

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

CPA (U) EXAMINATIONS

LEVEL THREE

BUSINESS POLICY AND STRATEGY - PAPER 14

WEDNESDAY, 15 JUNE 2011

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, before you attempt any questions.

SECTION A

Question 1

Asaba Peter began one of Uganda's most successful food chains by establishing a small restaurant in a Kampala suburb. The phenomenal success of the restaurant led to him seeking a partner, and he chose Kapapaala Moses. From this partnership, Maskap Foods Limited, trading as MF was born.

MF was opened in 1995 by Asaba peter, a former banker. It was highly successful in terms of profits and market share. This success was mainly achieved by applying a fundamental formula to its operations, which included simple pricing structures, offering customers high quality fast foods, and providing a friendly customer service. MF also had a reputation of opening till late hours in the night. This ensured that people who enjoyed night life in Kampala and its suburbs were able to have a meal at any time of the night. In fact MF operated 24 hours in 80% of its restaurants in Kampala and its suburbs. The company also had a close-knit family atmosphere, with only staff deemed able to "fit in" recruited outside the family circles of the two partners. Priority was given to key functions such as purchasing, layout, and the kitchen aspects resulting in a consistent image and guaranteed quality across the restaurants. At its peak, MF had acquired a number of smaller restaurants, and by mid 2007, the chain comprised of over 50 restaurants located in the central region of the country.

MF's problems began in 2008 when it halted its expansion to eastern and western Uganda which resulted into a 30% reduction in profits. The then Managing Director blamed this on loss of market share due to the entry of other top-end players in the industry, notably Chris Restaurants, Chicken Forever and many others. At the bottom end of the market were multitudes of small restaurants offering lower prices than MF. Analysts felt that MF ignored changes in customer tastes and marketplace and was pre-occupied with its traditional business formula, rather than a long-term strategy.

In mid 2008, Mr Katende Sulaiman was recruited as Managing Director, and he began by implementing a restaurant refurbishment programme in an attempt to restore customer confidence. He also employed a creative operations manager to ensure that MF re-captured its trendy customers aged 18 – 33. This placed MF in direct competition with even bigger names such as Steers and Nandos, as well as the new entrants. Unfortunately for the company, their highly enterprising operations manager was offered better pay and he left for a job at Steers after just one year. His exit sent cold shivers across the corridors of power at MF. Since his departure, the company went into free fall! Sales started falling rapidly

as customer complaints more than doubled. He was replaced by Mr. James Katumba who had been Head of Finance.

20% of the restaurants were sold off to one of the leading competitors in an attempt to cut costs, but was not the solution to the problems being faced. It later emerged that the company's procurement function had been outsourced to a related company. It also emerged that IT support to MF was being offered by a company belonging to Asaba Peter's brother, while MF's auditors had never been rotated for nearly two decades.

Middle and senior managers got frustrated with the lack of progress and the slow decision making process leading to several exits. They also complained of wars between senior management and the Board of Directors, as well as its members.

On his part, the managing director blamed the company's woes on the decline in consumer spending following the credit crunch, and the increased investment by the competitors. He noted that his focus would be on the management of processes instead of products and costs. He observed that there was no coordination across departments, and the decision making process was slow. There was minimal innovation, and no clear pricing strategy. He further observed that MF had been inward looking, failing to deliver what customers wanted. Rather than seeking for short-term solutions, he intended to address the fundamentals of the business.

In February 2010, the Board received a formal takeover bid from one of the bigger players in the industry. An extraordinary board meeting has been scheduled to formally consider the bid. Rumour has it that it is in the region of Shs 950 million for MF's assets.

Required:

- (a) Guided by the value chain analysis tool, discuss the factors that explain MF's present position.
(25 marks)
- (b) What should be the considerations by the Board before deciding whether or not accept the takeover bid.
(5 marks)
- (c) Assuming that the Board decided not to sell, analyse the strategic interventions that could improve the operations of MF and restore their position in the market.
(10 marks)
- (d) Discuss the benefits and challenges of the form of growth adopted by MF prior to their current woes.
(10 marks)

(Total 50 marks)

SECTION B**Question 2**

Management at Kiboko University is facing an unprecedented challenge. The university has amalgamated several faculties to form colleges headed by principals. Having restructured the operations, the College of Education and Social Sciences, now has the biggest number of students; approximately 15,000 for both undergraduate and postgraduate programmes. With one of the youngest principals at the university, the college is championing an electronic learning project as the university attempts to improve its public image and academic ranking. E-learning, which reduces face-to-face contact with lecturers, offers a means of using staff more effectively. As a result, it increases the independent learning time available to students and provides much more flexibility to the students as to when they choose to learn. It, however, also poses some challenges. For example the design and maintenance of e-learning requires considerable investment in hardware and software, technical support and academic staff time in converting their material into electronically accessible modules. It also requires commitment by both staff and students. The university has committed significant funds to staff development for e-learning. Consequently, the impact of e-learning is very varied, with success reported in some courses and failure reported in others. With study material readily available and online outside lectures, physical attendance of lectures has dropped.

The college's management team is being pressed to commit to the university's e-learning system as a pioneer project. It is expected that if successful, it would then be rolled-over to other colleges at the university.

Required:

- (a) Present an analysis of the stakeholders at Kiboko University. **(8 marks)**
- (b) Discuss the approaches the senior management team could use to reconcile the different stakeholders regarding e-learning. **(8 marks)**
- (c) Using the balanced scorecard, advise the management of Kiboko University on how it should resolve the problems being faced. **(9 marks)**

(Total 25 marks)

Question 3

Miranda Tammy graduated recently with a degree in leisure and hospitality and got a job with a leading supermarket chain. He has now spotted a business opportunity, stemming from an increasing demand for high quality bread. This bread is not only demanded by supermarkets, but also restaurants and hotels around the City. Miranda is therefore determined to set up his own bakery and take advantage of the demand. He has ordered for equipment from India, and has secured premises in one of the suburbs of Kampala where his factory will be located. He plans to produce two main varieties of the bread, high quality for the up market consumers and supermarkets, as well as ordinary bread for the other middle and low class retailing outlets. He expects that the prices should reflect the above segmentation, but is not sure of which one to target first or how to distribute his products to them. It is understood that each channel poses its own challenges and limitations. There are several renowned producers of bread such as Top Loaf, Global and Turnkey. These are the ones that mainly occupy the front of the bread shelves of the leading supermarkets. Miranda is unsure of which chain of distribution to use, or what marketing strategy to adopt and has come to you for advice.

Required:

- (a) Prepare a brief report advising Miranda on what he needs to do before deciding on an appropriate marketing strategy to adopt.
(8 marks)
- (b) Evaluate the various potential channels of distribution that Miranda could use in reaching out to his customers.
(6 marks)
- (c) Discuss how the marketing mix may vary across the various channels of distribution that Miranda could employ.

(11 marks)**(Total 25 marks)**

Question 4

New Edition Services Ltd is a Ugandan manufacturer dealing in the processing of tomato concentrate with staff number of 300. The company buys tomatoes and processes tomato concentrate that is stocked in various supermarkets in and around Kampala. The company has no human resource function, with administrative matters assigned to the finance department. No performance targets are set for staff, and consequently there are no performance appraisals. Apart from heads of department who were recruited by a consultant, none of the other staff has a job description.

It is now understood that the newly appointed Managing Director intends to set up a human resource department. He has been informed by his counterparts in the industry that the most important deliverable for a human resource department is to carry out human resource planning.

Required:

Write a memo to the managing director explaining and justifying the need for human resource planning.

(25 marks)