

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL FOUR

INTEGRATION OF KNOWLEDGE - PAPER 16

COMPREHENSIVE CASE STUDY QUESTIONS

AFTERNOON SESSION MATERIAL

TUESDAY, 08 DECEMBER 2010

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 30 minutes**.
12.30 p.m. – 4.00 p.m. (3 hours 30 minutes).
2. The following pages contain a compulsory case study question carrying 100 marks.
3. The completed answers and any working papers, clearly labeled working papers must be handed in at the end of the afternoon session. Where working papers form part of your answer, ensure that they are appropriately cross referenced.
4. It is in your interest that you hand in all written materials prepared during the examination.

Mr Wallas Wallace has now approached you after recommendation by your former CPA classmate (Brian Musoke), and he needs your objective input on a number issues. He has also retrieved some newspaper articles which his finance manager had cited during a recent management meeting. These articles have been reproduced in appendices 3 and 4, just in case you need to refer to them. The following are the issues on which your input is needed.

Section A: General Management

- A1. How to improve performance management at KBUL
- A2. Benefits and challenges of implementing a matrix organisation structure at KBUL
- A3. How the resistance to change might have been averted at KBUL
- A4. Potential improvements in the value creation process at KBUL
- A5. The management styles prevalent at KBUL

Section B: Finance and Corporate Governance

- B1. The financial performance and financial position of KBUL
- B2. The performance of KBUL's products
- B3. Considerations prior to introduction of new products
- B4. The Legal risks that the company faces.
- B5. Corporate Governance challenges at KBUL
- B6. The succession debate at KBUL

Section C: General Economic Issues

- C1. Assessment of competition in the industry.
- C2. Opportunities that may be presented by the EAC Common Market.
- C3. Benefits and limitations of privatisation.

Required:

Taking the role of the management consultant, prepare a report advising Mr Wallas Wallace on the above matters.

Appendix 3: Information about competitors.

(i) CBC sets new turf for bottled water race

Century Bottling Company (CBC), the makers of Coca-Cola have returned their Dasani bottled mineral water onto the market setting the stage for tough competition within the industry. The product's return follows the completion of a Shs 30 billion (\$15 million) water, soda and fruit juice plant at the company's Namanve plant in Mukono district this year. Dasani was returned on the Ugandan market shelves for the second time on Thursday, two years after it hit the market.

"Dasani was withdrawn from the market because, it was not making economic sense," Maggie Kigozi the brand manager CBC East and Central Africa told journalists in Mukono. Initially, the bottled water was imported from Kenya then sold to Ugandan consumers according to Ms Kigozi. "Now we are going to drink water made in Uganda."

The importation of the product from Kenya meant that the company had to incur import taxes and high transportation costs to sell the water locally. But with the new factory, the company will cut back on costs to favourably compete with other bottled water producers.

Shortage elimination

Mr. Moses Mbubi Witta, the CBC human resource manager said the plant will boost the Dasani supply chain by eliminating shortages that were previously faced when the company imported the product. In the same business are companies like; Rwenzori which was recently acquired by South African Breweries (SAB Millers), Crown Beverages with Peak mineral water, Wavah Water and Aqua Sipi among others. To secure a share of the competitive market, CBC is positioning Dasani as a "premium brand" charging Shs 600 for each 500 ml bottle compared to the Shs 500 that is charged by competitors for the same quantity.

"A lot of technology and resources have gone into this product," Ms Kigozi said to justify the price.

Source: Monitor Newspaper Monday, May 24th 2010, article by Walter Wafula

(ii) Coca-Cola turns the heat on Uganda Breweries Limited (UBL) with Novida

Coca-Cola has unveiled Novida, a new light malt non-alcoholic drink in Uganda in what might be seen as an attempt to fight off the entry of UBL into the soft drinks market last year.

Novida - a Portuguese word meaning 'new life' - like UBL's Alvaro, comes in fruit flavours including; pineapple and orange and is also bottled in 300 milliliter bottles. But the drink retails at Shs 700 a bottle just Shs 204 less than Alvaro, which goes for Shs 904 per bottle.

Speaking to the media at the official launch of the product in Kampala, Ms Maggie Kigozi, the marketing manager of Coca-Cola East and Central Africa, said Novida targets trendy youths. "It is primarily targeted at young adults who constitute the bulk of enthusiasts of non-alcoholic malt-based drinks," Ms Kigozi told journalists on Monday. "Although we want to make a bit of money, we are responding to consumer choice."

Coca-Cola has put up a war-chest of at least Shs 2 billion (\$ 1 million), to position Novida in Uganda, according to Mr. David Karamagi, the operations marketing manager of Coca-Cola East and Central Africa.

The launch of Novida in Uganda is part of Coca-Cola's strategic move to meet the changing consumer demands and taste preferences. The same brand was launched in Kenya in 2008 and is said to be meeting the company's objectives.

The drink will be unveiled in all the company's East and Central Africa markets.

Source: Monitor Newspaper, January 20 2010. Article by By Walter Wafula

Appendix 4: Industry Information.

