

BUSINESS STRATEGY

March-April 2023

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. Total Lamination Limited (TCL) has been trading for many years making specialist glass products for military uses. Its main customers have been manufacturers in the defense sector which need glass that can withstand special conditions, such as windscreens in jet fighter aeroplanes. Annual sales of TCL were BDT 220,000,000 with net profit of around 10% after tax in 2018.

TCL customer base eroded over last two years. Sales have fallen to a likely BDT 140,000,000 in 2022. Although some cost savings were possible, TCL lost BDT 5,000,000 for the year ended on June 30, 2021.

TCL has the advantage of very modern computer-controlled equipment which allows it great flexibility and enables the company to new markets by applying expertise gained in the (now rapidly shrinking) defense sector.

Staff and management have become very anxious but are loyal and keen to change the direction of company. Managers see themselves as experienced, yet modern.

Customers are historically defense based but as, TCL has realized, these are fewer in number. New customer would include private sector firms such as high street private and foreign banks in Bangladesh, which need security glass. Major customer potential exists overseas, but here the problems of bad debt and risk and uncertain cash flow are key factors that need to be considered.

Rivals are largely niche operators, except for a few big companies, but tend to be small because each customer has a unique problem to solve. Product quality and innovative design are crucial elements, but branding is not important.

Technology is continually evolving but pricing is not a major problem because customers value quality above all and are prepared to pay a premium for new technology that can (for example, with bomb-proof glass) save them a fortune.

Suppliers are plentiful, except that key skilled staff are highly sought after.

The managing director of TCL Jamil Haider has proposed to the board that a bold expansion programme is implemented. He believes that TCL has the skills to attract the private sector, financial services sector and diplomatic protection market. To fund the sales team and working capital, he proposes to use NAM Financial Services Limited which should advance up to 80% of current receivables, yielding about BDT 28,000,000, which will be adequate to fund growth. He also proposes to change the company name to Super Glass Limited.

TCL has a non-executive director, Sirajul Islam, who convinces the board that a proper business plan is needed. He argues that, NAM Financial Service will only agree to the proposal if such a plan is produced. However, he is unsure, how to go about this and advises that TCL's accountants become involved.

Requirements:

- a) As a member of staff of TCL's accountants, write a memorandum to Jamil Haider which explains the steps required to create, implement and review a business plan. You need not specify detailed strategies but must identify the critical factors for successful implementation of the plan. 8
- b) Change management involves management of stakeholders' expectations and attitudes. The reasons for the initiated change process in the organization therefore should be clearly communicated among the stakeholders. Suggest ways in which an organization can successfully communicate the changes to: 7
- | | | | |
|---------------------|----------------|---------------------|----------------|
| (i) Shareholders | (ii) The Press | (iii) Suppliers | (iv) Customers |
| (v) Senior Managers | (vi) Staff | (vii) Line Managers | |
- c) Briefly Discuss different types of Business Risks. 4

2. Pankouri Ltd (Pankouri) operates a well-known chain of roadside restaurants in Bangladesh.

Company information

Pankouri's target market is road users, in particular business travelers and families with children, who want to break up a long journey and stop for refreshments. Pankouri has 65 restaurants, which occupy prime sites along major roads.

The restaurants all have the same internal design, décor, menu and prices. They are open 07:00 to 19:00 for 360 days in each year, and each has the capacity to seat 50 customers.

All procurement is done centrally and Pankouri sets strict guidelines regarding staff levels and the purchasing and preparation of food. Each restaurant is set a target for cost of sales of 68% of revenue so that waste is kept to a minimum and food and labor costs are carefully controlled.

All other costs incurred by Pankouri are fixed. These include the salaries of the restaurant managers, rent, marketing, procurement administration and other central costs. For reporting purposes, these are totaled and then divided equally across the 65 restaurants in the chain. Key factors that influence performance for an individual restaurant are customer numbers and average amount spent by each customer. Pankouri's restaurants are all leased. Results have suffered recently as rents have increased considerably, whilst at the same time customer numbers have fallen.

The market is highly competitive and there is a variety of other outlets which cater for a similar need to Pankouri: petrol station forecourt shops, roadside facilities operated by regional and national chains, fast food outlets, coffee chains and local family friendly bars/restaurants. In addition, the volume of customers is highly affected by roadworks, the weather and the time of year.

The current focus on healthy eating has given rise to criticism that Pankouri's traditional menu places too much emphasis on fried food with a high fat content. In addition, there have been changes in driving habits. The advent of in-car entertainment systems has made it easier for families to occupy children on a long journey. Many drivers prefer to purchase a snack that can be eaten quickly rather than stop for the time required to order and consume a meal.

