

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. On 20 December 2021, Yasir Mahmud, the CEO of Building Better Furniture Limited, stood in the cafeteria at the company head office in Dhaka, Bangladesh. He had just listened to a conversation between Sudip Kumar, the Chief Operating Officer and Fuad Kabir, the Chief Sustainability Officer- the pandemic (Covid-19) seems to be resulting in our commitment towards our employees to renege. Mr Mahmud wanted Sudip and Fuad to know that he was available for any assistance.

The furniture industry of Bangladesh

The furniture industry of Bangladesh has risen rapidly in recent decades, with over 2.5 million people employed in the sector. Stakeholders feel that the country's thriving business sector has fueled the furniture industry's expansion during the previous 20 years. The market is growing at 18-20% per year and has reported over BDT 100 billion yearly revenue (around BDT 120 million from export).

In addition to furniture for homes and businesses, the industry produces a wide range of furniture. Solid wood furniture, processed wood furniture, metal furniture, cane furniture, and rattan furniture are the different types based on the materials used. The industry is dependent on the import of processed wood materials. The reforestation initiative of the government has resulted in the supply of raw materials, mainly solid wood, from the domestic market decreasing further.

With over 70,000 businesses copying their competitors' prices, the industry profit margin is paper-thin. However, despite the wide availability of steel and plastic furniture and the increasing number of new players, the branded segment tends to maintain the price. Nonetheless, the potential entrance of global brands is a threat.

Despite enormous challenges- including the dependency on imported raw materials, scarcity of skilled workforce, lack of government incentives, high operation costs and non-brand performance- the industry is flourishing. "Thanks to our cheap labour, rising demand in the corporate sector, growing consumer spending, easy access to credit, strong backward linkage, improved supply-side capacity and steady transition to the automation process" – Nazmul Haque, an industry analyst. Mr Haque, however, emphasizes on the importance of government intervention, particularly on market regulation, reduction of import duty on raw materials, and protection of the market from the international brands (for example, Ikea) to help the companies compete with global players.

Building the company

In 1980, Mohammad Rashid, a carpenter, opened a small wood workshop, Rashid Furniture, in his rural village area in Bogura and started making customized furniture. In 1985, he started making ready-made furniture and converted the sole proprietorship business into a company – Building Better Limited. After two decades of successful operation, he handed the company over to his son Yasir Mahmud, a graduate in business administration, in 2000.

The company offers complete furniture solutions together with after-sale services through its 35 high-end showrooms all over the country, with the inspiring reinvention throbbing through its highly efficient operation in 6 highly automated manufacturing hubs. Its state-of-art products and services, strong customer relations, efficient operation, and effective strategic direction resulted in the company becoming one of the market leaders (over 20% market share) in the industry. "We strive to offer innovative and superior quality products to our customers, particularly to those who are willing to trade-off between price and quality," said Mr. Mahmud. In doing so, we focus on the need of our customers, maintain an effective value chain system and secure preferential access to the resources we need. We, however, also ensure our customers receive the best value for their money, added Mr. Mahmud.

Operations at Building Better

The company's reputation is based on its ability to efficiently and successfully handle product and process design, inventories, quality assurance, supply chain network, and back-end operations. Its operation revolves around cost-effectiveness to maintain pricing competitiveness.

Quality, functionality, and cost are crucial to the organization. The company uses demand forecasting technology to forecast client perception. Designers ensure that high-quality products fulfil customers' needs while keeping manufacturing costs reasonable. To reduce production costs, the company has automated and roboticized a significant portion of its operation. Moreover, the company has constructed a solar power system to reduce the impact of traditional electricity generation on the environment.

For its retail locations Building Better has developed a unique and innovative system. Each area serves as both a warehouse and a showroom, resulting in a significant reduction of distribution costs. An in-store logistic manager is assigned to each warehouse, and he is in charge of balancing client demand and inventory.

