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THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA

SUGGESTED SOLUTIONS

KB5 – Business Value Creation

June 2018

SECTION 1

Answer 01

(a)

Relevant Learning Outcome/s: 1.2 Value creation process

Study text reference : Page 7-8

Primary activities are activities directly involved in the manufacture of goods or provision of services to customers, sales and marketing, delivery of goods to customers, after-sales services and support.

- **Inbound Logistics** - Receiving materials (fruits and vegetables) from suppliers, handling and storing them, and distributing them to production departments; in this case kitchen (inventory control). Keeping the freshness of these highly perishable ingredients is of utmost importance in this case. Also, the amount of inventory would be comparatively lower due to the perishable nature of products. The Green can add value to its customers by providing food of superior quality for which receiving fruits and vegetables of superior quality and in good condition matters to a great extent.
- **Operations** - Manufacturing operations cover the conversion of raw materials into the final product, inspection and testing of the finished goods. This is where cooking and preparation process will occur. The freshness, taste as well as presentation of food should reflect the highest standards with attention to quality.
- **Outbound Logistics** – covers storing of the finished products and distributing them to customers. Since the restaurant is not supplying ‘take away’ foods, this function would be limited to delivering the cooked or prepared meals to the customers who are dining at the restaurant which is also integrated to the service element.
- **Marketing and Sales** – refers to informing customers about the products and persuading them to buy (through advertising, sales promotions, direct selling, attractive pricing, and so on). The Green is already using a farm-to-table promotional theme and they need to communicate their new menus and food options to their customers through advertising as well as through personal selling by their front-line employees. The menu cards as well as price lists can be used as promotional items and the restaurant should pay attention to interior decoration and ambience of the restaurant.
- **Service** – refers to service to customers after delivery of goods. Improve the quality of the service, so that customers enjoy their meals and are more likely to return to the restaurant in future as well. The Green selects the best employees in order to maintain excellent customer service in their restaurants.

(b) **Recognise** the importance of ‘procurement’ as a support activity in adding value to the primary activities of the restaurant’s value chain. (04 Marks)

Procurement is concerned with acquiring (procuring/purchasing) all of the goods (including materials) and services that is vital to an organization from their selected suppliers. Procurement provides support to primary activities by arranging materials and services which are necessary for primary operations.

- In the above case study 'The Green' is a restaurant which is famous for using fresh produce. Further, their promotional theme revolves around a 'farm-to-table' concept which explicitly communicates about fresh ingredients used in the restaurant. This makes it highly viable to obtain the materials, in this case mainly vegetables and fruits, as and when they are required.
- Also vegetables and fruits are highly perishable which again conveys that the products should reach the restaurant when they are yet fresh, in time for meal preparation. Further, large stocks for future use cannot be kept for a long time. In addition, careful transportation is crucial to keep the produce in good condition. This highlights the contribution of Procurement to 'The Green' in terms of getting the materials in the desired quantity and quality specification.
- In order to earn a profit at the restaurants, sourcing quality products at the lowest price is key. Procurement should also support the primary activities through obtaining the materials at an economical price.

(Total: 10 marks)

Answer 02

Relevant Learning Outcome/s: 2.4 Supply chain information systems

Study text reference: Page 54

(a)

- The Internet can be used by Shine Apparels to locate suppliers for products, and to place orders on-line which can increase their efficiency. The on-line purchasing facility can add value to Shine Apparels by helping them locate items that are needed and obtain the best price from the suppliers who are carrying identical items. This would lead to cost minimization.
- Intranet would facilitate purchasing from external suppliers by connecting company employees to the Internet. Also through intranet, employees of Shine Apparels can place orders internally–e.g. production department can place electronic orders to the purchasing/procurement department.
- External suppliers can link Shine Apparels intranet via internet which would allow them to monitor the production schedules of the company and thereby anticipate future orders.