Strategic proposals

Pankouri's board of directors has been discussing two possible strategies to improve profitability:

Strategy 1: Widen the appeal of the restaurant

Pankouri would attempt to increase customer volumes by a third in all its restaurants by:

- Targeting local families who could be encouraged to make regular visits to Pankouri as a neighborhood restaurant
- Encouraging business executives to view the restaurant as a meeting point, by creating a special office area within each restaurant, with facilities for laptop computers and free internet access
- Attracting more road users with the introduction of a new snack menu. This would provide an alternative for customers who are short of time and wish to resume their journeys as soon as possible

The finance director is on long-term sick leave. In her absence, the sales director has produced a forecast of the likely impact of this strategy on an average Pankouri restaurant, which is set out in Exhibit 1 along with actual results for an average restaurant in the year ended 31 July 2022. On the basis of these figures he is keen to implement the strategy across all Pankouri restaurants.

Exhibit 1: Strategy 1, projections for an average Pankouri restaurant

<i>Year ended 31 July</i>	Actual results 2022 (BDT)	Forecast strategy-1 2023 (BDT)
Revenue	486,000	648,000
Food costs	170,100	226,800
Labour costs	160,380	213,840
Cost of sales	330,480	440,640
Gross profit	155,520	207,360
Marketing	20,000	20,000
Rent	75,000	75,000
Other overheads	60,000	60,000
Profit before interest and tax	520	52,360
Average amount spent by each customer	9	9

Strategy 2: Reduce prices

This strategy would involve reducing prices by 15% to make Pankouri more competitive. Although gross profit margins would fall as a result, the sales director is confident that the increase in customers would more than compensate for this.

The operations director is concerned about the downside risk associated with this strategy. In particular, he has pointed out that if the lower prices do not attract more customers, then the majority of Pankouri's restaurants will fail to break-even.

Risk assessment

To assist in assessing the risk of the two strategies, the operations director has provided some information about the variability of customer numbers, average spend and margins during the year ended 31 July 2022. This is set out in Exhibit 2, together with his estimate of the impact that Strategy 2 would have on gross profit margins.

Exhibit 2: Variability of Pankouri customer numbers, average spend and margins

	Worst performing restaurant	Average restaurant	Best performing restaurant
<i>Year ended 31 July 2022 (actual)</i>			
No of customers per day	95	150	245
Average amount spent by each customer	BDT 7.50	BDT 9.00	BDT 10.50
Actual gross profit margin	30%	32%	34%
<i>Year ended 31 July 2023 (estimate)</i>			
Estimated gross profit margin with strategy 2	18%	20%	22%

Requirements:

- a) Using both exhibits and the other information provided:
 - i) Analyse Strategy 1 and evaluate its impact on an average restaurant. 4
 - ii) Assess the reasonableness of the sales director's forecast and assumptions as a basis for projecting the results for all Pankouri's restaurants. 4Show any additional calculations that are relevant.
- b) For Strategy 2:
 - i) Prepare calculations which demonstrate the increase in customers per day that would be required to maintain existing gross profits for an average restaurant. 4
 - ii) Discuss the likely impact of the proposed price reduction on the profitability of the company as a whole, showing any additional calculations. 4
3. Advanced Technologies Ltd. (ATL) is a Bangladeshi technology company. It provides technology platforms and on demand solution. It was founded in 2017 by a few technical graduates having experience in IT, telco business, and relevant technical fields. After graduating from BUET, they took job abroad in different IT related industries. After initial discussion they planned to form a business of their own. They found many interested IT talents to work with them. Finally, they decided to take risk and started business in the name of Advanced Technologies Ltd.

ATL's CEO/Managing Director, Mr. Shawkat shares his experience how ATL got started out of a serendipitous mutual discussion between friends. Most things don't follow a straight trajectory. Most things are random and serendipitous. The interesting thing about the randomness of reality is that it has logic to it. Invest enough time and attention in playing the randomness, it will lead you somewhere.

In January 2018, they registered the company and rented a spacious office building at Banani area. ATL started providing technology solutions to different telcos and on-line marketing companies. Subsequently started to get business across industries in Bangladesh and in the Asia Pacific region. Over the last few years, the company has experienced excellent growth in a number of markets and has become a leading provider of tech solutions to a long list of companies across industries including telecom, FMCGs, e-commerce, travel, and B2C.

