

BUSINESS STRATEGY

March-April 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. Hawaii Mithai Foods Inc was incorporated in 1991 and is currently established as a leading producer, distributor and retailer of foodstuffs in the Country X. It produces its own chocolate which is a brand leader in the Country X and recently it has shown interest in expanding its activity to Country Y. The project is still very much at the drawing-board stage and you have been engaged as a management consultant to assist in the assessment of its viability and the construction of a strategic plan to achieve its objective.

The chairman's view

Your initial interview with the chairman, Habib Khan, took place two months ago. The chairman was optimistic about the venture as the following summary of his comments shows. 'We're a big player in the Country X but you can't stand still in this game. We've got to spread our wings and I want to see us playing around the globe. South Asia is our first target and establishing in Country Y gets us our foot in the door with the single South Asian Market opening the way to the rest.

Our big strength is our chocolate – a lot of our success in the Country X is based on cracking the chocolate market there. We sell all sorts of branded chocolates. People from Country Y like chocolate, also this is consumed by the tourists visiting the country.

So taking our chocolates into Country Y as the first step makes strategic sense.' Prior to writing your preliminary report you undertake some investigation into the nature of the Country Y's chocolate market.

The products of the chocolate industry

The Country Y's chocolate industry produces three main categories of chocolate.

- **'Blocks'** which are generally moulded blocks of chocolate with or without any additional ingredients. These products are sold in standard sizes and are distributed mainly through grocery outlets.
- **'Countlines'** which are chocolate products sold by count rather than by weight. These, unlike block chocolates, have a wide range of products which are distinct from each other in size, shape and weight, and which tend to have a strong brand image and are distributed mainly through non-grocery outlets such as newsagents and kiosks.
- **'Boxed chocolates'** which are individually branded products, such as Black Magic, and are mostly sold as gifts, about 80% in holiday periods. During these periods they are mostly sold through grocery outlets, while over the rest of the year sales are mainly through non-grocery outlets.

The main competitors in the Country Y's market

Your research produced the following findings.

Name of firm	Key brand names	Market share	
		Country Y %	South Asia %
Firm A (Country Y)	Brand 1 Brand 2 Brand 3 Brand 4 Brand 5	30	10
Firm B (Country Z)	Brand 6 Brand 7 Brand 8 Brand 9	28	20
Firm C (Country X)	Brand 10 Brand 11 Brand 12 Brand 13 Brand 14	26	16
Firm D (Country Z/Country X)	Brand 15	2	12
Others		14	42
	Total	100	100

The economics of competition

Companies in the confectionery sector have to be competitive in three key areas to be successful in the long run.

- (1) They have to be cost-conscious, both when purchasing raw materials and during the production process.
- (2) They have to distribute and market their products in the most effective way.
- (3) They have to compete by bringing out new products when possible and desirable. Your analysis of the breakdown of the total costs of the ‘Big Three’ showed the following components.

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<i>Component</i>	<i>%</i>	<i>Comment</i>
Raw material and production costs	55	Fluctuating cocoa prices usually absorbed by producers to preserve relatively stable retail prices
Packaging and distribution costs	15	
Marketing costs	20	Firm C was the seventh highest Country Y’s advertiser last year, spending BDT 33 million, closely followed by Firm B with BDT 32 million and Firm A BDT 29 million.
Other absorbed costs	10	
	100	

Requirements:

Prepare a memorandum for the main board of Hawai Mithai Foods Inc which:

- a) Assesses the nature of the competitive forces (using Porter’s Five Forces model so far as the information allows) which Hawai Mithai would face if it were to expand into the Country Y chocolate market. 11
 - b) Recommends a strategic way forward for the company in this matter. 5
2. EMC Mining Company Ltd (EMC Ltd) started extending exploratory activities in the Moulovi Bazar and Hobiganj districts. EMC Ltd has stated in its mission statement that it will “try to maximize profits for its valued shareholders and at the same time recognize its wider responsibilities to the societies in which it operates.” EMC Ltd has a glorious chance to mine emeralds in some far and thinly populated areas of Moulovi Bazar. The implications of the proposed mining in Moulovi Bazar is that it will lead to all trees and grass being removed from the land. After the mining operations, there will be big lakes of water contaminated with chemicals for up to thirty years.

The mining of emeralds is profitable for the EMC Ltd and is likely to provide jobs for the locals and boost the economy of Bangladesh. But if EMC were to make good of the land to re-instate the mined areas, the cost of doing this would render the project unprofitable. After much lobbying, the company obtained permission from the Ministry of Mineral Resources to carry out the mining. EMC Ltd faces objections from a few local communities in the remote areas of Moulovi Bazar who are opposed to mining because of the likely increase in traffic and noise from heavy construction trucks and possible relocation to other areas.

