

BUSINESS STRATEGY

Nov-Dec 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. Modern Electrical Appliance Ltd. (MEA) has made significant progress since opening its first factory in Chattogram over fifty years ago. It is now a major listed company manufacturing household electrical goods, which is sells throughout Bangladesh and export abroad and generating revenue about BDT. 40 billion.

The company initially started with low cost electric light but, as it grew, it developed a wide product range of household electrical appliances including freezers, cookers, television DVD system and personal computer. All of these have a reputation for giving good value as basic, low priced products.

The company has had a centralised organizational structure with the group head office maintaining close operational and financial control over operating divisions. In order to control costs in very competitive markets, tight budgets were set by group head office, and regular cost control programmes were implemented. Divisional performance was judged against achievements of detailed budget targets.

There was a separate division for each type of product, but head office exercised functional control. Thus for example, the financial controller of a division reported to the divisional head, but was also closely monitored by the group finance director. There was a similar control relationship with other functions such as, marketing, production, and research and development. There was normally tension and poor relationship between divisional head and group head office management.

In recent years there have been difficult trading conditions, with cheaper imports undercutting many of the MEA products on price, in a number of its market in Bangladesh and around the world. As a result of falling profits and a drop in share price, the board has been forced to reconsider its strategy. One of the key conclusions was that any new strategy was appropriate, should be devised by individual divisions not head office. As a result, board had been willing to rethink its organizational structure.

The chairman argued we need to change the way work. Centralisation is just too slow. We are not adapting quickly enough to change in technology and market conditions: decision making needs to be closer to the customer. He advised the CEO to prepare a restructure proposal. The following decisions were taken by the board:

All divisions became subsidiary companies; All subsidiaries became strategic business unit (SBU) and to be operated as an investment centre.

Services such as marketing, R& D, and administration could continue to be acquired centrally from group head office at full cost, or they could be purchased from outside the group.

Finance could only be raised by divisions from group head office at an annual rate of 10%.

Subsequently the following problems became apparent:

- Divisional heads had worked for the company but were unfamiliar with strategic decision-making. Some divisional head made several strategic errors but the group board was reluctant to intervene.
- Most divisions made very few purchase from central purchase division of the group, and as a result, there were significant redundancies in the head office.
- There was little investment in non-current asset and R&D expenditure by the division
- Most of the divisions made very few purchases from the group rather procured by themselves. To do the job they recruited additional administrative staff.
- Few subsidiaries borrowed heavily from bank, were having problems in meeting debt repayments in difficult trading market.
- Recruited lot of staff in the division level which was felt unnecessary

Recent position:

The group finance director summed up her views of the changes. The change in the structure has been a disaster for us. Overnight we have trust people with 20 or more years of experience as good administrators of centrally determined strategic policy in the role of entrepreneurs. Marketing Director opined production methods at each division may be largely independent but there is no coordination in marketing.

Requirements:

- a) Briefly describe which of Porter's Generic strategies is being followed by MEA and explain how this strategy may give the company a competitive advantage 5
 - b) The strategic risk for MEA that may prevent it from successfully following the strategy. 4
 - c) Analyse the advantages and disadvantages MEA's centralization and decentralization policy. 6
2. Jogajog Ltd was incorporated 25 years ago. It was founded by Masud Ahmed, a specialist in telecommunications, and produces specialist/mobile phones, fax machines and beepers. The first three years of business proved to be very profitable and saw very rapid growth in each of the markets.

Masud started the company with a small inheritance from a distant relative. As the business took off Masud asked a close ex-university friend of his, Shawon Mallick, to join the company as a co-director. Shawon was an expert in physics and electronics, and was put in charge of research and development - an essential part of rapid technological progress.

Jogajog Ltd makes most of its sales and profits from mobile phones of which it makes two different models: the Padma 18C which is very small and light but has a range of only 100 miles, the larger, more sophisticated Padma 25F which can operate anywhere in Bangladesh and also act as an answering machine. Originally Masud bought in the required components for both models but, following the recruitment of Shawon, the firm is itself producing more and more of the necessary parts.

The market

Demand for the special mobile phones comes primarily from three distinct markets and sales for the forthcoming year are expected to be as follows.

	Padma 18C (Units)	Padma 25F (Units)
Private consumers	5,000	5,000
Businessmen	7,000	3,500
Public sector	48,000	21,500
	60,000	30,000

There are few but large customers within the public sector - usually in the form of local government authorities, hospitals, education, etc. - whereas in the other two markets each consumer generally orders only one unit.