Alvaro, Novida carve new niche market

Just two years ago, no one would have imagined a beer brewer and a soda maker fighting for the same market. East African Breweries Ltd's (EABL) wide variety of alcoholic beverages would rarely be spotted in the same vicinity as Coca-Cola's similarly broad range of soft drinks.

Each company had its own consumer base and even consumption hours differed. But things changed in April 2008 when EABL introduced Alvaro, creating new tension in the soft drinks market.

At first, the non-alcoholic malt-based drink seemed to rival Coca-Cola's soft drinks that had dominated the market for decades. Alvaro's popularity as the drink of choice for adult non-alcohol drinkers did not last long.

Only about six months down the line, in November 2008, Coca-Cola launched a rival, Novida, which many brand experts believed was a fighter brand. Yet, it has been a constant and not-so-modest battle since then.

"The entry of a competing brand had a positive impact," says Group Strategy Manager at EABL George Karanja "It helped in the acceptance of our brand, which had previously been a topic of extensive debate going all the way to Parliament with claims that it had been tainted with alcohol."

Non-alcohol clients

He says the entry of a total soft drink maker in the market made it easier to convince people about the absence of alcohol, besides spurring the growth of the newly invented consumer category: adult non-alcohol consumers.

A price war was deemed inevitable to attract consumers, but this did not happen. Both Alvaro and Novida retail price stands at KShs 25 and the firms say the cost is not an issue.

The real battle in the past year has been in sales volumes, distribution channels and how many variants that can be flavoured, with each side claiming victory. "Alvaro has been an instant success from the

beginning and it now has a 65 per cent overall market share,” says Mr Karanja.

On the other hand, Novida says its hold on the market has grown since introduction in the market, surpassing its competition. Ms Martha Wariithi, the knowledge and insights manager for Coca-Cola East and Central Africa, cites the latest retail audit market performance (quarter one of 2010) by Nielsen, which places Novida as market leader as measured by actual sales – by a clear 15 per cent margin – ahead of its rival.

Yet another survey by Consumer Insight in mid 2009 shows Alvaro was ahead by more than 10 per cent. “All data reflects the timing of the research and the views of the target audience sampled. Globally Coca-Cola focuses on actual retail sales numbers as the most accurate reflection of consumer response,” Ms Wariithi says.

While Coca-Cola could not reveal the actual number of Novida sales by end of January, EABL said it had sold 50 million bottles of Alvaro, translating to about 16 billion litres. Fruit flavours have been a major fighting ground for the brands as they try to outdo each other in the battle for consumer tastes.

Novida, which initially started with three flavours – tropical, apple and pineapple – added an orange taste in the lineup last year. And a few weeks ago, Alvaro replied with a third option with a passion flavour to add to pineapple and pear after taking “time to research and test the market.”

EABL says it will launch another flavour by the end of the next financial year. “It is important to note that it is not just about putting more flavours in the market but getting to know your consumers,” says Mr. Karanja, adding that the company has invested over KShs 100 million in the passion flavour from bottling, marketing and communication.

But Coca-Cola says this may have no impact on Novida’s market share. “The introduction of new flavours can help to drive category excitement benefiting the industry as a whole,” says Ms Wariithi. “Novida launched its orange flavour in the 4th quarter of last year, so flavour introductions are nothing new. We are focused on growing our share in this category, where Novida’s four flavours are already doing

well in this market and we cater for different consumer palettes across the region.”

Conquering new territories in distribution and going regional will provide the next phase of competition. While EABL has traditionally dominated bar sales, Coca-cola rules in other outlets like shops, kiosks and supermarkets, making the Novida-Alvaro battle an interesting test of might.

It is a learning experience for both companies as they invest massively in distribution channels and fight to cover wider geographical regions away from the urban target they sought initially. “Our biggest challenge as a company has been in getting Alvaro in regular shops and kiosks where soft drinks are mostly consumed, this is not what we are accustomed to as an alcoholic drinks maker,” says Mr. Karanja.

“In the medium-term and long term we are exploring new markets with Southern Sudan, Rwanda, Djibouti, Malawi, Tanzania and Ethiopia top on our priorities,” he said. Alvaro has successfully launched in Uganda in July last year. Plans are under way to start onshore production in the country in the next 12 to 18 months.

This will serve the greater Eastern Africa markets – mainly Rwanda and DRC – and reduce the high logistical costs of exporting from Kenya. In Tanzania, where EABL’s other malt-based non-alcoholic brand, Malta Guinness, was better received than in Kenya the company is hoping Alvaro will get a similar or better treatment. Novida is also banking on the bigger regional market to grow its market share.

“We have great expectations about our business in Kenya and the region in the long-term, and we know that being in a competitive market, we must always address these future priorities in what we would term as the spirit of ‘constructive discontentment’,” says Ms Wariithi. As the battle continues, one thing Coca-Cola and EABL agree on is that there is a big opportunity for growth in the region for this drink category which, they note, can support a third player.

Source: Daily Nation newspaper, March 1st 2010. Article by Winfred Kagwe