Ensuring quality is crucial for the company. Internal operations including material procurement are covered by the company's quality control management system. Building Better accepts only those raw materials that meet the company's quality criteria, and to become a supplier, the supplier must adhere to Building Better's quality control standards. To ensure that the quality of its products meets the quality requirements of customers, the company employs a Customer Confirming Quality (CCQ) approach. Wherever possible, it emphasizes the use of recyclable and environmentally friendly materials, eliminating harmful chemicals and ensuring consumer safety.

The threat to workers' health posed by toxic chemical exposure has always been a serious concern at Building Better. "We are highly committed to the well-being of our employees. Despite the huge challenges that the Covid-19 outbreak posed, none of our employees was laid-off. Employee health hazards in our operations have always been a major concern. We have significantly reduced the use of harmful chemicals and are still working on it" – Mr. Fuad Kabir.

Building a deeper understanding of the value of creating and keeping excellent relationships with suppliers is critical to its success. The company communicates with its suppliers at regular intervals and has built a "Partner in Business" mentality to ensure goods arrive on time and in the desired quality. Rather than encouraging suppliers to compete, the company works directly with them to develop efficient and low-cost ways to bring their concepts to reality.

"Although our gross profit margin is nearly identical to the industry average at 30%, our net profit margin (20%) is way better than that of our competitors. Our operation effectiveness has led the company towards sustainable profitability"- Mr. Sudip Kumar. In 2021, the company reported BDT 4,000 million revenue and 18% return on capital employed respectively, 8% and 4% higher than its primary competitor.

Requirements:

- a) Define strategy. Identify the competitive business strategic position and the basis of the positioning of Building Better. 6
- b) Identify the strategic approach of Building Better and the associated risks of that approach. 5
- c) Define operational effectiveness. Michael Porter advises that operational effectiveness is not a strategy. Evaluate the remark of Mr. Sudip Kumar regarding operational effectiveness and sustainable profitability. 6
- d) Analyze the competitive forces of the furniture industry in Bangladesh using Porter's five forces model. Do you suggest any modification to the current strategy of Building Better? 7
- e) Define business sustainability. Identify the sustainable business initiatives, if any, of Building Better. Categorize any ethical issue that may exist at Building Better and advise on how the issues may affect the sustainability of Building Better. 7

2. Bangladesh Railway (BR) has been facing formidable challenges from alternative modes of transport. BR is facing two major threats to its long term survival: the continual operating loss every year and the relentless increase in competition from other transport modes, especially from road transport. The market share of BR has declined to 40% and to 5% only for passenger and freight traffic recently. This loss of share can largely be attributed to a well-planned and well developed road network that began expanding since the eighties and also the poor service quality of BR. BR is a major employer of civilian labor force. At present it has 34168 employees.

The road transportation is mostly privately managed and is more efficiently operated relative to railway. The latter has been a publicly funded and managed organization. Railway is known to have competitive advantage in bulk goods transport and long haul due to cost effectiveness and safety issues. However, railway has failed to meet the standards due to institutional shortcomings and physical bottlenecks. Today railway is in poor health with obvious symptoms of further decline in its performance. An in-depth performance study of operations and investigation identifies some weaknesses and suggested restructuring of the organization for improvement of the efficiency of BR.

The problems seem to require a higher degree of attention, as the sector continues to claim a larger share on the limited resources. Competition from this source cannot therefore be expected to reduce in intensity for the foreseeable future, and will only be effectively counteracted if rail can offer a standard of service which at the same time satisfies the needs of customers and is superior to that on offer from its competitors. Clearly this provides rail with a substantial challenge. It will require a major change in the outlook of railway management. Hereafter, the activities of railway management will have to be directed at: identifying, understanding and responding to the needs of their existing and potential customers; identifying and understanding the cost relationship and profit potential associated with individual traffics or market segments. A study of reform and competition intrusion will ensure that railways will satisfy new commercial goals.