Over the last two years the market for mobile phones (in particular) but also fax machines and beepers has become very competitive. Whereas in the early days of incorporation Masud was able to increase his share of the market without paying too much attention to pricing, costs, marketing, advertising and research, the situation has now turned around completely. New firms producing very similar products - often with more facilities and of a better quality - are emerging from within Bangladesh and from abroad, particularly from Japan.

Masud has very little interest or knowledge of financial and marketing matters, while Shawon considers both functions to be a nuisance which interferes with his research and development activities.

Unfortunately, a major competitor, Nippon Telecommunications of Japan, has just invented a micro-printed circuit so small that it will be able to produce portable phones of half the size and weight of Jogajog's Padma 18C but with an international usage range. Obviously this new product, although much more expensive than the Padma 18C or Padma 25F, poses a very serious threat to the future sales of Jogajog's products. Shawon, though full of admiration adversaries in Tokyo, believes it will be at least another nine months before he is able to give birth to an equally sophisticated and competitive product. To develop the micro-printed circuits necessary to compete with the Japanese technology, an additional BT 0.5m will need to be invested each year in research and development. As an alternative, the firm could abandon its challenge to the Japanese technological advancements, reduce its investment in research and development, and try to hold on to as large a slice as possible of its current market by cutting the selling prices of its existing models.

	BDT ‘000	BDT ‘000
Non-current assets		1000
Current assets		
Inventory	1,125	
Receivables	287	
Cash	188	
		1,600
		2,600
Shareholder’s equity		
Share Capital	500	
Reserves	600	
		1,100
Current liabilities (bank loan)		500
Current liabilities (Payables)		1,000
		2,600

If the firm abandons its research into micro-printed circuits it is expected that sales of the Padma 18C will fall by 50% in the forthcoming year and to zero in the following year, unless large reductions are made in the selling price. Sales of the Padma 25F are unlikely to be affected by this competition as it is a specialist phone of a different nature.

Masud and Shawon are the only two directors of the firm. There was a financial director in the early years but he was sacked by Masud when he threatened to reduce the cash available to Shawon for research unless Shawon could justify and account for the money. Shawon considered this to be an unacceptable constraint on his development flair and threatened to resign - hence the departure of the finance director.

Neither Masud nor Shawon has much interest in accounts and try to get by with maintaining as little documentation as possible. There is no particular management structure in place within the firm and accounting data is minimal.

Requirements:

In your capacity of management consultant to the firm, write a memorandum to the two directors outlining the present position of the company and suggest strategies which the company could adopt to achieve self-preservation and growth. In doing so use the following headings.

- a) Current position 5
- b) Strategic options 10
 - Financing
 - R&D
 - Personnel
 - Systems
 - Products/markets
- c) Recommendations 5

3. Foreign Direct Investment (FDI) in Bangladesh rose by 20.2% to US \$3.48 billion in 2022, the second highest in the country's history, according to UNCTAD's World Investment Report 2023. The country received the highest FDI of US \$3.61 billion in 2018. As of 2022, the total FDI inward stock stood at US \$21.1 billion, said the report.

UNCTAD mentioned that a recent law "Bangladesh Patents Bill 2022" extended the duration of patent protection from 16 to 20 years, to promote FDI in 2022. This law could have had an influence on the increase in FDI inflows. Bangladesh Patents Bill 2022" was enacted to make a century-old patent law more time-befitting and to attract foreign investment as it protects intellectual property rights.

Also, UNCTAD hailed Bangladesh for taking sustainability measures. It said Bangladesh along with some other Asian countries China, Egypt, India and Malaysia introduced measures to require financial institutions and companies to report on sustainability, including carbon emissions as a Sustainability disclosure. However, disclosure measures at the product level remained rare in 2022. The last three years FDI figures as follows (in million US dollar):

FDI for the last three years	2020	2021	2022
FDI Inward Flow (<i>million USD</i>)	2,564	2,896	3,480
FDI Stock (<i>million USD</i>)	19,395	21,582	21,158
Number of Greenfield Investments	16	15	21
Value of Greenfield Investments (million USD)	805	1,036	456

Meanwhile, outward FDI from Bangladesh declined by about 43% to US \$52.6 million in 2022. In 2017, the outflow of FDI was the highest – US \$142 million – since 1990.

After a strong rebound in 2021, global FDI fell by 12% in 2022 to US \$1.3 trillion, due mainly to overlapping global crises – the war in Ukraine, high food and energy prices, and soaring public debt, shows the report.

