

BUSINESS STRATEGY

July-August 2024

Time allowed- 3:30 hours

Total marks- 100

[N.B. - The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

Marks

1. Globally, mergers of banks, industries, and business enterprises are neither new nor uncommon. At various points in history, mergers have taken place in different economies, particularly during economic crises. In general, three things lead to such mergers. Firstly, to expand their economic influence, powerful enterprises engulf smaller and weaker ones. Secondly, strong entities take over weaker ones to reduce competition and ensure monopolistic power. And finally, problem-ridden entities are merged with sound enterprises to ensure market stability and confidence.

Bank merger has become a debating issue in Bangladesh recently. Some indicate that given the size of the Bangladesh economy, the number of banks in the country has exceeded the optimal level. As a result, it was necessary to contract the banking sector to ensure sustainability, efficiency, and better services. People who are familiar with our banking sector think that unprecedented corruption and the bending of rules have made the entire banking sector in Bangladesh vulnerable. As a result, bad loans, loan defaults, and shortage of capital have become the norm. A huge amount has been taken out the management by false loan which is not at all recoverable. In addition, non-confidence and liquidity shortages are on the rise as well.

The banking sector is deeply troubled with a huge share of nonperforming loans (NPLs)—which did not occur as a result of economic distress, but because of judicial tardiness and political favouritism toward willful defaulters. Hence, the first public impression about the banking sector is that it is obliged to embrace the looting of funds by big business tycoons who maintain solid lobbying power with powerful politicians. They can manage delaying numerous cases on default loans in courts, convince the finance ministry to pressurise the central bank to act in their favour and finally, compel the central bank to reschedule or restructure their loans so they can either contest in the election or take further loans to cater for money laundering or both. In case the banks sue the defaulters, the litigations take ages to be resolved and meanwhile, the defaulters manage to get the authorities to come up with new ways to whitewash their misdeeds.

Against this backdrop, the government and Bangladesh Bank have looked at bank mergers as an option to increase stability. There is a perception that the current problems and instability of the country's banking sector have led to such mergers and that such a measure was needed to enhance confidence in the economy. Some argue that this measure was taken to rescue the weaker banks. Others, however, feel that bank mergers will allow corrupt groups to escape their liabilities. The vulnerability of the entire banking sector has been reported on as well. Under such circumstances, if the weaker banks are not merged with stronger ones, and if they fail, the whole banking sector would find itself in deep trouble.

The latest loan scam involving some banks is, however, not an isolated incident. If anyone closely examines the banking sector's situation in the last decade, it may be clear that a pattern has developed regarding embezzlement of big chunks of money from different banks by a number of groups. New or fake companies were opened to seek bank loans without proper documentation. Politically influential persons were appointed to the board of directors. Bank officials were forced to overlook lack of papers and other shortcomings while examining loan applications. Political pressure is often mounted on the central bank to avoid inspections and monitoring.

The list of the scams is not small and the amount of misappropriated money is quite big. That's why many have termed it 'plundering of banks'. All these misappropriated money turned into default loans and increased the financial burden of the banks, the banks have become further vulnerable. The unveiling of alleged loan forgery in a big Islami bank appears to be a big blow to the country's financial sector. This will surely create a crisis of confidence among the depositors. The government has rightly asked the agencies concerned to initiate probe into the alleged loan scam.

Recently, on 4th April, 2024 Bangladesh Bank has issued a guide line for bank merger. The phenomenon of bank mergers is relatively new in Bangladesh. Therefore, the various dimensions and

probable impacts of mergers must be objectively assessed. It is also necessary to not approach the process as a purely mechanical exercise, but rather through a combination of practical points of view and a human lens. At the same time, the entire merger programme must be implemented as part of an overall financial sector reform. According to media reports, government has decided to merge 10 banks, 5 weaker banks will be merged with 5 comparatively strong banks.

In general, five issues need to be borne in mind when it comes to bank mergers in Bangladesh.

Firstly, if some banks fail to meet the criteria of competition and efficiency, it is better, by the rule of thumb, to let them die. The only exception could be a bank that is so big and so important that its death might have serious negative unbalancing impacts at the macroeconomic level of the country.

Secondly, if the merger could create a monopoly, then it should not be pursued. A monopolistic market will not provide competitive services to consumers and, as a result, the common people would lose out. The impacts of bank mergers on various sectors of the whole of the economy must also be evaluated.

Thirdly, to overcome the fundamental problems facing the banking sector in Bangladesh, structural reforms are necessary. Mergers cannot be the alternative to those unpalatable but necessary reforms.

