

CA



THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA

SUGGESTED SOLUTIONS

KB5 - Business Value Creation

June 2017

SECTION 1

Answer 01

Relevant Learning Outcome/s:

1.4 Strategic capability and competitive advantage

(a)

Unique resources and core competences can jointly be referred to as strategic capabilities. They are important for creating and sustaining a competitive advantage. If the competitive advantage is to be based on unique resources and core competences, it must have four qualities:

- Produce effects that are valuable to buyers
- Be rare
- Be robust and impossible to imitate or copy easily
- Be non-substitutable

1. **A shop in a busy shopping mall in Colombo:** Valuable but not rare, is imitable and substitutable. So this **cannot** be identified as a strategic capability of Crumbles.
2. **Skills and training of the two chefs:** Valuable, rare, but can be imitated and substituted. So this **cannot** be identified as a strategic capability of Crumbles.
3. **Trainees/trainers provided by the Hotel Institute to work at Crumbles:** Valuable, rare, but can be imitated and substituted. So this **cannot** be identified as a strategic capability of Crumbles.
4. **Innovation of the two chefs with new recipes for cakes, pastries and other foods:** Valuable, rare, cannot be imitated and it is non-substitutable. So this **can** be identified as a strategic capability of Crumbles.
5. **Linkages with foreign institutions:** Valuable and rare, yet can be substituted as other pastry shops might develop such links with other institutions. However, other firms might find it difficult to approach institutions similar to the one in the scenario. Further from a customer's perspective, they might not value such linkages, though it might improve quality and service and thus give them more satisfaction. So this **cannot** be identified as a strategic capability of Crumbles.
6. **Good reputation in the industry:** Valuable, rare, cannot be imitated, and it is non-substitutable. So this **can** be identified as a strategic capability of Crumbles.
7. **Owners having more than 15 years of experience in the industry:** Valuable, rare, not imitable and not substitutable. So this **can** be identified as a strategic capability of Crumbles.

(6 marks)

(b)

- **Benchmarking** – make comparisons with other competitors or other successful firms. This will help to decide whether the competency possessed matches or exceeds what other firms do and how to improve further as well.
- **Value chain analysis and value network analysis** – analyse the strengths and weaknesses in the value chain by looking at cost and price structures, and identify where profits are made. This helps to decide whether to ‘buy’ or ‘make’ and even who to have as strategic partners (e.g. who else can the two chefs approach to further enhance their business).
- **Strengths and weaknesses analysis** – this involves assessing the strengths and weaknesses of the organisation’s resources (human, physical, financial and so on).

(4 marks)

(Total: 10 marks)

Answer 02

Relevant Learning Outcome/s:

2.1 Supply chain management and competitive advantages

(a)

- **Responsiveness** – companies must be able to quickly respond to customers, and also have sufficient products to respond with. Gill should be able to identify what vegetables and fruits the customers seek, what their comments are, and then use this information to improve the operations in a prompt manner. This requires Gill to have responsive suppliers in the value chain.
- **Reliability** – reliability in terms of time, quality, and quantity. The vegetables have to be delivered on time and at the quality levels expected. Further, customers should not face a situation where the items they seek are not available.
- **Relationships** – maintain strong relationships of trust and mutual understanding, and develop a network based on collaboration and common interest with the suppliers of Gill.
- **Operational efficiencies** – these might include obtaining lower prices, higher quality products, minimising inventory holding.

(6 marks)

(b)

- **Reduce the number of suppliers** – suppliers who are neither reliable nor responsive can be dropped. Further, using a fewer number of reliable suppliers will help to reduce administrative costs of Gill. It could reduce the administrative costs of the buying department by allowing the use of shared IT systems with the suppliers.
- **Coordinate warehousing, sales and marketing** – this will ensure sufficient goods are held in the warehouse, especially if more demand is expected (e.g. during a marketing promotion or during seasons where certain fruits and vegetables have more demand).
- **Reduce the number of customers** – generally it is impossible to discourage the customers to purchase vegetables from supermarkets.
- **Supplier involvement in product development and component design** – supermarkets can improve the link between them and the farmers by purchasing directly from the farmers and providing technical advice on improving their harvests etc. At the same time, farmers can also introduce new products such as vegetables and fruits grown with carbonic fertilizers at a premium price.