Requirements:

- a) Discuss the extent to which the mission statement seems to be contradictory. 5
 - b) Explain how EMC Ltd can establish a procedure such that its wider responsibilities to society can be considered each time it is carrying out strategic decisions. 5
 - c) Advise EMC Ltd how it could deal with strategies that prevent a conflict of objectives. 5
 - d) Discuss the ethical dimensions to mine emeralds in the outskirts of Moulovi Bazar. 5
3. Kaneez Beauty Care Ltd. (KBCL) operates beauty care and hair dressing salons in Dhaka. It operates five such outlets in the rented premises in different locations of Dhaka metropolitan city. Below are its summarized accounts for 2021-22, 2022-23 together with the future projections of financial year 2023-24. For 2023-24 they have prepared two alternative budgets: Budget -A and Budget- B

Income statement:

Financial year ends 30 June	2021-22	2022-23	2023-24-A	2023-4-B
Sales	500	524	550	275
Rentals				210
Total revenue	500	524	550	485

Less cost				
Supplies*	60	63	66	66**
Fixed staff cost	160	168	180	90
Other fixed cost	264	276	296	294
Total cost	484	507	542	450
Profit	16	17	8	35
*Supplies 12% of sales				
**Budget B supplies is 12% of Budget A sales				

The business profile

KBCL was incorporated in 2014 when the company's two directors were Ms. Shezin Kaneez and Ms. Jeenat Ara. The business was very successful and the next ten years they opened further 4 outlets for high street saloon in Dhaka city. Altogether the business employed 40 stylist assistants, and beauticians. Two directors also worked as beauticians apart from holding the Directorship.

Recently the competition among the beauty parlours and hairdressers became intense. And to ensure success, it is necessary to saloons to employ good stylist hairdressers who keep up with the latest fashions. It is also necessary to provide latest beauty care facilities. Though KBCL has been able to compete effectively, the directors are now keenly aware that they need to refurbish the salons, if they are to maintain their place in the market.

Business plan:

With this objective in mind the directors have budgeted to invest Tk 1.00 million in new fixtures and fittings in the next financial year, which they regard as being the minimum necessary to maintain market share.

They prepared two alternative budgets for 2023-24 assuming that the business would operate in the same way as the previous years. Most of the fundings would have to come from the bank. However, Shezin Kaneez feels that the bank may be unwilling to advance the additional fund required as it already has substantial second mortgage on director's homes. She has therefore prepared an alternative forecast for 2023-24, Budget B. This follows recent practice in the trade whereby many salons rent out chairs to specialists, who in return receive the takings from their clients. Under this scenario the company would still be responsible for supplying all materials and facilities. Such a franchising arrangement for twenty of the employees would reduce company's fixed cost, provide flexibility, increase annual profits more than fourfold compared to budget A and lower the funding required from the bank by around 60%.

Other options:

Ms Jeenat believes that other reasons should also be considered. One possibility would be to make the salons unisex catering for the needs of men and women. Another would be to close the existing shops if alternative arrangements could be made to open salons with in departmental stores. However, she thinks the most advantageous option would be to sell out to one of the large regional chains of hairdressers.

The Company accountant who also made the point that the way risks are shared alters when stylists rent their own chairs. They will have a stronger incentive to satisfy client's needs, but if they are successful, KBCL will not participate in the upside potentials unless an appropriate ratchet-based profit sharing is agreed. On the other hand, the exposure of KBCL to downside risks will be less in her view. If the business is to be offered for sale to rival chains, it will be necessary for differences in risk sharing to be reflected in the valuation.

Requirements:

- a) i) Calculate the break- even level of KBCL for 23-24 under Budget A 3
 - ii) Determine the level of profit under Budget B for 23-24, assuming the same total number of customers under break-even level under Budget A. 3
- b) As the adviser to the company prepare a memorandum to the directors examining the key strategic issues: 9
 - i) Employing staff versus renting out chairs to stylists (considering in particular the risks which will be borne by them rather than the company)
 - ii) Considering the shops to unisex saloons
 - iii) Closing the saloons and taking concessions in departmental stores.
 - iv) Selling out to a local chain of hairdresser.

4. Tourism and hospitality business is one of the booming sectors of today's business world. It contributes a great deal in every countrywide current economic climate. Sonar Bangla Hotel (SBH) is the first renowned five-star hotel in Bangladesh which is related to travel and leisure and hospitality business. They are successfully managing their business for many years. Hospitality and tourism industry needs smart and reliable staff. SBH has these types of employees. And they are pretty much useful to Human Resource Management. Company's performance is highly depended on the performance of their employees. If the employees perform their duties correctly company's performance will be better. Beside these, SBH developed new approaches for their employees where they will be satisfied with the business. To step forward, SBH nurture and practice few central competencies in the hospitality and tourism industry. The initial step of important activities of HRM is recruiting labor and its work forces. If organizations employ the service of specific labor haphazardly without the employment planning they would not be able to provide services to their customers flawlessly.

