BUSINESS STRATEGY

Nov-Dec 2022

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. Noran Corporation Limited is the leader in retail pharmacy in Bangladesh, impacting millions of lives every day through dispensing medicines and providing accessible high-quality care. With more than 40 years of trusted healthcare heritage and innovation in community pharmacy, the company is meeting customers' and patients' needs through its convenient retail locations, digital platforms and health and beauty products. "Operating our business in a way that cares for the environment has never been more important than it is today. Our Recycle and Take-Back Scheme is just one of our commitments to the community we live in"- the CEO of Noran Corporation. Noran has a presence in each of the divisions in Bangladesh with 134 stores and employs more than 20,000 people. In addition, it is one of the largest purchasers of prescription drugs and many other health and well-being products. The company's size, scale and expertise help it expand the supply and address the rising cost of prescription drugs throughout the country. Noran provides customers with convenient, omni-channel access through its portfolio of health and beauty product brands, such as PoL, Dour, LookUP and MySkin.

The company's brand portfolio is enhanced by its in-house product research and development capabilities. It seeks to drive further innovative ways to address health and wellness challenges. Strategic partnerships with some leading companies enable Noran to extend its healthcare solutions and convenience offerings to the communities it serves. The company was incorporated in 1976. It reported BDT 7,000 million profit in the year ended December 31, 2021. Although most of the segments of the products of Noran are highly profitable, the overall performance of the deodorant segment (segmented by spray, roll-on, stick, and others) of the portfolio is fading. The sales and market characteristics of the products are as follows:

Product name	Company sales BDT in million	Largest competitor's sales BDT in million	Industry sales BDT in million	Market growth Rate %
Vintage	20	50	830	16%
Nectar	2	60	350	4%
Stale	80	70	240	8%
Thick	45	35	180	12%
Sour	5	40	270	5%
OddSmell	42	35	480	3%

Operational and strategic updates: The operations of Noran are split into two areas, pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution. Since 1982 it has had a stand-alone contract manufacturing business and various agreements and arrangements including a distribution agreement with Nikolas Drugs Limited, a Dhaka-based pharmaceutical product manufacturer, to source branded and generic pharmaceutical products and provide Nikolas with the ability to access the generic pharmaceutical materials through the sourcing enterprises of Noran. Placing products in the customers' convenient location is key to the business of Noran. Therefore, the company competes with other retailers and businesses for a suitable location for its stores on favourable terms. It emphasizes on the ways to avoid changes in the demographic of its stores.

In October 2021, the company announced the launch of its new healthcare strategy. At the centre of the company's healthcare strategy is Megiant Health, a technology-enabled care model powered by a nationally scaled, locally delivered healthcare platform. Noran pursues its growth strategy primarily based on external developments. It profoundly focuses on the development of its ability to identify and successfully complete acquisitions, joint ventures and other strategic alliances to ensure the achievement of desired growth. In 2020, the company acquired two companies and entered into a strategic partnership with a packaging company, a 60% owned subsidiary of the leading tobacco company in Bangladesh. The alliance however has not been perceived well by the national non-government health organizations. Pursuant to the external development-based growth strategy, the company outsources certain business and administrative functions and relies on a third party to perform certain services on its behalf.

One of the greatest concerns is perhaps it's low ranking for political activities. A survey by Your Health, an NGO in Bangladesh, shows a large majority of people oppose private companies operating within government hospitals. Campaigners calculated in 2018 that 24% of the revenue of Noran came from the stores within the government hospitals, either via prescription or outsource services. It has already been established that Noran is a big company with a high profit-seeking culture and a high expenditure (BDT 200 million on lobbying and BDT 120 million in political donations) on lobbyists. Noran however has initiated the collaboration and sharing of existing operations and practices within the pharmaceutical industry (With Environment) to achieve strides in environmental responsibility.

The supply chain of Noran Corporation: The supply chain at Noran is plagued by challenges or unique characteristics and trends in the pharma value chain that make drug supply management difficult. These include disconnected IT systems and lack of visibility, agility, and resilience. The chain is also beset by a heavy reliance on time-consuming manual and paper-based processes. To overcome these challenges and increase pharmaceutical supply chain optimization, progressive organizations in the healthcare sector are turning to innovative digital tools and technology. They are investing in technologies like cloud-based supply chain networks and multi-enterprise work management software to streamline, automate, and enhance pharma supply chain management.