(Any other suitable answers with justification)

(4 marks)

(Total: 10 marks)

Answer 03

Relevant Learning Outcome/s:

3.4 Project management

(a)

- **Project definition** – the need for the project is identified; in this case to diversify the business into the leisure sector. A project committee of senior managers is set up, which decides whether to proceed with the project or not. A small team is also appointed to investigate and prepare recommendations.
- **Outline project definition and cost benefit analysis** – outline the design of the project including an estimate of its costs and benefits. Costs of the project are identified to be Rs. 5 million and the company will get the benefits in the future by diversifying the business into the leisure sector.
- **Establish project team** – with individuals from different departments/functions. A project manager will be appointed.
- **Detailed project plan** – a detailed plan including objectives, budgets and expected completion date is prepared.
- **Undertaking the project** – at the end of the project, there is a testing phase before it becomes operational.
- **Implementation** – it now becomes the responsibility of the respective manager who handles the operation. The project team is disbanded.

(6 marks)

(b)

- **Outline planning** – outline the project design and its cost-benefit estimates.
- **Detailed planning** – including budgets, work breakdown structure, resource requirements.
- **Obtain necessary resources** – some resources might have to be obtained from outside the organisation if they are not available internally. Resource requirements that were unforeseen at the planning stage will have to be authorised separately by the project board.
- **Teambuilding** – build cohesion and team spirit in the project team.
- **Communication** – keep all the stakeholders of the project suitably informed and ensure that team members are also properly briefed. Manage expectations.
- **Coordinating project activities** – coordinate the team, suppliers, owners and end-users.
- **Monitoring and control** – monitor progress against the plan and take corrective action where needed.
- **Problem resolution** – handle unforeseen problems.
- **Quality control** – understand and manage quality procedures, agree and manage any appropriate trade-offs of functionality against achieving deadlines.

(4 marks)

(Total: 10 marks)

Answer 04

Relevant Learning Outcome/s:
5.5 Human resource development
5.6 Knowledge management

(a)

- **Job related training** – training courses cover a range of work-related topics that provide employees with the information and/or skills needed. It may be provided internally by the organisation (HR department or an architect/engineer of the firm) or externally (e.g. professional institute for architecture/engineering might provide short-term courses)
- **On-the-job training** – this involves training to do a job by showing the employee how to do it in a real working environment. The employee learns by carrying out the construction and designing of the building etc. with the other senior engineers and architects.
- **Apprenticeships** – employ young individuals as apprentices and provide them with training.
- **Formal coaching** – the new recruits can be assigned a senior architect or an engineer as a formal coach. Given that there are many experienced professionals at S&C (20), this form of training would be suitable. It will also help to develop the management skills of the new recruits.
- **Leadership training** – allow the new recruits to participate in leadership skills development courses and MBA programmes.
- **Cross-functional training** – individuals learn about work done in other departments.
- **Job rotation** – moving individuals regularly between jobs in the organisation.
- **High visibility assignment** – young engineers/architects will get the opportunity to meet top management

(5 marks)

(b)

1. **Knowledge creation** – individuals should work together to create knowledge with the assistance of IT systems if needed. Software such as CAD and CAM can be used to create knowledge in areas such as dimensional designing.
2. **Knowledge validation** – some knowledge might lose value or become obsolete over time. Knowledge should be tested to see if it is still valid. A continual process of monitoring, testing and refining the accumulated knowledge should be carried out.
3. **Knowledge presentation** – how knowledge is displayed. It could be presented in different ways. Such as flow charts, workshops, programmes for engineers and architects etc.
4. **Knowledge distribution** – encourage debate, discussion, and interpretation by individuals through sharing of ideas and bringing their own perspectives. Can be improved through the Intranet.
5. **Knowledge application** – making knowledge active and using it to create added value.