Relevant Learning Outcome/s: 2.4 Supply chain information systems

Study text reference: Page 56-58

(b) **Analyze** four (04) key benefits of e-procurement for Shine Apparels in facing future challenges of the organization through the supply chain information system. (06 Marks)

E-procurement uses the internet and other information and networking systems (including EDI) to purchase supplies and services for the organization.

The key benefits of e-procurement for Shine Apparels are as follows:

- **Cost Reduction** - Shine Apparels would be able to achieve process efficiencies throughout the organization leading to a reduction of the actual cost of goods and services and purchasing overheads.

- Reduced Inventory Levels - E-procurement would make the material orders cheaper to place and process, leading to frequent orders being placed. This enables Shine Apparels to hold lower levels of inventory.
- Control – With e-procurement the inventory can be controlled more effectively. It would also enable the company to maintain greater financial transparency and accountability over the procurement process which would lead to greater control.
- Wider Choice of Suppliers – E-sourcing would enable the company to use the electronic method to find and contact new suppliers who provide quality supplies at lower cost from all over the world.
- Quick Ordering – E-purchasing would allow the company to select standard items from e-catalogues and automatically place e-purchase orders to various suppliers.
- Intangible benefits would be achieved through greater financial transparency and accountability and also through employees being able to concentrate on their primary functions without delays in the procurement process.

(Total: 10 marks)

Answer 03

Relevant Learning Outcome/s: 3.2 Product design and process selection (new product development), Lean manufacturing

Study pack reference: Page 78

(a)

- ‘Eksath Holdings’ is using Batch Production Method in their production department. The case specifies that “when an order comes from a local/foreign client, each division gets together to produce identical items in order to meet the specified quantity” which highlights that it is a Batch Production Method.
- The Batch Production Method produces a quantity or a batch of items, where every item in the batch is identical.

(b) **Discuss** the stages in the new product development process that the company will be following when introducing the new products to the local market.

Relevant Learning Outcome/s: 3.2 Product design and process selection (new product development), Lean manufacturing

Study pack reference: Page 75-77

- Idea Generation – At the moment the R&D team has come up with the idea of introducing the products related to Interior Decorations. Under this category, the ideas on which products to be developed can come from different parts of the organization, including marketing and sales.
- Idea Screening – The viability of the idea will be screened at this level where the target market and customers, potential size and growth potential of the market, feasibility of manufacturing, profit potential, the existing market and its size and the current trends would be analyzed.
- Concept Development and Testing – The product concept would be developed and would be tested with a small group of prospective customers to explore their reactions. Here, the product value to customer, cost, etc. would be calculated.
- Business Analysis – A financial analysis would be carried out to determine the potential returns. The pricing methods will be determined and the sales volume, revenue, profitability and break-even would be estimated.

- Beta Testing and Market Testing – Early models of interior décor products would be tested with a test group of customers to gather feedback (Beta Testing) which would then lead into selling the real product in a selected test market (Market Testing).
- Technical Implementation - production and logistical arrangements for distributing the Interior décor products locally would be planned and established.
- Market Launch – Based on the plans a market launch would be carried out with marketing campaigns.
- Post-Launch Review – A review of the products including the selling price would be carried out and necessary adjustments are made.

(Total: 10 marks)

Answer 04

Relevant Learning Outcome/s: 4.3 Managing products and brands

Study text reference: Page 132 – 133

- (a) In order to protect the already established brand i.e. Perline, the following factors are vital.
1. The company should make sure that all new products added to the branded product line meet the same quality standards as the existing branded products. In this case, adding a lower quality product line under the same brand name can deteriorate the Perline brand.
 2. Perline brand should be further promoted to maintain its image for quality in the minds of potential customers.
 3. If another company tries to imitate the Perline brand (me too products), and introduce low quality products, the company should take legal actions to protect the brand.

