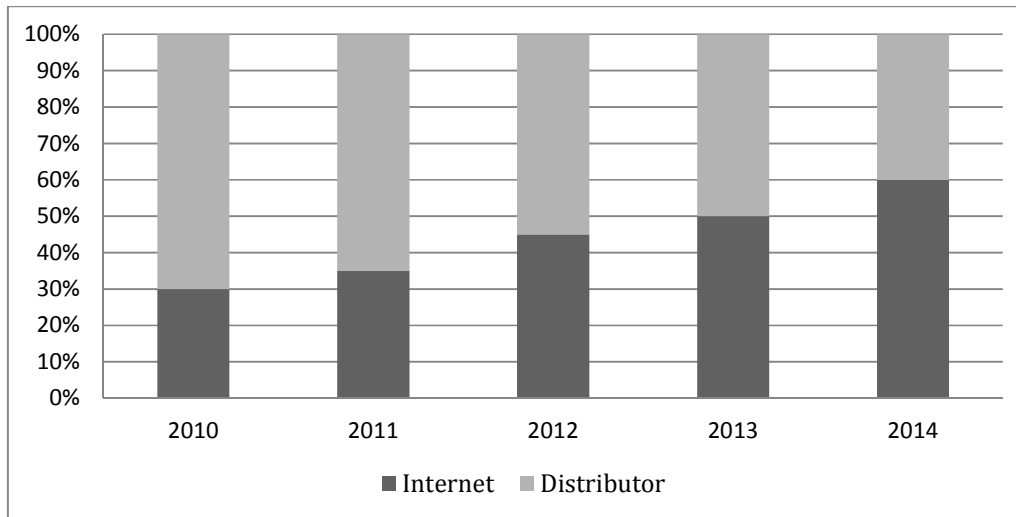
Required:

1. **Recommend** the possible market segments for the proposed strategic initiative of entering the chocolate market by the ABC Food Company and **discuss** two behavioral characteristics of each segment you recommend.
(5 marks)
 2. “A brand can convey up to six levels of meaning” (Kotler, 2000, pp.404). **Explain** those six levels of meaning for the chocolate brand assuming it is going to introduce “shape up” chocolate to the young ladies segment.
(5 marks)
 3. Briefly **discuss** the concept of ‘Positioning or Perceptual maps’ in relation to market or product positioning and **demonstrate** your ability to apply the concept by developing a sample map that will help you to position the new product i.e. chocolate, assuming the target market is the ‘young female segment’.
(5 marks)
 4. If the company is to enter the new line of business of marketing chocolates, **outline** the possible marketing mix variables that the company may opt to adopt, during the ‘Introduction’ stage of its Product Life Cycle.
(5 marks)
 5. With the help of the Generic Strategy framework of Prof. Michael Porter, briefly **explain** and **advise** the appropriate strategic option that in your opinion ABC Food Company may select to follow, in the event the company establishes a new SBU for the purpose of marketing chocolates.
(5 marks)
- (Total 25 marks)**

Question 07

Cell Inc. is a large manufacturer of personal computers in the United States. They hold 23% market share in the worldwide PC market. They are well known in the market for being a value-for-money personal computer manufacturer. Almost 60% of their sales are done over the internet as direct-to-consumer sales. The following graph shows Cell’s internet sales growth as a percentage of total sales over the past 5 years.

Table 1: Internet sales growth



Cell promises to deliver any order placed over the internet within 7 days to the customer. The balance sales are made using licensed distributors all over the world. Cell enters in to annual price agreements with the distributors and prices are fixed for a contract period of one year.

Cell places orders to their suppliers using an EDI system and can monitor progress of the orders online. The quality level of the parts purchased is critical to business success. Since Cell do not have their own retail stores most of the demand forecasting is done based on historical data. Given the volatile nature of the business, Cell sometimes have to request their suppliers to supply more than they initially forecasted for a particular month due to unplanned demand from distributors and internet sales. Hence agility of the suppliers plays a key role in ensuring that Cell maintains their competitive edge in the market and sticks to the promise of delivering computers within a 7 day period to their internet buyers.

Required:

1. **State** the advantages that Cell Inc. will have by opting to sell their products over the Internet, compared to traditional channels of distribution. **(5 marks)**
 2. **Discuss** how Cell Inc. could use information technology, in relation to their business dealings with their suppliers. **(10 marks)**
 3. **Apply** concepts of Balanced Scorecard to ascertain performance measures of Cell Inc.'s supply chain performance. **(10 marks)**
- (Total 25 marks)**