(5 marks)

(Total: 10 marks)

Answer 05

Relevant Learning Outcome/s:

7.3 Strategic purpose of an organization

(a)

- Strengths – operating for over 50 years, have an experienced management and highly skilled operations staff, new CEO who has led other large food and beverage manufacturing organisations.
- Weaknesses – staff resistance to change
- Opportunities – growth in the sugar-free food market
- Threats – other competitors are entering the sugar-free food market, investment is high

(5 marks)

(b)

Business level GOALS

- To be the leading food and beverage company in the country with the highest customer satisfaction.
- Enhance manufacturing quality.
- Diversify into the sugar-free market.
- Achieve the highest employee satisfaction.

(2 marks)

Business level OBJECTIVES (should be SMART)

- Increase production capacity of the plant by 20% during the year
- Achieve growth in sales by 50% during the year
- ar
- Reduce the number of customer complaints to below 5% every year
- Maintain employee turnover below 5% every year
- Start manufacturing sugar-free products during the next 6 months

(3 marks)

(Total: 10 marks)

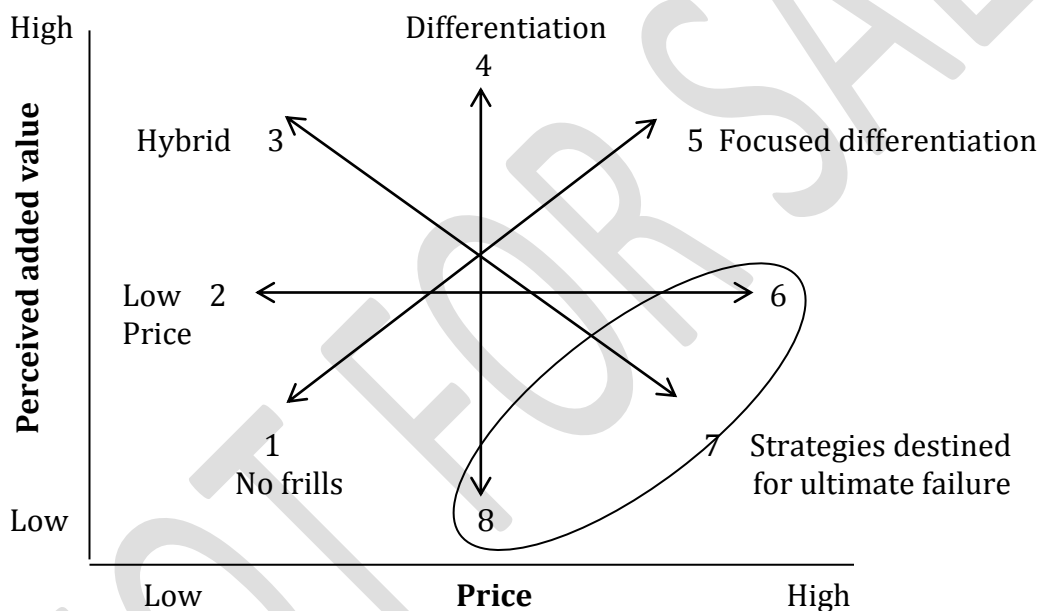
Answer 06

Relevant Learning Outcome/s:

7.3 – E-business
7.4 – Formulation of business-level strategy
5.3 – Talent attraction and retention

(a)

The Bowman's Strategy Clock is based on the view that in a competitive situation, rational customers will seek value for money in their purchases. Value for money is provided through the combination of price and perceived product/service benefits. Bowman's Strategy Clock identifies eight different strategies a firm can take in terms of price and adding value.



Strategic positions 1 and 2 will attract customers who are price conscious above all. In contrast, strategies 4 and 5 are relevant to consumers who require a customised product. Combinations 6, 7 and 8 on the Strategy Clock are likely to result in failure. Accordingly, the following competitive strategies are identified for existing and new product lines of Star Apparels.