One of the operational policies of the company is making every product available in all of its stores to ensure customers receive all products that Noran sells. To ensure product availability, the company increased its storage facilities substantially in every store. Although the policy helped the company gain more revenue, the perishable nature of drags undercut the resiliency. In 2020, the company disposed of inventories of BDT 45 million. Teva Move, the logistic service provider of Noran, has been in serious financial distress since the Covid-19 pandemic outbreak. Over the last couple of years, the company disposed of one-third of its distribution vehicles. This however has not resulted in any major disruption in the operations of Noran.

Challenges for pharmaceutical industry near future: As a least developed country (LDC), Bangladesh would get patent exemption on pharmaceutical products till 2033 as per the TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement with the World Trade Organization. Since Bangladesh is looking forward to graduating from LDC by 2026, Bangladesh is likely to lose the patent exemption facility seven years before the expiration date. Which may stop the development of the pharmaceutical industry in Bangladesh because if Bangladesh loses the benefits of the TRIPS agreement, pharmaceutical companies will have to enact new patent laws. As a result, manufacturing of many types of generic medicine is likely to cease. Moreover, the pharmaceutical business operations are subject to risks related to climate change such as extreme weather, regulatory or technological changes, which will affect the operations of market participants.

Requirements:

a) Identify the operational risks of Noran Corporation Limited and explain how these risks could materially and adversely affect the business operations, financial conditions and results of operations of Noran. 7

b) Analyze the deodorant product segment of Noran using the BCG matrix and provide recommendations. 5

c) Analyze the supply chain issues at Noran and suggest corrective actions to build resilience in the supply chain. 5

d) Identify the ethical issues, if any, at Noran and provide appropriate recommendations. 3

2. Quick Cab Limited, a traditional taxi service company in Dhaka, has been in the public transport market since 1984. Within a short period, the company consolidated its position and became the largest taxi operator in the market. In 2010, the company had a fleet of 130 cars (driven by 70 permanent full-time employees) that crossed approximately 9,000 kilometres daily from its eight stations, covering every corner of Dhaka city. Positive word-of-mouth contributed to the company's rapid customer growth. Customers can use the website to book cars online or over the phone. Mr Abdul Alim founded the company after making a career as a cab driver in his early life. Mr Sarwar Jamil, the son of Mr Alim, was to run the business. Mr Jamil however opted to travel to Australia for his higher education since he was uninterested in operating the business. Mr Alim sold the company in 2010 despite its great profitability due to his medical condition.

Under the new ownership and management of Circle Provident Fund (CPF), an employee provident fund of a local conglomerate, the company was flourishing. However, since Uber began operating in Bangladesh in 2016, Quick Cab's profit margin has been declining. The technological disruption caused by Uber, Pathao, and other mobility service providers has perplexed the management deeply. In 2017, the firm reported a net loss of BDT 15 million for the first time, and the bottom line has never been positive since. By 2021, the fleet had been reduced to 40 vehicles. The following is an extract from the company's statement of financial position for the year ended 2021:

Particulars	BDT in million
Property plant and equipment	1,200
Receivables	20
Other assets	980
Total assets	2,200
Equity	
Share capital (BDT 100 per share)	200
Reserves	380
Liabilities	
Loan liability	1,350
Liability for expenses	270
Total liability and equity	2,200

Although the impact of this disruption is significant, industry experts and researchers believe everyone will not be killed by it. A suitable market-fitting strategic move will still be able to deliver profit. However, pursuant to the recurring losses, the CPF is no longer interested to continue operating the company and has approached Mr Sarwar Jamil with a sale offer. Mr Jamil has decided to take the company back as he regrets disobeying his father's wish. Accordingly, he has appointed PMG Consultants to help value the company based on its net assets and find strategies to bring the company around. All parties involved concur that the asset-based value is the most suitable method of valuation given the market and the company's present deteriorating conditions.

The review of the PMG team revealed that the market value of 3 cars is BDT 3 million greater than their book value while an asset amounting to BDT 2 million has impaired. Even though the company has estimated and budgeted BDT 12 million for an enduring litigation, BDT 32 million is the most likely outcome. The accountant has accrued an interest expense of BDT 12 million instead of BDT 21 million. The PMG team leader met with the current CEO of Quick Cab to discuss the operational challenges. "The price we are offering is not any more competitive. How can we help? Uber does not incur expenses like us! Being used to Uber services, the expectation gap of customers on our service is intensifying. However, we do not want to deal with this anymore. We simply want to ensure we are getting a good deal. Remember, the lower the price, the greater the loss would be for your father since he is one of the fund members" - the CEO explained.