(b)

Relevant Learning Outcome/s: 4.3 Managing products and brands

Study text reference: Page 133 – 134

The followings can be taken as requirements for successful brand positioning;

- **Relevance** – The new brand which would be introduced by K&S Holdings should be positioned in a way that it both meets the lower-end target consumers' needs and is positioned in a way that is meaningful to customers.
- **Clarity** – 'Meaning' of the brand should be distinct and should be able to easily communicate to all the potential customers. It should also be easily to understandable for consumers.
- **Coherence** - The same image of the new brand should be promoted consistently through the marketing mix – since it's a medium quality product targeted to the lower-end, it should be priced accordingly and be distributed extensively.
- **Patience** - The understanding that it can take time to establish this brand within the given target market.

(Total: 10 marks)

Answer 05

Relevant Learning Outcome/s: 6.3 E-business

Study pack reference: Page 284

(a)

- Here, Alpha Stationery (Private) Limited is planning to use its website to set up an online stationery purchasing option for its customers which would qualify them to use a **Merchant Model**.
- In the Merchant Model, companies use internet to sell their goods, customers order the item/s online and pay online as well. This is the best B2C model for e-commerce that the company can use since they have to distribute the physical products to the buyer's location.

(b)

Relevant Learning Outcome/s: 6.3 E-business

Study pack reference: Page 285-286

There are several issues Alpha Stationery (Private) Limited should consider before starting their e-commerce operations.

- Value Proposition – “How will the e-commerce arrangement of the company provide value to customers? Alpha can use e-commerce to speed up its operations?” These are some of the questions to be answered. Consumers are not required to visit physical outlets to buy products and they can easily order the products online.
- Revenue – How will the business generate revenue for the company? The methodology of generating revenue through the business - Alpha has their own outlets in selected urban cities. From this online business they can reach to out to rural areas and tap the untapped markets as well.
- Market Opportunity – The company should consider, the Market, its segmentation, potential size and existing commercial opportunities. They can expand the business to selling books and all other school items easily with their online business, where they do not need extra spaces or physical locations. This will help them to reduce the prices of the products, and this in turn will reduce most of the administrative expenses of the company.
- Competitive Environment – How many competitors are currently operating with similar business models? Alpha needs to consider its rivals which provide the same items. Since most of the products are homogeneous, pricing should be done carefully. If not demand can be reduced.
- Competitive Advantage – What can Alpha Stationery (Private) Limited offer to its customers that competitors cannot? Here according to the given scenario Alpha should try to reduce the price to gain a competitive advantage.
- Market Strategy – How does the company intend on entering the market and attracting customers?
- Organization of Operations – What are the changes necessary for operational procedures and how would the work be organized within the firm to deliver the books and stationaries on time to customers?
- Management Team – refers to who will be responsible for managing the operations?

(Total: 10 marks)

SECTION 2

Answer 06

Relevant Learning Outcome/s 5.2/5.5/5.3/5.6
Study pack reference : Page 184/185/ 191/198/186/238

(a)

- A forecast requirement for workforce should be carried out at the organisation. This should be carefully looked at for the number of employees required in each year for few years (e.g.-05 years). The Forecast should allow for expected changes in the business, considering the different project they plan for the future.
- Forecast should estimate the employees for different categories (i.e. mainly for software developers, project managers, consultants etc.) This would enable the firm to obtain a clear picture of the gap and the difference between different categories of employees.
- Forecast should keep room for retirements and resignations methodology succession plan, while giving special attention to promotions as the company policy is to retain the employees for a long time (return). Promotions as well as transfers, would help to fill the gaps identified in the previous stage.
- The difference between numbers required and numbers available should be identified as the recruitment gap. If it cannot be filled through promotions, i.e. internal recruitment and external recruitments should be carried out.
- Proper re-training programs for employees after evaluation of the effectiveness of the initial training.
- HR plan of the company should be reviewed regularly and updated.