The railway receives a sizeable subsidy from the public exchequer, despite the well-documented evidence that subsidy promotes inefficiency. BR is continuously making loss in every year due to inefficient management. BR is a government owned and managed department. The director general was the CEO of the organization as well as Secretary of the Railway division under ministry of communications. In 1995 it was restructured as DG position was degraded and placed under the Secretary. The operational authority was with the DG but the policy issues were given to the Secretary. Now a separate ministry has been created headed by a separate minister. Now it has two operating Zones, Eastern Zone and Western Zone, headed by two general managers.

Despite increasing government investment over the years' railway services have not shown much improvement and the entity is continuing to rack up losses. Bangladesh Railway's financial performance for the five years is as under: (Taka in million)

	2015-16	2016-17	2017-18	2018-19	2019-20
Operating revenue	9364	9040	9745	9940	9291
Operating expenditure	18083	22292	22563	22840	23143
Net operating deficit	8719	13252	12818	12900	12852
Development expenditure	3668	4220	6080	10689	7736

The above Table shows that the organization is making huge loss and government is compensating these losses out of tax payers' money through budget allocation. As a pure government organization whatever amount it earns goes to government exchequer and all expenses are made out of the allocation provided through revenue budget of the government. Its development budget is also provided by the government taking foreign loans from World Bank, Asian Development Bank, and other bilateral governments. Donors observed that due to dependency and support from the government its inefficiency and loss is increasing year after year. They suggest to restructure the organization suitably so that it is managed and run by its own revenue.

Restructuring of railway was taken up in many countries in 80's particularly in most of the developed countries. They corporatised the railway previously managed by the government; those are now managed as a body corporate as an independent organization. They run by their own revenue such as, British Rail. Few also converted into a company and sold out to the private owners to be managed by the private entrepreneurs. Bangladesh Railway is still waiting to decide on the restructure issue.

Requirements:

- Discuss the present problems and prospects of BR using a SWOT analysis. 6
- What are the different forms of restructure for the public utilities? 3
- What should be the suitable form of restructure for BR for its long term growth and efficiency? 3

3. Sunflower Cosmetics Ltd. (SCL) is one of the leading cosmetics manufacturing companies in Bangladesh and a popular brand name for superior products available at affordable price. It was incorporated in the year 1996. It aspires to become a leading cosmetics and toiletries manufacturing company in Bangladesh, boasting a diverse product portfolio and instilling long term brand loyalty towards its products among the people both at home and abroad.

The company began its journey with an objective to never compromise with quality. SCL has established state of the art facilities, equipped with the latest European machinery and also ensures that each stage of production undergoes rigorous testing and quality assurance. It has declared its mission for adapting modern technologies, ensuring cost control and upgrading technologies.

Recently few other companies started manufacturing similar products and marketing at lower price than the SCL. This has affected the market and profitability. Gross sale falls down by 40% and profit by 50%.

In a recent Board Meeting the marketing Manager cautioned the board if the situation goes like this, we may even have to face loss in future. We shall have to compromise with quality and price. Chairman of the Board expressed his determination and reassured commitment of the company:

- i) We must provide the best quality product using the finest materials and ingredients
- ii) We must understand and meet the requirements of the consumers
- iii) We must implement innovative and cutting-edge technologies
- iv) We must maintain world class standards in our products

He also expressed his determination as SCL would be the number one desired brand of the consumers in Bangladesh. SCL products brand name should reach to each consumers of our products. He ordered his marketing director to prepare a paper to the board addressing the following requirements:

Requirements:

- a) What is branding and why it is necessary? 4
 - b) Prepare a branding proposal for Sunflower Cosmetics Ltd. 4
 - c) Sunflower Cosmetics Ltd. wants to appoint one of the best film stars as brand ambassador. Do you support this? Discuss with justifications. 4
4. a) Dhaka Fitness Center (DFC) operates a chain of fitness clubs. The clubs are structured into two divisions, the Eastern division and the Western division. Each division has a Managing Director who is responsible for revenue, cost and investment decisions at their clubs. A bonus is awarded each year to the Managing Director that generates the higher Return on Capital Employed (ROCE). The following summary information shows the results of the divisions for the past two years:

	Year ending 31st December 2019		Year ending 31st December 2020	
	Eastern Tk'000	Western Tk'000	Eastern Tk'000	Western Tk'000
Revenue	1,800	2,480	1,900	2,250
Staff cost	1,150	1,430	1,180	1,310
Other operating costs	460	675	500	620
Operating profit	190	375	220	320
Capital employed	500	900	750	1,200
Average number of members	6,790	9,300	7,150	8,420

Notes:

1. Revenue is comprised largely of income from membership fees.
2. DFC uses net book value of non-current assets as the capital employed. The capital employed figures in the above table are the net book value of the non-current assets of each division at the end of the year.
3. Non-current assets are depreciated on a straight-line basis over a period of five years and are assumed to have no residual value. There were no additions or disposals of non-current assets during the years 2011 and 2012.

Both divisions have a cost of capital of 15%. Ignore taxation and inflation.

Requirement:

Discuss the relative performance of the two divisions using Return on Capital Employed and other performance measures that you think are appropriate.

- b) Investigations by DFC's audit team have revealed that at the end of 2019 the Managing Director of the Western Division rejected the opportunity to acquire a new building and equipment to set up a new fitness club at a total cost of Taka 800,000. The building could have been purchased for Taka 350,000 and for the purpose of this evaluation it is assumed that it would have held that value for five years and that no depreciation would have been charged on the building. The new equipment would have cost Tk 450,000 and would have been depreciated in accordance with DFC's policy over five years. The investment would have taken place on 1 January 2020.

The forecast annual profit and number of members for the proposed new club were as follows:

	Tk'000	
Revenue	675	
Staff costs	371	
Other operating costs	160	(including depreciation of the equipment)
Operating profit	144	
Average number of members	2,200	

It is DFC's policy that investments of this type should be appraised over five years using net present value.

Note: you can assume that the actual figures for the Western Division for 2020 were the same as those budgeted. Therefore, when the decision about the new club was being made the Managing Director based the decision on the figures for the investment and the 2020 results for the Western Division.

Requirements:

- i) Calculate the net present value of the investment. Ignore taxation and inflation 4
- ii) Explain, using appropriate calculations based on the Western Division and the rejected investment, the limitations of ROCE as a divisional performance measure. 4
- c) Halima Private Limited are negotiating to sell their business to a Public Limited Company. The following is summarized extract from the balance sheet as at 31 June 2021 of the Halima Private Limited:

Reserve	2,00,000	
Capital employed	<u>12,00,000</u>	
Fixed assets at depreciated cost	6,40,000	
Current assets	7,20,000	
Less: Current liabilities	<u>1,60,000</u>	<u>5,60,000</u>
		<u>12,00,000</u>

The profits of Halima Private Limited for the five years it has been in existence after eliminating any extraneous or non-recurring debits and credits are Taka 1,90,000; Taka 2,30,000; Taka 2,15,000; Taka 3,40,000 and Taka 3,75,000 respectively. A return of 20 percent per annum on the capital employed is considered to be reasonable in this particular business and it is expected that future requirements as to capital will not vary materially from the capital employed as at 30th June.

