

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD
A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL THREE

BUSINESS POLICY AND STRATEGY - PAPER 14

WEDNESDAY, 16 JUNE 2010

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 15 minutes**.
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
2. Section **A** has **one** compulsory question carrying 50 marks.
3. Section **B** has **three** questions and only **two** questions are to be attempted. Each question carries 25 marks.
4. Please, read further instructions on the answer book.

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SECTION A

Question 1

Maya Plastics Ltd is a medium-sized company that manufactures plastic products. The company is owned by two Kenyans who have been reported to have several other business interests in East Africa, with links to a European plastics giant. Established in the early 1990's, the company has concentrated on the production of plastic jerry cans as the only product. Most of the jerry cans are sold to big companies that use them for packaging their products. Notable among their key customers are Friends Oil Manufacturers Ltd, as well as Waxy Detergents Ltd. According to the sales manager at Maya Plastics Ltd, about 55% of its current output is sold to the two major customers named above.

Maya Plastics Ltd came into existence after the owners decided to start up a local plastic products manufacturing facility. Prior to this, they used to import the jerry cans from Kenya, and supply them to the Ugandan market through a wholesale store in Kikuubo. Setting up Maya Plastics Ltd, therefore, circumvented import barriers and took advantage of the cheap labour in Uganda. Wages and salaries are significantly lower in Uganda than in Kenya. Ugandan manufacturers also enjoy lower power tariffs than their counterparts in Kenya. The low power tariffs are part of the buy Ugandan campaign that the Ministry of Trade and Industry launched a few years ago. The government is also trying to protect Ugandan companies as much as possible, and to save as much foreign exchange as it possibly can.

The owners of Maya Plastics Ltd also wanted to gain more knowledge of the Ugandan market. Therefore their success in this venture would later on pave way for increased diversification as more related businesses were set up here.

By the late 1990s, however, Maya Plastics Ltd had broken its ties with the European based plastics company. It was felt that the existing contractual relationship only favoured the European giant. Without the technical support from Euro Plastics, Maya Plastics Ltd was now in a weak position. It had no access to the changing technology, or even technical support for its heavy duty production plant.

Things got worse as the local market attracted new players. Following the discovery of oil in western Uganda, several plastics manufacturers have expressed interest in the Ugandan market, and at least three had already secured licences to set up business in Uganda.

The Ugandan market, though profitable, was becoming saturated and any further penetration would be difficult to achieve.

Maya Plastics Ltd's major customers were seen to be brand loyal as the company provided a good quality product, which fitted well with the technical designs of customers' packaging machinery. Switching costs therefore, were considered to be high.

This, however, did not stop Maya Plastics Ltd from exploring market opportunities. The sales manager had decided that they establish a wholesale outlet in eastern Congo and southern Sudan. His justification was that since the wars had now ended, Congo and Sudan were potential markets. It was, however, going to be a big challenge since the brand name was relatively unknown in these markets. With poor infrastructure, limited media coverage and very low incomes in the target areas, some of the junior staff doubted the rationale of "rushing into Congo". Nevertheless, efforts were made to sell abroad and substantial sums of money were invested in product development, but hardly did the company carry out any market research.

The new products were comparable in quality to other suppliers' products and were cheaper. Maya Plastics Ltd believed that this price competitiveness would compensate for a low expenditure on promotion and distribution. The managing director was quoted as saying ... *"at these prices the products will sell themselves!"* Outlets were opened in Congo, Sudan and Rwanda, but the sales were very low and the company struggled to make inroads into the markets. Even by the early 2000's the company's exports accounted for just over 10% of its total sales. To make matters worse, increased competition was eroding its domestic market share.

Maya Plastics Ltd's management still believed that the future for the company was in foreign markets. The domestic market was too small to rely on. Any future growth would have to be achieved through exportation and fortunately the prospects for regional trade looked good.

The majority shareholder in the company, with over 50% shareholding, has been disappointed with the progress being made, despite dividends being maintained throughout these troubled years, and has asked you as management consultant to review the current position.

Your preliminary report presented to management included the following.

1. The organization has a strong production orientation with no marketing representation at board level.
2. Management has no systems in place to anticipate problems.
3. There is little evidence of market research or product planning.

4. Key operational difficulties include ageing machinery, a narrow range of products, an inability to develop or exploit a brand name, an inadequate range of distribution channels and absence of marketing research.

Having scrutinized your report in an emergency meeting, management has decided to take immediate action. They have decided to:

- increase the variety and sizes for all products produced; jerry cans, plastic cups, plates, plastic baskets etc. It is hoped that this will address concerns of product planning, and that they will be able to appeal to different markets.
- produce brochures emphasising the quality attributes of the products. The brochures would be sent to all existing and potential customers. The sales director called it direct marketing.
- increase prices so that they can get higher margins.

Senior management are, however, still not sure as to how to improve on the distribution channels.

The majority shareholder has now asked you to review the company's current situation, as well as the subsequent action that management is planning to take in order to sort out the problems.