Requirements:

You are the manager of the assignment. Prepare a briefing note for the engagement partner that addresses the following issues:

a) Suggest how Quick Cab may deal with the technological disruption. 6

b) Determine the floor value of Quick Cab (based on its net assets) for the proposed acquisition by Mr. Jamil. 6

c) Identify the ethical issue surrounding the consultancy engagement and suggest appropriate actions. 3

3. Bengal Food & Coffee Ltd. (BFC) is a fast food chain shop. It was established by Mr. Robin in 2001. Mr. Robin initially owned 100 % of the shares of the company.

Upon incorporation, BFC bought an unused petrol station in Dhaka near the financial sector of Motijheel and converted it into a high quality Fast Food and Coffee shop which included a drive through facility. The key three target markets were:

i. Early morning commuters, particularly those driving to works, who could collect hot breakfast and coffee prior to work. Frequently other coffee shops had no nearby parking facilities and are therefore not easily accessible by car based customers. Customers of BFC could also text message orders in advance from car to speed up their services.

ii. Lunch time market: This included passing trade from drivers who are constantly on move. It has some offices nearby and deliver burger, sandwiches, fried chicken about 1000 meal per day to these major account customers.

iii. Travelling home traffic: They order before departing office and pick up the meal on the way back to home.

By 2007 BFC had experienced strong growth in sales and the business had expanded to seven outlets, all based in busy and affluent commercial areas of Dhaka. And all with a drive through facility. In order to achieve this growth Mr. Robin had needed to borrow significant amount of finance and raised new share capital from individual investors such that by 2007 his shareholding was only 55% of the total share capital.

Key Policy: Key corporate themes placed on the wall at every outlet were:

- Never make the customer wait. Better over staffed than under staffed
- Quality product, quality service, 100% customers' satisfaction is our aim.
- Mr. Robin physically visit every site/outlays every day.to ensure quality of foods and services

Further expansion: Mr. Robin is keen to expand the company further in the next few years as his business ideas has proved profitable. In particular, he believes there is growth potential in other divisional cities of Bangladesh. It is clear however, that further borrowing is not possible for the foreseeable future.

The three strategies identified for expansion are therefore as follows:

i. Organic growth by reinvesting net cash flow.
ii. Franchising the business outside Dhaka. This would give the right to use BFC name. BFC would also supply franchises with all food and related product at contractually agreed price. BFC could also receive 10% of the sales revenue generated by the franchises and an initial capital payment.
iii. Raise new shares capital from the small number of rich individual investors to acquire new out lets in divisional cities in Bangladesh. This would mean Robin would have to minority shareholding and there would need be a new board of directors. One of the other shareholders had commented Robin-you are a great entrepreneur, but an awful manager because you won't delegate – if you are going to grow the business you will need help.

Requirements:
Evaluate each of the three proposed strategies for expansion for BFC under the following headings:

a) Governance and control 6
b) Growth and profitability 6
c) Strategic risks 6

4. High Ceramics Limited (HCL) is a quality tableware manufacturer based in Savar, Dhaka, with its corporate office in Dhaka, Bangladesh. It was established by Mr. Forhad Rahman, a local businessman and entrepreneur as a private limited company. It was founded in 1997. Main raw material for the ceramic industry, white stone is available in the surrounding area of Mymensingh district. It is specialized in the design and manufacture of exclusive ceramic tableware, which are exported to European countries and also sold in local Bangladesh market through different own outlets and agents' showrooms.

HCL did very well in terms of profitability and was converted to a public limited company in 2010 at the peak of its success, when it was listed in the Dhaka and Chittagong Stock Exchange. 30 % of the share of the equity share capital remains in the hands of Rahman family, 40% by the institutional investors, and the remaining by the individual investors.

Now, after several years after listing, HCL's results began to deteriorate. HCL decided outsource some of its manufacturing operation to other place of Bangladesh in an attempt to reduce cost and to address competition from the following sources:

i) Cheaper raw material cost and low labor cost;
ii) Few new companies started to introduce new product designed to resemble high quality tableware;
iii) Government has allowed to import foreign branded low quality products.

These sources of competition have become more powerful since 2021 and sales and profits have continued to decline, despite the outsourcing decision. The most recent results for the year ended 30 June, 2022 show a fall in revenue of 15%, fall in profit 25%, and negative operating cash flow. The business urgently needs to change policy, marketing plan, other operating issues if it wants to avoid loss making and continue business.

For nearly a year, institutional shareholders have been openly critical of the Chairman and CEO, Mr. Sohel Rahman (son of Mr. Farhad Rahman). Chairman & CEO runs the company in an authoritarian manner. He has refused to appoint non-executive directors, on the basis that they would not be as committed to the company as its executive directors, whose remuneration is based on the financial performance of the business. Some institutional investors have suggested that the company should consider seeking a buyer from other manufacturer.