(b)

- **Scope** – an interview is too brief to get to know candidates in the kind of depth required to make an accurate prediction/understanding of their work performance.
- **Artificial situation** – candidates may be on their best behaviour and not show their true personality. Alternatively, they may be so nervous that they do not do themselves justice.
- **The Halo effect** – there may be a tendency for the interviewers to make an initial general judgment about a person based on a single obvious attribute, such as being neatly dressed or well-spoken.
- **Contagious bias** – the interviewer may change the behaviour of the applicant by unintended suggestion. The applicant might be led by the wording of questions, or non-verbal cues from the interviewer, to change what they are doing or saying in response.
- **Incorrect assessment** – qualitative factors such as motivation, honesty or integrity are very difficult to define and assess objectively in an interview.
- **Inexperienced interviewers** – if interviewers lack experience in selection interviews, they may fail to reach a good decision about which applicant to select.

(c) **Recruitment agencies** – external recruitment agencies may specialize in finding applicants for particular types of jobs.

Internet – many organizations advertise their job vacancies online, sometimes on their own websites.

Academic & Professional Institutes - these institutes may advertise and recruit persons on the requests made by different companies.

(d)

- **Sourcing talents** – HR plan should include activities to recruit and select talented software engineers by properly designing their job description and person specification. Involvement of competent persons in the short listing of job applications and interview panels need to be decided accordingly due to the issues faced by Ms. Celebro.
- **Alignment and engagement** – cerebro should then educate the new recruits about the objectives of the organization and the job role, so that they understand what is expected from them. It also includes the process of accepting new recruits into the organization and making them feel welcome and valued.
- **Learning and development** – talented individuals should be given suitable training and helped to develop areas that need improvement.
- **Retain** – talent should be retained by means of reward, promotion or other forms recognition.

(e) A function of knowledge management is to identify and capture knowledge for the organisation to use and to share this knowledge. While managing this explicit knowledge, the following steps are important.

- **Discover or identify the knowledge** – the management should first identify what knowledge is there in order to use and record it.
- **Capture the knowledge** – They have to make the knowledge explicit by recording it – they can record the best practices which are unique to the organization.
- **Share the knowledge** - Make the knowledge available to people who can use it. Since the company is planning on conducting a training at this juncture, it can be used as a knowledge sharing platform.
- **Distribute the knowledge** – To make the knowledge available, IT systems can be used to distribute it – for example they can record the best practices for the use of employees and distribute it to the personnel who need it through IT systems as training material.
- **Use the knowledge** - An organization should encourage its managers (and others) to use the explicit knowledge when developing software.
- **Maintain the knowledge** - Accumulating explicit knowledge is a continual process. Knowledge must be kept up-to-date. If it becomes out-of-date, it ceases to be reliable.

(Total: 25 marks)

Answer 07

Relevant Learning Outcome/s: 7.4 Formulation of business level strategy

Study pack reference: Page 338 - 341

- (a) There are three generic strategies introduced by Porter: Cost Leadership, Differentiation and Focus. The company should select one of these strategies as a way of competing in its markets.
- Cost leadership strategy seeks to achieve the position of lowest-cost producer in the industry as a whole.
 - Differentiation strategy mainly focuses on differentiating the product and making it more attractive to the market than the rivals products. The industry as a whole believes the product to be unique.
 - Focus strategy is a generic strategy that focuses on being cost leader or achieving product differentiation in a particular targeted segment or niche of the market.

According to the given case, Silicon is focused on the creation of factors that make a product different, in this case high quality and so more attractive than rival products.

The company is aiming to produce a unique product than the industry rivals by negotiating with a leading international cosmetic producer and the research and development team of the company. Further, they have persuaded customers in the market to buy the company's products because of its distinctive characteristics which add value to customers.

They will charge higher price for its products than competitors charge for theirs which can be applied in this case as the company is going to introduce high quality products than the existing products in the market. This can allow the company to earn higher margins than its rivals.

Due to this the best Generic Strategy to be applied in this scenario would be Differentiation Strategy specially to move away from the existing competitors.

Silicon (Pvt) Ltd under cost leadership may not attempt to produce quality products and under Niche strategy it focuses on small market. However, the case illustrates that the company is going to first enter into the high end market and eventually move into the low end market and they are concentrating on introducing quality products at both markets.