Biggest challenge in the early days was that they had work but could not grow for lack of capital and resources. Initially invested out of their own savings, they got a few investors who trusted them and invested money in ATL. Things started to change since then. ATL provide technology platforms and on demand solutions. They started to get clients in Asia, Australia, Africa, and Europe. Over the last few years they offered solutions to the telcos, FMCGs, financial institutions, e-commerce, and start-ups.

Once things relatively settled down, they started reaching out to people: “Hi, we have put together a small dev. shop, let me know if you need any service.” And they got a good response in those early days. They reached out to the CEO of an e-commerce marketplace in Indonesia and he said he needed 20 developers. He gave the requirements shortly.

They started visiting their contacts around the region presenting to them what they could do based on their last three-four months of work. The CEO said “We have been lucky that to this day, we never lost a client for non-performance. We overcame many challenges and always delivered good work to our clients. Our clients always come back and give us more work”. Their business philosophy is “when you serve a customer well, they will give you more business”. They had and still have a lot of businesses in Southeast Asian markets such as Indonesia, Vietnam, Thailand, and so on. They have also started business in Sweden, Portugal, US and Australia.

Recently CEO of ATL called a meeting of the Partners and explained his desire to move its Headquarters to Singapore citing its difficulties to managing such business from Bangladesh. Most of their partners have experience of working in Singapore, Myanmar, and Thailand. As most of their clients are from these countries it will be easy to get work from overseas countries. As a Bangladeshi company they offer very low price but they are ready to pay higher fee for a Singaporean company. It is easier to do business from Singapore.

He also mentioned with agony that even Bangladesh government invite offer for foreign companies for this sector. As a Bangladeshi company they cannot participate in the bid. If they have their office in off-shore countries, they can participate as a foreign company. And can compete with Tata Consultancy Service, or Tech Mahindra, or Wipro IMI or Fresh Chat; these will be their foreign competitors. There is also a tendency to prefer foreign companies in Bangladesh. So getting business in Bangladesh is still quite challenging.

Secondly, their payment structure is very good. They may do all their billings from Singapore, when they register in Singapore as a Singaporean company. Although the tech people and products will be coming from Bangladesh in Singapore office there will be only the marketing and billing staff and their number would be around 20. He assured the team that this strategy will be a breakthrough in their business and it will create internationalization of their business.

When people ask even though their roots in Bangladesh why they want to move to Singapore. There CEO explained firstly, if you think about countries like Indonesia, Singapore and Thailand in terms of digital penetration and technological advancement they are far ahead of Bangladesh. So, you learn when you work with them. Our size of turnover will be several times higher.

Most tech people will be recruited from Bangladesh and work in Bangladesh work station. Total 120 tech people, mostly graduated from BUET, BRAC or NSU will work with them and shall have chance to work abroad.

Requirements:

- a) What are the challenges for IT industries during take-off stage in Bangladesh? Discuss in light of ATL’s experience. 4
- b) How can the challenges of IT sector can be addressed? 3
- c) Do you support shifting of ATL’s Head Office to Singapore? Justify your answer. 3

4. R B (Bangladesh) Ltd. is a multinational company operating in Bangladesh since 1961. This is the manufacturer of different hygiene products. R & B's 2022 profit falls on declining demand for hygiene products. It declares lowest cash dividend in four years since 2018.

R & B (Bangladesh) Ltd. engages in the manufacture and sale of consumer health and hygiene products. It operates through the Household and Toiletries, and Pharmaceuticals segments. The Household and Toiletries segment offers hygiene and home care products. The Pharmaceuticals segment sells healthcare products. The company was founded on April 15, 1961 and is headquartered in Dhaka, Bangladesh. In 1987 it was converted to a plc. and was listed in the DSE. Its stock price peaked in 2021 at BDT 6,223, now it is at BDT 4,760, it is the most valued stock in the market. Performance of last five years is as under:

Year	Net profit million BDT	Cash dividend million BDT
2018	325	700%
2019	619	1250%
2020	739	1400%
2021	808	1650%
2022	689	980%

R & B reported an 18.4% year-on-year drop in profit in 2022, mainly for costlier raw materials and a sharp devaluation of local currency against the dollar. The listed multinational company that sells health and hygiene-related products logged an annual profit of BDT 659 million last year.

As income declined, so did the company's earnings per share (EPS) from BDT 171.03 in 2021 to BDT 139.50 last year. R & B had seen its business growth accelerate after the Covid outbreak when the use of hygiene products shot up in measures to contain the spread of the Corona virus. Its top-selling products are meant for hygiene, such as Dettol and Harpic. They are also household names in the particular areas.