A Board meeting was held on the issues regarding future strategic options. Following were opinion expressed by the directors:

Marketing Director: for years' we have set worldwide standards in tableware design and manufacturing, but people's attitudes to dining have changed. As formal dining has given a way to more relaxed eating habits, so our traditional products has become unfashionable. As a result, our sales to individual customers are now concentrated on a very narrow market, consisting customers over 40 years of age. What's more the recession is unlikely to help matters as it will inevitably depress sales of what is seen as a luxury item.

I think we have taken too narrow a view of SAARC market as the solution to our manufacturing. I believe we should also focus on SAARC countries as a new sales market. There is an opportunity here to build a brand image of exclusive tableware, based on our English style and heritage.

We also need to target the new, younger generation who are unfamiliar with our products. The recession may work in our favor here, as more people choose to dine at home instead of eating out. We can exploit this by introducing a new range of everyday designer tableware. One of the famous chefs, owns a well-respected design and marketing business. He has agreed to cooperate with us in a joint venture to launch such a product.

Production Director: I think the lack of sales is more about supply chain issues than anything else and these have impacted on our customer service capabilities. At the moment there is mismatch between the high quality of our product and the level of service we are providing to the customers. Although, we carry high level of inventory, these are not always of the right product lines. Because of the lead times associated with overseas manufacturing, production and delivery times have increased and our level of overdue orders is unacceptably high.

The problem is exacerbated by the fact that all our key strategic and operational decision making is carried out by the board, so production is based on centrally produced sales forecast and not driven by real customer demand. Our centralized management structure has given rise to inflexibility and slow response times. It has also stifled local sales initiatives and design innovations. I believe that we need to address our supply chain issues and at the same time change our decision making structure so that more authority is delegated, and sales planning is undertaken by local managers within each sales market.

A former colleague of mine now works at Popular Electronics Ltd. (PEL), a company which manufactures portable consumer's electronics such as digital radio, MP3, and DVD players. They have just completed a review of their supply chain with amazing results, and they have published some of their data on this. I think we could learn something from what they have achieved.

Chairman and CEO: I really don't see how we can learn anything from PEL- they are in a completely different industry from us. Surely, they don't know anything about the manufacture of ceramic tableware and any targets they set for their supply chain will not be a relevant benchmark for ours.

Requirements:

Acting as a consultant to the Board of Directors answer the following:

a) Using Ansoff matrix, analyses the proposals made by the Marketing Director regarding product marketing. 4

b) Evaluate the Production Director's proposal to decentralize decision making. 3

c) Evaluate the comments made by Production Director and the Chairman regarding PEL's issue as a case of benchmarking. 6

d) Explain the principles of good corporate governance which would be relevant and the ways in which non-executive directors would be of benefit to the running of HCL. 4

5. Eaier Electronics Limited (EEL) is an electronic household appliances manufacturer in Bangladesh. It sells its products through distributors across the nation from its factory in Gazipur, Dhaka. Despite the growth in revenue, the bottom line was not adequate. To better manage the cost factors, EEL recruited a certified cost accountant- the controller of costs (COC). In his review for the year ended 2019, he inscribed that the overall distribution cost to revenue of the company is 8%, 15% higher than that of 2018. Accordingly, he made a proposal to acquire a distribution company to reduce the cost. The board of directors got split in half concerning the acquisition. However, the acquisition of Bay Distribution

Limited (BDL), one of the four current distribution service providers, in 2020, was approved in that meeting based on the casting vote of the Chairman.

Post-acquisition review:

In 2021, a year after the acquisition, the board held a meeting to review the performance of BDL and the financial and operational benefits gained from the acquisition. The head of marketing, who believed to have influenced the marketing director to vote against the acquisition, is furious of the post-acquisition results. “If we are to pay the same price to our own company, why have we acquired it? Why we are still using the other three external distribution companies as we have acquired BDL and incurring unnecessary costs? BDL seems a separate company still. We now have our own distribution company which we can use for our distribution need”.

At that meeting, the CEO informed the board that, for the first time, BDL's management had been given full autonomy to make any decisions it believe to be appropriate for the company. As a result, not much has altered since BDL was acquired. For EEL and its other customers, BDL continued to offer comparable distribution services and to charge comparable prices as it had done before the purchase. In addition to using BDL, EEL's distribution managers also kept using the other three distributors.