Existing product line

The existing product line is produced in large volumes and sold in retail stores that are distributed widely, and the production manager is always under pressure to cut down the cost of production and offer better value for customers than the competitors. Therefore, the company appears to compete using a **cost leadership strategy**. In a cost leadership strategy, the company pursues a low price strategy that aims to offer better value than competitors. This is achieved for example through economies of scale, using the latest

technology, minimising overhead costs, relocation of operations to a cheaper location etc.. Here the perceived added value would not be too high and the price is low (“Low Price” strategy in the Strategy Clock).

New product line

The company targets to cater to high-end customers by offering customised products for them. These products will be produced using high quality raw materials. Hence the price would be high due to higher perceived value. This value could come for example through exclusive distribution outlets and brand names. Therefore the ideal strategy would be “focused differentiation” on the Strategy Clock. Under focused differentiation the company seeks a high price premium in return for a high degree of differentiation in a well-defined and probably quite restricted market segment. Therefore for the new product line, a focused differentiation strategy is ideal.

(b)

E-business is the automation of business processes through electronic means. E-business can be used by Star Apparels for:

- **Supply chain management**
Enable the systems to be linked, so that the companies can exchange information, which makes it easier to communicate with one another. Better information can lead to making supply chain operations more efficient. It might enable just-in-time (JIT) purchasing, easier scheduling of orders and even extend to communication between factories and retail stores.
- **Customer relationship management** – the retail outlets can establish communication with the main customers, and improve relations with them. This includes creating a webpage where customers can place orders, give feedback to Star Apparels etc.
- **Outsourcing** – make it possible to outsource some of the activities to external suppliers since all the information can now be exchanged on the Internet.
- **E-procurements** – Star Apparels could purchase the goods by electronic means such as electronic data interchange with major suppliers or purchasing through the Internet.

(6 marks)

(c) Star Apparels is a manufacturing company as well as a retail chain of business. By introducing an online business platform, the company could benefit as follows:

1. **Have direct contact with customers** – an online business enables Star Apparels to directly contact their customers without any intermediaries such as retail shops.
2. **Growth in business** – the company can increase its sales volumes by catering to unknown territories.

3. **Reduce the number of outlets and other administrative costs** – Star Apparels can reduce the number of outlets it maintains all over the world as well as reduce its sales staff. This would allow it to reduce administrative cost in a large scale.
4. **Easy to collect data about customers and their purchasing habits** – accordingly they can change the products to best fit with the customers.
5. **Speed of transactions** – the online business creates capacity to complete purchasing transactions within seconds.
6. **Quick response to customer inquiries and other requirements.**
7. **Virtual businesses** – no physical presence.

(7 marks)

(d)

- **Job enrichment** – make the job more challenging and fulfilling. Herzberg suggested that this would provide motivation for individuals.
- **Job enlargement** – add more responsibility to the job. However adding more tasks that are not challenging, will not be sufficient to motivate individuals to perform better.
- **Job rotation** – move individuals from one job to another within the organisation or department. Job rotation can reduce the monotony of performing non-challenging work, but will not provide motivation. So job rotation should be linked with challenging work.

(4 marks)

(Total: 25 marks)

Answer 07

Relevant Learning Outcome/s:

4 Value creation through marketing

(a)

LED TVs

The product life cycle attempts to understand the distinct stages in a product's sales history; from the introduction into the market, through the phases of growth, maturity and eventually decline. LED TVs are in the growth phase. They are experiencing double digit growth in 2016. The profit margins also seem to be reasonable.

Product: Products need to be differentiated as the market grows. They need to be developed for different segments of the market. For example, there could be different sizes of LED TVs with different features at different price points.

Price: If skimming prices are charged, demand will start to fall. Hence need to adopt a pricing strategy that would make Q Tel TVs competitive when compared to rivals. Higher price points could slowdown market growth.

Place: More distribution channels need to be adopted for the product. Q Tel can also see whether the product can be sold in markets outside their traditional markets and whether they can adopt new distribution channels like large retailers to carry their brand.

Promotion: Need to continue to spend heavily on advertising and promotions due to possible increases in competition. As the product gets more awareness, the campaign will have to change from creating awareness to persuading customers to buy.