During the Corona virus period 2019 to 2021 demand for its products peaked up and profit and cash dividend were becoming higher. As the pandemic waned and the Russia-Ukraine war began leading to a global economic slowdown, consumers' purchasing behavior changed. The huge demand for hygiene products diminished due to inflationary pressure squeezing people's capacity to buy even essential items. At the same time, raw materials became costlier in the global market, and the taka became cheaper against the dollar increasing import costs.

The taka has lost its value by about 25% against the greenback since Russia's invasion of Ukraine in February last year. R & B is largely dependent on imports for raw materials. Due to the cost escalation, the market saw lower demand for its products.

Company Secretary said that due to an unprecedented increase in the prices of key ingredients (soap and noodles), costs of sales soared 21.23% year-on-year in the nine months through September 2022.

Bangladesh witnessed a decade high inflation at 9.52% in August last year. Although inflation cooled gradually over the last few months to 8.57% in January, it is still higher than expected. High inflation affected consumption patterns; many people shifted from branded products to non-branded ones to cope with higher expenses.

"Escalation of production costs and the dwindling demand for hygiene-related products in the post-pandemic period might have impacted the company's business," said senior vice president of the DSE Brokers Association of Bangladesh.

People have to spend more on food items, so they cut spending on non-essential products, he added. Due to the raging inflation, businesses tied to beverages, personal care, and other non-essential consumer products had to endure shrinking profit margins in the recent quarters.

R & B is yet to disclose its sales revenue for 2022. However, sources said the revenue was around BDT 4.70 billion in 2022, down from 4.94 billion a year earlier.

Meanwhile, R & B plunged 23% on the bourses from its peak at BDT 6,223 a year ago. Though it has remained static at the floor price of BDT 4,760.7 since October last year, it is the most-valued stock in the market. The company declared the highest cash dividends among the listed companies for three years in a row since 2019, luring investors to its stock. That resulted in the share price going through the roof. For 2022, R & B cut its cash dividend sharply to 980%, lowest in four years since 2018.

The multinational companies are well-managed and have a reputation of their product quality, which help them earn more as well as pay hefty dividends to shareholders every year, said The Company Secretary listed in 1987. R & B manufactures toiletries, sanitization products, pharmaceuticals and food products. Its brands include Dettol, Finish, Lysol, Veet, Strepsils, Woolite, Vanish, Trix and Harpic. In Bangladesh, the most popular products of R & B are Dettol soap, Dettol liquid and Harpic.

In 2019, R & B widened its market shares in the bar soap category and is holding the top position in the toilet cleaner category. Its paid-up capital is BDT 47.25 million; authorised capital is BDT 250 million and the total number of securities 4.72 million. Sponsor-directors own 82.96% stake in the company while the government owns 3.77%, institutional investors 4.48%, foreign investors 2.82% and general public 5.97%.

Requirements:

- a) From the financial data, analyse the financial performance R & B Ltd. considering impact of:
 - i) Corona virus 4
 - ii) Russia-Ukraine War 4
- b) What should be Strategy of R & B as well as Bangladesh government for recovery from the effect of Russia-Ukraine war in the short run and in the long run? 3

5. Bondhu Ltd. is a huge departmental super store located in Dhaka, Bangladesh. The store has 16 different departments, selling such diverse items as shoes, fabrics, children toys, foods and vegetables, and many others. It has only a small accounts office for administration and control. The store is run by a store manager for each department within the store. Selling margins are set by the store manager, although there is scope to flex the margin after consultation with the departmental managers. All suppliers are paid by the accounts office. Each departmental manager is responsible for product sales, employee cost and any special events.

This company's management reporting system is very simple. The accounts office prepares a monthly cash flow statement. Balance sheets are compiled from the 16 departmental income statements and balance sheets. The departments prepare their income statement by calculating cost of goods sold by reference to the selling margin.

Bondhu Ltd. is now in the process of changing to a computerized management reporting system. The system will be able to generate report in as much detail as is necessary for management.

The managing director has come to you for advice about the new management reporting. He wants to know all the relevant information required for management decision making under the new reporting system, as well as to develop a new balance score card for the company for improved monitoring of the company.

Requirements:

- a) Suggest six most important management information required for decision making and how the information will be arrived at with their advantages? 6
- b) How a balance scorecard helps in performance management? 4
- c) Draw a sample balance score card for Bondhu Ltd. 4

6. a) A Consultancy firm having its branches in Chattogram and Khulna is facing the problem of non-timely completion of services. Clients are not satisfied with their services just because of delay. However, firm has a qualified team of professionals in different fields and the team members are highly qualified and experts in their field.