Fourthly, if mergers take place in the banking sector, the job security of the workforce in weaker banks and the interest of the depositors of those banks must be ensured.

Finally, in the context of the overall economy, there are always an optimal number of banks to have. If the actual number of banks in the economy exceeds that optimal number, various vulnerabilities creep in. A pertinent question would be: if our banking sector suffers from such vulnerabilities, why have more new banks been approved? This issue needs to be examined. In other words, while attempts are being made to ensure better health of the banking sector through mergers—and as such reducing the number of banks—what is the justification behind giving approvals to new banks?

Weaker banks are not limited to the private sector only; they also exist in the public sector. For example, BASIC Bank, a state-owned enterprise, is also part of the current merger process. This means that bank vulnerabilities exist in both private and public sectors. It has been argued that mergers were pursued to ensure the sound health of the banking sector. In that context, assurances must be given that the workforce of the weaker banks would not be curtailed and the interests of the depositors of those banks would be ensured.

Requirements:

- a) Discuss the problems of banking sector of Bangladesh. Do you justify merger of Banks as decided by the government in the context of problems in the banking sector? 8
 - b) How the financial settlement problems of merging to be resolved or settled between the two merged banks? Discuss also in the context of Company Law. 7
 - c) Suggest how the merger process can be made successful? 5
2. You are the Managing Director of a private hospital. Recently the hospital’s Board of Directors (BoD) has forwarded to you the below report published on-line:

“Healthcare Artificial Intelligence (AI) has seen a rapid increase over the past year. 90% of hospitals now have an AI strategy in place, compared with 2019 when 47% had no process in place.

What’s more, 75% of healthcare executives believe that AI initiatives are even more important now due to the pandemic.

AI has many use cases for the healthcare industry, including the potential to detect dementia before symptoms even appear. A team at the University of Cambridge and the Alan Turing Institute have developed machine learning tools that can spot dementia in patients at a very early stage.

The technology uses brain scans from patients who developed dementia, with machine learning able to detect structural changes in the brain. This, combined with the results from memory tests, generated a prognostic score that revealed the likelihood of the patient having Alzheimer’s disease.

At present, there are very few drugs available to help treat dementia. Still, this ability to identify individuals at the earliest possible stage could allow researchers to develop new medicines that could be tested before the patient’s symptoms are too severe.”

Requirements:

- a) You are required to write a memo to the BoD showing the pros and cons of utilizing AI in your hospital. 8
 - b) You know while utilizing AI some existing employees may lose their jobs, reflect on the ethical dilemma of using AI in business. 7
3. a) Environmental and climate changes are the key issues for running business sustainability. Due to a drastic reduction in water reservoirs over the years, ENERYPAC is considering investing in a solar energy plant that would create capacity to increase the water reservoir and enhance power generation. Financing options for the project include: retained earnings from an increase in electricity tariffs, a syndicated medium term bank loan at a fixed interest rate, a rights issue, and a concessional long term loan from a Development Bank. To fully utilize its debt capacity, the project will be incorporated as a separate company or a Special Purpose Vehicle (SPV).

Requirement:

- i) Discuss four relative merits and four risks of using the above project financing strategies to fund the solar energy plant. 4
 - ii) Solar energy technology is a green technology and is therefore used by many companies to assist them in achieving the objective of becoming carbon neutral. Briefly explain how ENERYPAC can use ‘Carbon Credit Trading’ in reducing the impact of its business activities on the environment. 3
- b) Hanly Ltd. is a Hi-Tech company that operates in a specialised sector of the telecommunications industry. The company has attracted the interest of a major multinational company, Robi Ltd, that is in a similar line of business operations. The management of Robi Ltd indicated that they would offer TK3 billion to acquire 100% shares of Hanly Ltd. The management of Robi Ltd strongly believes that the acquisition will be beneficial to its shareholders. The management of Hanly Ltd. have been reluctant to carry out merger or acquisition negotiations with the management of Robi Ltd. However, Hanly Ltd.’s management decided to come up with a company valuation in case the merger or acquisition talks are sanctioned in the forthcoming AGM by the shareholders. The management of Hanly Ltd. have selected the Calculated Intangible Values (CIV) method to value the intangible element of the business.

In the previous year Hanly Ltd. made an operating profit of TK315 million on an asset base of TK605 million. The earnings are forecast to grow at 6% over the next year, and the company’s minimum expected rate of return is 10%. The average return on assets for the telecommunications industry is 15%. Corporation tax is 30% per year.