Relevant Learning Outcome/s: 7.6

Study pack reference: Page 362-364

- (b) Using SAF Assessment, **evaluate** the 'Feasibility' factors that the company should consider before implementing the crafted strategies.

The potential success of the proposed strategies can be assessed according to three factors: their suitability, acceptability and feasibility. For a strategy to be feasible it must be practical and capable of implementation.

Feasibility - Factors to Consider;

- Money - Does the organization have the cash/finance to pay for the strategy? – As a leading consumer goods manufacturer and distributor, the company does have financial backing for the required investment but still needs to be analyze it.
- Resources - Does the organization have the resources to implement the strategy: technology, equipment, skilled staff, materials and so on? - As a leading consumer goods manufacturer and distributor, the company does have the resource platform and has already tied up with an international cosmetic producer to manufacture the products. This shows the resources capability.
- Ability - Does the organization have the ability – skills, experience, and competence – to implement the strategy successfully? - Company being a leading firm in Sri Lanka as a consumer goods manufacturer and distributor, the ability to enter the cosmetic market should be evaluated. Also the probable distribution network to reach the customers should be carefully checked.
- Competitor Response - Will the organization be able to deal with any response to the strategy by major competitors? – The competitors will retaliate to the new market entrance of the leading consumer goods manufacturer and distributor. The company should carefully evaluate the feasibility of facing this competition.
- Time - Will there be enough time to implement the strategy? The time factor on meeting the objectives and goals should be carefully evaluated. And accordingly, the strategies should be implemented at the correct time to reach the objectives.

Relevant Learning Outcome/s: 4.4 Formulation of business level strategy

Study pack reference: Page 135-136

- (c) **Analyze** the best demand based pricing strategy the SBU should consider when deciding the pricing for the new products to be introduced to the up-market.

Demand-based pricing strategies recognise the relationship between price and demand, and the selected price is one that seeks to achieve an optimum balance between them – possibly a profit-maximising price. Since, it's a new product in the market, there are two pricing strategies to be considered. i.e.: A market skimming strategy and a market penetration strategy.

- **A market penetration strategy**– this is to set the price of the new product low, so that a large number of customers will buy it, thereby it will create a large market for the new product quickly.
- **A market skimming strategy** – the strategy is to charge a very high price for a new product.

According to the given scenario, **the price skimming strategy** is the best strategy to use in with the products targeted to the up-market since they are following the **differentiation strategy** and is introducing a high quality product. **Also, since the company has identified this market as a blue ocean, we have to assume that the number of competitors in the market is nil/low.**

This strategy is to charge a very high price for a new product. Only a few customers may buy it, but until competitors introduce rival products to the new market, customers have to pay the high price. Although sales volumes will be low, unit profit margins should be high.

The **market penetration pricing strategy** will not be suitable to enter into this market. Setting the price of the new product low, to attract a large number of customers will not be suitable for the up-market with the product investments and it could affect the quality perception

Relevant Learning Outcome/s: 4.5 Formulation of business level strategy

Study pack reference: Page 140

- (d) **Recommend** suitable distribution strategies that SBU can use to distribute the product to the end consumers.

In this case, we have two target customer groups where two product ranges will be introduced.

1. Up-end market – Can use either **Selective distribution or Exclusive distribution**.
 - **Selective Distribution** - The manufacturer uses a limited number of intermediaries to distribute the cosmetic range and selling them to the high-end customers.
 - **Exclusive Distribution Strategy** – Here, the manufacturer gives exclusive distribution and selling rights of the new cosmetic range to one selected organization, within a specified geographical area. No one else in the area is allowed to sell the manufacturer's goods. Exclusive distribution is intended to enhance the perceived quality and status of the goods that are being sold.
2. Lower-end market – Can use **Extensive (Intensive) distribution**
 - As the product is targeted to the lower-end market, the manufacturer can sell its goods through as many retailers as possible, in order to obtain 'saturation coverage' of the market. Under this method of distribution, it is necessary to use a large number of wholesalers and retailers; otherwise the costs of distribution may become excessive.

(Total: 25 marks)



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