On investigation it was found that the main reason of delay is mobile phones of staff. Staff spent their valuable time on mobile phones; however staff uses his or her mobile phones for 2 to 3 minutes at a time but frequency is high. As a result, on an average daily every staff member spends 30 minutes to 1 hour on receiving personal calls and on social media. It looks just a small issue but its effect is large as it also diverts their minds from their ongoing work also.

As it is a consultancy firm, it is not possible for staff members to work without phones because they have to converse with client's officials from time to time and clients also call them to tell their additional requirements and feedbacks.

To resolve this problem, management has decided to provide landline phones. Now staff members have to submit their mobile phones at reception, and they are not allowed to take them at their workplace. Staff members are advised to use landline phones and firm e-mail to contact the clients. As per management opinion it will improve their efficiency up to 25%, but there are some issues in which management wants your advice and opinion.

Requirements:

- i) Whether clients will be compatible with such type of arrangements? 5
 - ii) Will it affect the morale of staff members, and will it affect long term sustainability of firm? Give reasons. 5
- b) Your firm, ABC & Co. is the financial adviser of TDCL Ltd. which makes three products X, Y and Z in Divisions A, B and C respectively. The division X is currently working at 60%, Y is working at 80% and Z is working at 100% of the total production capacity. The following information is given:

Particulars	X	Y	Z
Direct Material	10	25 (Excl. material X)	35 (Excl. material X)
Direct Labour	6	8	10
Variable Overhead	2	3	4
Total Production Capacity	15,000 units	5,000 units	2,500 Units
External Demand	7,500 Units	5,000 Units	3,000 units
Selling price to External Customers	30	83	90

The company has to incur additional fixed cost of BDT 9,000 for using every 10% of idle production capacity. Production capacity cannot be enhanced beyond total production capacity.

Product X can be used as input material for Y and Z. Product X is available in the market at (BDT30 per unit. Each unit of Y and Z need one unit of X as their input material.

X supplies the product without any defects, error free for direct use at shop floor without any further quality inspection to Y and Z. If Y gets transfer of material from X, it can be directly used, but if it buys from outside vendor, it must pay BDT 30 plus quality inspection charges of BDT 2. Z gets material from outside vendor at BDT 30. If it buys from X, it has to slightly alter the product X which will cost BDT 3 as alteration cost.

X wants to fix uniform transfer price for both Y and Z. This price will be for divisional transfer only and it has nothing to do with outside sales.

Requirement:

Recommend the best strategy for each division and company.

10

- c) Kazi Tea Co. manufactures and distributes finest quality black tea to hotels, restaurants and retailers. The company has wide presence in tea market. It has become one of the largest premium brands. The customers are very happy with the finest quality of tea. Kazi Tea Co. never compromise with the quality of the tea. The aim of the Company is to deliver finest black tea to keep the customers happy. It has tied up with big tea estates for procurement of finest tea leaves directly from the estate for processing in its own plants. The tea leaves go through various processes like plucking, withering, brushing, oxidising, grading, drying, sorting, and shaping etc. Then these are packed in beautiful plastic jars for distribution to the hotels, restaurants, and retailers.

During the meeting of the management, it has been decided to reduce the price per kg by 5% to increase the volume of sales. The following variances pertaining to last month's operations, arose as a consequence of implementation of above decision.

Sales Price Variance	BDT 24,500 (A)
Sales Volume Variance	BDT 20,600 (F)
Purchase Price Variance	BDT 15,500 (A)
Labour Efficiency Variance	BDT 14,300 (A)
Fixed Cost Expenditure Variance	BDT 11,100 (A)

Requirements:

- i) Identify the 'Critical Success Factor' for Kazi Tea Co. 2
- ii) Evaluate the management's decision with the 'Overall Corporate Strategy' and 'Critical Success Factors'. 3
- d) The IT Director of ABC Ltd has asked you to undertake a cost-benefit analysis of a proposed new IT system. The IT Director will use this analysis to convince the Board of Directors of ABC that they should invest in the new system. As part of your analysis, you found that the new system will not run properly on ABC's existing computers. This means that ABC would have to replace most of their existing Desktop computers and servers, leading to an excess of costs over benefits.

The IT Director has suggested that you downplay the cost of replacing the IT infrastructure as he was sure that he 'could find a work-around' that would allow the existing computers to use the new software, though he was currently uncertain how this would be accomplished.

The IT Director has told you that he 'expects' the cost-benefit analysis to show a favourable result for the new system and has indicated that your future promotion prospects may depend on this.

Requirement:

Explain the IFAC's fundamental ethical principles that you would be breaching if you agree to do the IT Director's request.

5

---The End---