Requirement:

Evaluate whether the offer price by the multinational company would be financially beneficial to the shareholders of Hanly Ltd. 4

- c) Climate change is a critical issue in Bangladesh, as the country is one of the most vulnerable to the effects of climate change. In the 2020 edition of Germanwatch's Climate Risk Index (CRI), it ranked seventh in the list of countries most affected by climate calamities during the period 1999–2018. Bangladesh's vulnerability to the effects of climate change is due to a combination of geographical factors, such as its flat, low-lying, and delta-exposed topography. and socio-economic factors, including its high population density, levels of poverty and dependence on agriculture. The impacts and potential threats include sea level rise, temperature rise, food crisis, droughts, floods, and cyclones.

Bangladesh intends to invest in solar energy following reported load management by the utility company. The project will be undertaken over a period of five years. The expected undiscounted costs and benefits are tabulated below:

	Amount in TK'000					
Year	0	1	2	3	4	5
Cost	(10,500)	(20,500)	(45,000)	(15,000)	(15,000)	(15,000)
Benefit	0	0	35,000	35,000	35,000	35,000

The Government of the Peoples Republic of Bangladesh uses a social time preference rate of 6% and social opportunity costs of 8%.

Requirement:

Evaluate the investment in solar energy using the social time preference rate and social opportunity cost and comment on your results. 4

4. Zaved Sports Wear Ltd (here after ZSW) is a private company that was set up in the Chittagong Export Processing Zones (CEPZ), south part of Bangladesh twenty four years ago. The company's sole activity is the manufacture of sportswear like trousers, T shirts, jackets, and swimsuits for the swimmers and surfers.

Company profile

In the context of the industry ZSW is a small company makes some of the best trousers, jackets, T shirts, swim suits for the sports man and swimmers suitable in the local and foreign market. They are manufactured from high quality materials and have good insulation properties which will keep the users warm for prolonged periods in cold weather.

Despite the quality of its product, the company has had a difficult 2024 competing against larger manufacturers. This was largely due to a weak brand image in a very fashion conscious sporting activity. A board meeting was called to analyse the problems.

The board meeting

The Managing Director, summarized the feeling of his fellow directors

“We have a better product than our major competitors but, because they have well recognized brand label, backed up by large advertising budgets, they can sell 20 times more than us. However, a logo won't keep your warm in the water. They also retail average at Tk. 300 each. The retail price of our product is only average Tk. 250. What is more, the smaller retailers that we use take a 20% margin on sales, but larger retailers, used by our competitors, would require a greater margin to take our product by offering us a lower price.”

His fellow directors argued in favour of a number of possible growth strategies.

Strategy-1

The marketing director responded to the MD: that's all true but the fact is we need to develop a strategy for next year to deal with the situation. At the moment, we are not getting the attention of potential customers because we have no advertising budget. We need to advertise to promote our brand and bring our product to the attention of a wider market. I estimate that if you gave me an advertisement budget of Tk. 1 million for 2025 we could increase our selling price significantly without affecting sales volume.

Strategy 2

The production director disagreed. Any competitive advantages we have are in the quality of our product, but if we do not have a descent distribution system we cannot communicate this. We should move over to selling only online through the internet, using our website. This will cut out the retailer's margin and give us direct access to potential consumers. I believe we could set up an online selling facility by January 2025 for an initial cost of Tk 500,000. Apart from the existing cost, the only other costs to be incurred would be an additional variable marketing cost of Tk. 25 average per item.

Strategy 3

The Chairman took a different view. “ Our basic problem is that we are dependent on few products. We need to diversify to create an entire product range in the market and to develop our brand image. I have started early negotiations with an Australian company that makes surfboats. They do not make product like us, so they are interested in a strategic alliance with us. The details we yet to be determined, but the basic idea is that, we would sell their surfboats under our brand name abroad. Similarly, they sell our products in Australia. Each party would get a commission of 20% on the sales of other party's product.

Financial details

The finance director provided some forecast result for the year to 31 December 2024. While the year is not yet complete, the forecast is therefore seems reliable.

	(BDT '000)
Sales	16,000
Variable cost	(10,000)
Fixed cost	(7,000)
Operating loss	(1000)

Requirements:

- a) For each of the strategies 1 and 2 determine the price that ZSW would need to charge for the company to break even overall in 2025. Assume there is no change in the sales volumes, variable cost per unit or annual fixed cost from those in 2024. State any assumptions. Briefly compare and comment on these calculations

- b) For strategies 1 and 2, critically examine how each of the factors within the marketing mix the 4Ps might impact upon each strategy. 6
- c) Assess the merits and demerits of the strategic alliance approach in Strategy 3. 4
- d) Describe, giving example, the tools and techniques ZSW would need to use to ensure the smooth running of a large scale project such as a strategic alliance with an overseas partner. 4

5. The estimated toy market size in Bangladesh is around BDT 7,000 crore and 80% of this is produced locally. Local players believe there is a huge opportunity in the world toy market for them and can serve the government's move to diversify export – all they need is support from the government. Though the government is providing duty-free import opportunities for some toy components, the manufacturers sought the facility for all kinds of toy components.