Requirement:

Ignoring any extraneous factors that may affect the position, suggest the amount that should reasonably be paid to the private company for the goodwill therefore to be acquired by the purchasing company, giving details of how you work out this amount by assuming three years of purchase for valuing the goodwill, but capital employed be considered for this purpose. 6

5. a) The industrial world is becoming competitive and competitive in multiple times. Therefore, industries should become world class by performing excellence in manufacturing goods and should provide excellence in services. In these highly competitive markets the products and services produced are not simply sold. The industries should have the managerial and marketing philosophies to sell the goods and services. The important philosophy is TQM and its principles such as quality, quality of products, quality of services, quality of processes, quality of suppliers, quality of maintenance, quality of employees and their involvement etc. The overall management of quality in the industries starting from suppliers to customers or end users is known as Total Quality Management (TQM). Total quality management is also defined as a management philosophy, aims to maintain the standard qualities in procuring raw materials, able to manage the standard qualities in manufacturing processes, able to produce the standard quality of goods, able to manage the quality in logistics and distribution processes, finally able to satisfy the distributors

and end customers with their excellent quality of products and services. Quality management deals. However, in Bangladesh most of the industries do not follow the TQM philosophy.

YZ Auto-Company is a TQM compliant industry having more than 1000 employees all together. It is located in port city of Bangladesh, Chattogram. It has a quality department headed by Sr. manager and having managers, engineers, supervisors and inspection operators and altogether 100 employees in the quality department. The quality department has its sub departments in all manufacturing shop floors, such as quality sub dept., in press shop, machine shop, polishing and assembly etc. Quality team works towards minimising the defect part flow rate from one shop floor to the other shop floor by conducting intermittent inspection of processes, product dimensions and specifications. Periodical inspection reports were developed and sent to the Sr. Management and Top management. Continuous monitoring of processes, machinery and products enhances the satisfaction level of all the employees, management and finally the customers.

The quality team of the company works towards achieving the zero defect policy by implementing and best practicing TQM tools and techniques. Head of the Department of quality conducts meetings with other dept. Sr. Managers and Managers about the quality improvement processes, quality tools to be utilised by the shop floor levels, the importance of quality tools and their effectiveness on the quality improvement of products and processes. He also discusses about the support and requirements if any needed by the manufacturing team to gain the skills and knowledge about the TQM tools and techniques and their practices. Head of the Department of the quality also conducts the brain storming sessions for quality improvement in all the processes starting from supplier inputs, manufacturing processes, products, policies, customer satisfaction principles and methods. In this brain storming session all the specific field experts will be participating in conducive environment to get the solid inputs to the quality improvement and quality development processes. The suggested and finalised minutes of meeting will be sent to the members of the committee and top management. After getting the feedback and suggestions from the top management the development process will be initiated by the quality department.

TQM Framework and Implementation Plan One of the outcomes of the brainstorming session was TQM implementation in the company. The specific field or critical areas of TQM have been identified in the brainstorming sessions. The identified areas also known as critical success factors (CSF's) of TQM. These factors are also again classified as "Soft elements of TQM" and "Hard elements of TQM". The soft elements are human and cultural development activities for understanding about the TQM and try to support the TQM implementation process. The hard elements are to be best practiced and performed during the TQM implementation process. With this understanding about TQM elements, the company designed a TQM framework for this case according to the company requirements and policy.

Requirements:

- i) Evaluate how the quality team works in YZ Auto- Company to improve quality? 3
- ii) What are the steps to be taken to implement TQM in industries in Bangladesh? 3
- b) "Supply chain management is the management of the flow of goods and services and includes all processes that transform raw materials into final products. It involves the active streamlining of a business's supply-side activities to maximize customer value and gain a competitive advantage in the marketplace". Based on this statement discuss 5 supply chain management best practices. 5
- 6. a) "Advertising is used to build brand loyalty and sales promotion is used to break brand loyalty". Discuss briefly. 2
- b) Explain briefly why a direct relationship between the cost of production and selling price may be inappropriate as a pricing strategy. 3
- c) Examine the degree to which the three concepts: positioning, product differentiation and market segmentation relate with each other. 3
- d) What is an 'Operating Turnaround Strategy'? 3
- e) The BCG (Growth-Share) Matrix is old but has stood the test of time. How significant and practicably usable is it today, in the light of vast developments in management tools that help assess market conditions? 3

---The End---