SBH also practice useful tools in job planning. Job satisfaction is highly regarded to the workers and the fulfillment of their expectations. If they are satisfied with the job environment continue with the job and come back. SBH maintains in mind to provide their workers with gain and compensation by which they can change into loyal worker.

To step forward SBH has to nurture and practice few key competencies in the hospitality and tourism industry. SBH presently developed new HRM strategies are given below:

-High allowances: Company's performance is highly dependent on the employees who help the organization. If they are content with their allowance they'll be serious in their work. Understanding this fact SBH provides their employee with high allowances.

-Package head: SBH offer their permanent employee package head according to their performance and their qualities

-Commission: In addition, they provide commission to their employee on the basis of their capacity of the visitor handling. Besides the salary, this has a great motivational thing to enhance their performance.

-Bonus: Yearly bonus offer and the occasional bonus are given by the SBH to their employees. These bonus products make the salary greater than any other company in this sector. So employees become gratify with this bonus.

-Transportation facilities: They have transportation facilities because of their employees so the employees have safe journey to their workplace without any dangers.

-Lunch and evening meal: SBH provides lunch time to their employees, in order to get their meals in their work place. It reduces the wastage of time and boosts the capacity of doing work. They can have a get together in the lunch period and in a position to discuss a great many other issues between them.

-Housing: In addition, they offer their worker housing facilities according to their position in the job sector. Proper housing can take away the frustration and anxiety of being safe.

Recently, SBH has been refurbished with additional Taka 1000 million to make the hotel attractive to the foreign visitors and compete with other similar hotels. A new General Manager has been appointed. He in an initial meeting emphasized that HR management and satisfaction of the employees is most important to be successful in hotel and tourism business. He wants to formulate a human resource management strategy to recruit smart employees with experience and motivation, want to reduce the employee turnover, and want to encourage the best performers through rewards.

Requirements:

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| a) Evaluate importance of HRM and employee motivation in tourism and hospitality industry. | 3 |
| b) Discuss the HRM related problems in tourism and hospitality industry. | 4 |
| c) Suggest management what .measures are to be taken to reduce employee turnover? | 4 |
| d) Advise SBH on the current recruitment policy. | 4 |

5. a) Director of Alpha Ltd., a small manufacturing company, specializing in industrial packaging tape is worried that the cost plus pricing method currently used is not necessarily the most appropriate. He is seeking advice from you to provide a memorandum that:
- i) Explain the role and importance of pricing to the marketing effort. 3
 - ii) Suggest and explain the differences in both competitor based pricing method and demand market based pricing methods. 3
- b) You are the Marketing Manager of a large automobile industry. The Managing Director of the company is concerned with the marketing of its products which is coming in the market shortly. He wants your advice on the following issues:
- i) Explain the concept and importance of branding to the company. 4
 - ii) Explain the way in which relationship marketing can be used to attract and retain its customers. 4
6. Akter Furniture Limited is a household and garden furniture manufacturing company, which employs about 20 people. It buys its timber in uncut form from local sawmillers. It cures it in the kiln and stores the timber in a covered area to dry out and season before use. On average this process takes up to one year; and the wood yard takes up so much space that the production area is restricted. The product range offered by the company is limited to the manufacture of household and garden seats and tables because the owner-manager, Mr. Binoy Sharma, has expanded the business by concentrating on the sale of these items and has given little thought to alternative products. Mr. Binoy is more of a craftsman than a manager, and the manufacturing area is anything but streamlined. Employees work on individual units at their own pace, using little more than a circular saw and a mallet and wooden pegs to assemble the finished product. The quality of the finished items is generally good but relatively expensive because of the production methods employed. Marketing has, to date, been felt to be unnecessary because the premises stand on a busy road intersection and the company's products are on permanent display to passing traffic. Also, satisfied customers have passed on their recommendations to new customers. But things have changed. New competitors have entered the marketplace and Mr. Binoy has found that orders are falling off. Competitors offer a much wider range of household and garden furniture and Mr. Binoy is aware that he may need to increase his product range, in order to compete. As the owner-manager, Mr. Binoy is always very busy and, despite working long hours, finds that there is never enough time in the day to attend to everything. His foreman - Didarul Islam, is a worthy individual but, like Mr. Binoy, is a craftsman and not very good at managing human resources. The overall effect is that the staff is left very much to their own devices. As they are paid by the hour rather than by the piece, they have little incentive to drive themselves very hard.
- Requirements:**
- a) Explain what is meant by the terms 'value chain' and 'value chain analyses'? 5
 - b) Draw the diagram to give a brief explanation of each part of Porter's Value Chain. 5
 - c) Analyse the activities in the value chain to identify four key problems facing Akter Furniture Ltd. 5
 - d) Based on your analysis, prepare a set of recommendations for Mr. Binoy to assist in a more efficient and effective operation of his business. 5

---The End---