There are rumours that the marketing manager neglected to focus on organizational processes when he listed BDL as a distribution service provider to EEL in his role. The marketing manager is believed to have a financial interest in the deal with BDL. He however refuted the rumour and stated that his repudiation was to assist EEL to focus on its core business. He further clarified that the referral reward is a policy at BDL and has no bearing on the contract price. There is no issue of legality because at BDL the pricing structure is the same for everyone, regardless of referral. The meeting ended with the board instructing the CEO to have BDL reduce the transfer price by 6% and terminate all the contract BDL has with third parties to ensure the entire facility at BDL is accessible for EEL.

Requirements:

a) Analyze the decision made by the board at the first post-acquisition review meeting to terminate all external contract of BDL and reduce the transfer price. 6

b) Explain the ethical issue related to the acquisition decision, if any, and suggest appropriate actions. 4

6. Modern Fabrics Ltd (MFL) is a manufacturer and supplier of fine quality import substitute fabrics under Super Fabrics Brand. Its sales were mostly to the garments industries. The company MFL was established during 80s when the garments industries started to boom in Bangladesh. Its factory was located in the industrial zone at Savar.

After 20 years, a separate manufacturing division was opened as Super Saver Brand at Gazipur district. They acquired an old factory to produce low cost products to sell in the local market through whole sellers. The company’s Head office located at Dhaka and two divisions at outside Dhaka and producing two types of product run by two management teams. The company treats the two divisions as a profit centre and, while maintaining financial control over the new investment, it gives significant autonomy over the operations to divisional managers. Human resource management is operated centrally and takes a strict approach to discipline regarding customer complaints. Training is provided for skilled and semi-skilled staff, but little for unskilled staff.

Ordering of raw materials and schedule of customer deliveries in controlled centrally using the company’s IT system. This permits tight inventory control. Moreover, the large quantities of raw materials ordered by HO enables to impose a just in time inventory system on its suppliers.

Head office also provides all financing and marketing support for the two divisions using its IT systems. This includes providing and administrating credit facilities for customers’ purchases. A two-year credit facility is provided for customers of super fine division, but a strict 30-day credit policy is applied to super saver division customers. MFL’s two divisions are located at two different places. and producing two types of products run by two management teams.

Super Fabrics Division: This division produces high value-added Super Fabrics Brand product that sales at a high price to the export oriented garments industries and fashion houses. Significant advertisement has created brand image. The mission statement of Super Fabrics Division has a customer focus stating” we deliver quality from loom to your passion”. Most of the staff of the SFD are skilled. Recently new machinery was purchased for the factory, following a tender exercise from equipment supplier, which was organized by Head Office.

Super Saver Division: This division uses the brand **Super Saver** and manufactures low cost fabrics made from cheaper cotton and synthetic materials. Labour is largely unskilled. These products are sold by the whole sellers and onward for retail sale. There is no after sale service.

The super fabrics division consists of two profit centre manufacturing and retail. This division makes reasonable profits overall and the transfer pricing system, of actual full cost plus 10%, achieve a profit for both profit centres. The super saver division is making losses as it has difficulty competing with low cost imported fabrics in terms of price. This division has engaged in several costs cutting exercise but it has continued to struggle.

Labour issues in the Super Saver Division: Much of the cost cutting has involved decreasing labour costs both in terms of reduction of the number of staff and from, low to zero wage increases. However, despite these reductions, continued operating losses forced the company into the strategic decision to cease manufacturing low cost fabrics and instead import them from overseas and act solely as whole seller. The decision not yet been announced but the intention is that fabrics would still be sold using Super Saver brand level, but there would need to be significant downsizing particularly in the number of staff to be employed, which would be reduced from 1000 to 400.

It is intended to make necessary staff reduction during 2022, but two issues arise

(i) Some of the skills of existing staff are needed for the new business, so 300 of these staff need to be retained.

(ii) New skills are also needed requiring100 new employees to be recruited, this labour planning needs to manage a reduction of 700 existing staff to bring down labour to the required new level.

Significant labour resistance has been experienced as the cost reduction have meant that similar unskilled worker in the Super Fabrics Division are better paid than the those in the Super Saver Division, despite doing the same jobs. The justification given by management has been that the financial performance of the Super Fabrics Division has been better, thus higher wages are more affordable. Further labour resistance is expected as a result of downsizing announcement.

Requirements:

a) Draw Porter's Value Chain diagram for Super Fabrics Division and Super Saver Division of MFL. 8

b) Assess the extent to which the profit achieved by each of the two profit centres in the MFL adequately measures their performance. Briefly suggest a few other measures of performance. 6

c) Suggest how the changes with in the Super Saver Division can best be managed when the strategy is announced. 6

---The End---