Happy Kids, a Bangladeshi company, manufactures toys for children. Bangladesh is gradually trying to adhere to the global safety standards in toy manufacturing. Happy Kids was formed 10 years ago by an entrepreneur who had previously worked as a technical consultant for a global toy company. Despite strong competition, Happy Kids has succeeded largely by careful marketing.

Toys come in a range of sizes and there are a variety of options for very young babies to older children. The company's main customers are some distributors doing business in local market. They buy the toys from Happy Kids and sell them under its own brand as 'safety approved'. It advertises the toys in accessory brochures and on its website. The company's second major customer is a large superstore in the home country which specializes in children's clothing and accessories. The remaining sales are to a varied mix of large and small mainly independent retailers.

The toys have historically all been produced on a single site at Pabna. The Managing Director uses his connections to source the raw materials from several suppliers with a commitment to achieving the lowest price but complying with safety standards and expectations. Bangladesh has an emerging economy with semi-efficient capital markets.

The company is considering possible methods of expansion and is currently considering exports to neighboring countries.

Requirements:

- a) Explain how conditions in Bangladesh could give Happy Kids a competitive advantage when it starts its export operations. 8
- b) The Managing Director of Happy Kids is constantly trying to improve the productivity and quality of his manufacturing operations and is considering a programme of benchmarking. Explain why a benchmarking programme would help Happy Kids and suggest how it might be carried out. 7

6. a) GP Ltd is a leading mobile telephone service provider in Bangladesh. It is operating in an industry where there are only two other players, Yellow and Green. At the beginning of 2012, GP had 62% market share and the other two firms shared the remaining percentage. The past year has seen Yellow and Green working hard to gain more customers to improve on their market share. GP's market share has since dropped to 60% and the profits have adversely been affected. "It seems we are losing our grip on the market and have to develop strategies that will enable us to maintain our position as a market leader," commented Ripa Chowdhury the organization's MD.

Two months ago the Bangladesh Government gave a license to the fourth mobile telephone service provider allowing the organization to commence operations. Ripa believes that information technology and information systems will always be GP Ltd's bases for competitive advantage.

Requirements:

- i) Apply Porter's Five Forces model to analyse how IT can change the nature of forces that are impacting on the industry in which GP is operating and hence enable GP to increase its profits. 3
- ii) Without necessarily referring to the above scenario, explain three main changes to channel structures that increase customer value, which the internet and e-commerce have facilitated. 3

b) Advanced Corporation has been in existence for the past 40 years. The firm experienced unprecedented growth between the 10 to 30 years of its existence. Growth has, however, stalled in the past 5 years, averaging 3% compared to 12% during the golden years. The change in management after the reorganization that was carried out 3 years ago has not changed fortunes.

The board met to address the various issues facing the firm, especially the slow growth in its long traditional product lines. One of the resolutions was to appoint the new CEO who was head hunted and had already assumed office. The other resolution was to engage a consultant to work with the

new CEO in improving strategic management, especially in objective realization. The last key resolution was to significantly increase investment in information communication technology.

The new CEO, having attended a seminar on strategic planning, came across the concept of gap analysis. Given the pressure from the board to ensure that objectives are realized, the CEO has called upon the consultant to provide more information and see how the concept can assist the firm in objective realization.

The new CEO has also started reviewing the investment in information technology to find ways in which this investment can better be monitored to ensure that the firm gets a return on the same investment. The challenge the CEO faces is how this can be implemented by managing the investment in ICT. The amount to be invested is expected to increase from TK2 Billion to TK4 Billion in the next 2 years as one of the attempts to close the planning gap in the immediate future. It is also expected that this investment will make the firm transform its business in the way it produces products and markets them to customers. One key feature has been the investment in enterprise resource planning solutions.

Requirements:

- i) Differentiate between fixed gap analysis and continuous gap analysis in the context of Advanced Corporation. 3
- ii) Demonstrate how growth strategies can be pursued by Advanced Corporation in closing the planning gap. 3
- iii) Demonstrate how the pursuit of strategies in accordance to Ansoff Matrix will differ from growth strategies in closing the planning gap. 3

---The End---