Required:

Assuming the role of the management consultant:

- (a) Using an appropriate strategic model, comment on the present position at Maya Plastics Ltd. Consideration should be paid to the strengths, weaknesses, opportunities and threats, as well as the existing proposals for improvement.
(25 marks)
- (b) Evaluate how the introduction of strategic management would help Maya Plastics Ltd improve its performance.
(10 marks)
- (c) Discuss how Maya Plastics Ltd can successfully achieve cost leadership.
(10 marks)
- (d) With reference to Maya Plastics Ltd, distinguish between production orientation and the marketing orientation.
(5 marks)

(Total 50 marks)

Question 2

Richard Kirumira is the marketing manager of the Uganda Paper Products Ltd, a wholly owned subsidiary of the Mulan Group of Companies. Mulan is a group of companies with business interests ranging from timber, publication of books to paper products such as exercise books, computer paper and copier paper.

The company has concentrated on producing for the Ugandan market, with emphasis on fast moving consumer products like exercise books, newsprint and packaging material. Lately, however, the Ugandan market has become very hostile. There is increased competition from new entrants, while at the same time the market has been flooded with Chinese products. It is interesting to note that the Chinese products are cheaper despite the import duty. This is attributed to the fact that production costs are lower in China. The company has also recently been in the media over allegations of irresponsible deforestation which has adverse effects on the environment.

Richard Kirumira believes that the potential for growth in Uganda is limited, and that the current level of sales is seriously threatened. He is convinced that the company must look to other African markets for survival. However, the company has no experience in doing business outside Uganda.

You have been approached as a marketing research consultant for guidance.

Required:

- (a) Prepare a brief report to Richard Kirumira highlighting the key areas of information that would be of importance prior to deciding which markets should be focused upon.
(12 marks)
- (b) Recommend a methodology for collecting the required information by Uganda Paper Products Ltd which has, up to now, had little experience in market research.
(13 marks)

(Total 25 marks)

Question 3

Rotem Uganda was a large supermarket specializing in a broad range of consumer products. Most of the items were imported from South Africa, Europe and Asia, while a few items were bought from local manufacturers. In its initial years of operation, the supermarket focused on a particular niche in the market; the high class, and this was even reflected in the pricing structure. All its customers needed membership cards before they could shop at Rotem. The company, being pioneers in the industry, shopping at Rotem was a source of pride. It is alleged that the company reached break even point in a record $1\frac{1}{2}$ years!

Over the years, however, other big supermarkets opened doors to the public. Their approach was simple ... “walk in any time and shop till you drop” This led to a revolution in the supermarket industry as the middle class swarmed into the new big stores. Eventually, there was no more pride in holding a Rotem Uganda card. Even the high class shoppers realized that Rotem Uganda was not different from the new stores. Its market share was significantly eaten into by the new players. Ironically, Rotem Uganda management did not seem to take any action until things went out of hand. By the end of 2006, the average customer numbers in the store at any time was 15. Sales revenue took a nose dive and soon the company was in debt. Unfortunately for Rotem Uganda, the debts were so huge that it was forced into receivership and eventual liquidation. Rotem Uganda had initiated a number of strategies over the last few years of its operations in order to minimise their problems. These strategies varied from use of sales promotions to attempts at having closer collaborative agreements with major suppliers. The store also tried to increase the number of outlets in residential areas around Kampala (under their campaign of Rotem Uganda next to your home). None of these worked!

Required:

- (a) Distinguish between market positioning and market targeting. (5 marks)
 - (b) Discuss the factors that contributed to Rotem’s failure. (12 marks)
 - (c) Identify the key issues that have to be considered before a strategy can be successfully implemented. (8 marks)
- (Total 25 marks)**

Question 4

Madasi Makwasi recently joined Safari Tours Uganda Ltd as chief executive officer. Safari Tours Uganda Ltd is a small company that deals in travel focusing on the mass and cheaper end of the market. Their revenues have grown at an annual rate of 10% over the past five years but profits have not risen at the same rate. Price has been the company's main competitive tool with the "bottom line" being the other main concern. With all focus on the bottom line, little attention has been given to customer care. In the past two years alone, customer complaints have risen to a record high with over 25% of the customers registering complaints regarding delays in their flights and shuttle pick-ups from the airport. This has attracted negative media coverage. As a result, general business inquiries fell by 35% in the past year. Madasi is convinced that it was wrong for the company to focus on profits only and that the practice was not sustainable at all. He believes that if you do not get the service right then the profits will inevitably suffer.

You have now been engaged to advise Madasi on how to improve the situation. He is particularly interested in performance measurement at Safari Tours Uganda Ltd.

Required:

- (a) Guided by the balanced score card, assess the performance indicators which are particularly relevant for Safari Tours Uganda Ltd. **(12 marks)**
- (b) Identify and discuss the critical success factors required of a company operating in this market segment. **(13 marks)**

(Total 25 marks)