(4 marks)

LCD TVs

LCD TVs are in the maturity stage. Profits are higher but the growth rates are lower.

Product: Need to try and extend the maturity phase by introducing new features and developing new and improved models. Protecting and exploiting the brand name would be important.

Price: Price competition will increase. This would force the company to lower prices. However as there are less capital investments and the business operates on a large scale, Q Tel should be able to lower costs to improve profits.

Place: Distribution channels at this stage are well established. Hence Q Tel should make the channels of distribution more efficient rather than developing new channels.

Promotion: Spending on advertising and promotion should be managed as part of the overall marketing mix.

(4 marks)

VCD players

These are in the decline stage. Both profits and growth have turned negative. However Q Tel may have to carry this product for some time as it could complement other products in the portfolio.

Product: Make improvements to the product and try to maintain sales and demand and extend the life cycle. Eventually Q Tel may have to take a call to exit the product from the market.

Price: Price competition will rise and costs may increase due to falling volumes. If Q Tel realises that they can no longer keep the product profitable, which seems to be the case, they will have to decide to exit the product from the market.

Place: The distribution channels could shrink as the retailers and agents become reluctant to carry slow moving products with lower margins. However if Q Tel decides to continue the product, they will have to maintain sufficient distribution channels to ensure it could reach the remaining customers in the market.

Promotion: Spending on advertising and promotion will have to be reduced as higher costs could make the product more unprofitable. They could adopt strategies like providing VCD players at a discounted price for TV buyers as a complementary product to induce customers to make a purchase.

(b)

The satellite TV connection marketing mix will be different from the marketing mix adopted for the other products as this entails a service unlike the product marketing mix used for the other products. The 4Ps are not sufficient in developing the marketing mix for services. When it comes to the service marketing mix, three more Ps are introduced → People, physical evidence and process.

People: Refer mainly to employees. Most services are delivered to customers by employees. Hence the physical interaction between the customer and the employee is greater in a service organisation. Employees therefore play an increasingly important role in helping to market the service. They have a direct effect on the value that the customer receives from the service. Hence when marketing the satellite connections, Q Tel has to provide additional emphasis on the skills and ability of its employees.

Physical evidence: Physical evidence refers to intangible aspects such as the look and feel of the organisation and its brand. Marketing can be enhanced by Q Tel through physical evidence using tactics such as uniforms of the employees who go to make the connections, appearance of service vehicles, letterheads used for the agreements and other paperwork. Since there is no physical product that is tangible, physical evidence enables the company to make the customers develop a feel about the quality of the service.

Process: Refers to the way the service is delivered using user-friendly systems for buying and selling. For example, the ease with which the customer could connect with the company's hotline, how fast the sales teams would respond to customer inquiries, how fast the after-sales teams would respond to customer queries and complaints. "Process" essentially covers the complete process of delivering a quality service from start to finish.

When applying the product marketing mix to services, product means the features of the services provided. Place in services refer to the place from which the service is provided as well as the place at which the service is received by the customer. In services, these two could be different places. In this case, the TV network will be provided from the satellite whereas the service delivery will be at the customer's residence. Price and promotion for services are very similar to that of products.

(7 marks)

(c)

Customer Relationship Management (CRM) is the establishment, development, maintenance and optimisation of long-term, mutually valuable relationships between consumers and organisations. CRM could help Q Tel in many ways to overcome the current issues they face in the market.

1. **Loyalty:** CRM could enhance customer loyalty and prevent customers from moving to competitors or discontinuing the use of services.
2. **Word of mouth promotion:** With good CRM, the existing customers would promote the Q Tel brand with other potential customers in their peer groups.
3. **Cost:** It is cheaper to retain existing customers than to attract new customers. The cost of promotion and initial low prices could deteriorate profit margins.
4. **Revenue and profits:** In mature markets, existing customers provide the most likely source of future revenue and earnings.
5. **Extending the product range:** If existing customers are retained, the company will have a higher chance of introducing new products and services to the existing customers. They are more prone to make purchase decisions on new products than new customers.

(Total: 25 marks)



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