The decline was primarily felt in developed economies, where FDI fell by 37% to US \$378 billion. But flows to developing countries grew by 4% – albeit unevenly, with a few large emerging countries attracting most of the investment while flows to the least developed countries declined.

It highlights that developing countries need renewable energy investments of about US \$1.7 trillion each year but attracted only US \$544 billion in clean energy FDI in 2022. On a positive note, Greenfield investment project announcements were up 15% in 2022, growing in most regions and sectors.

UNCTAD acknowledges the growing interest of Bangladesh in putting in place necessary requirements, standards and incentives to encourage the issuance of sustainability-dedicated products in key sectors. These requirements are crucial for sustainable development.

In 2022, different economies continued rolling out sector- or products-specific measures to support the growth of sustainable banking, insurance, investment and sustainable financial products such as sustainable bonds and green debt.

Developing economies, including Bangladesh, Brazil, China, Colombia, Egypt, South Africa, and Turkey released most of these measures. This shows the growing interest of these countries in putting in place necessary requirements, standards and incentives to encourage the issuance of sustainability-dedicated products in key sectors that are crucial for sustainable development.

A number of developing economies, including Bangladesh, China, Egypt, India and Malaysia, also introduced measures to require financial institutions and companies to report on sustainability, including carbon emissions. However, disclosure measures at the product level remained rare in 2022. The EU and Singapore were among the few economies that implemented new regulations on sustainability disclosure for financial products such as sustainable investment funds.

Recently ICAB organized a seminar on FDI issue, where investment climate of Bangladesh was discussed. In the seminar a high official of BIDA cited some government policies, provisions for incentives and protection of the investment in the country. In Bangladesh local and foreign investments are given equal treatment, 100% foreign equity is allowed along with unrestricted exit, almost all industrial sectors are open for foreign investors, bilateral Investment treaties (BITs) with 32 countries, double taxation treaties with 28 countries including Sri Lanka, he said, adding Bangladesh is a signatory to ICSID, UNCITRAL, OPIC, MIGA, WAIPA, WIPO and WTO and all laws, regulations which are conducive to investment in Bangladesh.

Requirements:

- a) Evaluate the FDI scenario in Bangladesh? 3
- b) Discuss the positive and negative issues that affect FDI in Bangladesh compared to other neighboring countries 4
- c) Give your suggestions how Government should deal with the matter and further steps to be taken to attract FDI? 4
- d) Grameen Pitha Ltd employs a total quality management program and manufactures 12 different types of pitha from chicken and leek to vegetarian. The directors of Grameen Pitha Ltd are proud of their products, and always attempt to maintain a high quality of input at a reasonable price.

Each pitha has four main elements:

- Aluminium foil case
- Pastry shell made mainly from flour and water
- Meat and/or vegetable filling
- Thin plastic wrapping

The products are obtained as follows.

- The aluminium is obtained from a single supplier of metal related products. There are few suppliers in the industry resulting from fall in demand for aluminium related products following increased use of plastics.
- The flour for the pastry shell is sourced from flour millers in four different districts – one source of supply is not feasible because harvests occur at different times and Grameen Pitha Ltd cannot store sufficient flour from one harvest for a year's production.
- Obtaining meat and vegetables is difficult due to the large number of suppliers located in many different districts. Recently, Grameen Pitha Ltd obtained significant cost savings by delegating sourcing of these items to a specialist third party.
- Plastic wrapping is obtained either directly from the manufacturer or via an Internet site specializing in selling surplus wrapping from government and other sources.

Requirement:

Identify the sourcing strategies adopted by Grameen Pitha Ltd and evaluate the effectiveness of those strategies for maintaining a constant and high quality supply of inputs. Your answer should also include recommendations for changes you consider necessary.

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4. Book Syndicate Ltd., a listed company, is a major supplier of educational material, selling its products in many countries. It supplies schools and colleges and also produces learning material for business and professional exams. Book Syndicate Ltd. has exclusive contracts to produce material for some examining bodies. Book Syndicate Ltd. has a well-defined management structure with formal processes for making major decisions.

Although Book Syndicate Ltd. produces online learning material, most of its profits are still derived from sales of traditional textbooks. Book Syndicate Ltd.'s growth in profits over the last few years has been slow and its directors are currently reviewing its long-term strategy. One area in which they feel that Book Syndicate Ltd. must become much more involved is the production of online testing materials for exams and to validate course and textbook learning.

Bid for Karim Brothers Ltd.

Book Syndicate Ltd. has recently made a bid for purchasing shares and business of Karim Brothers Ltd., a smaller listed company, and merge the businesses. Karim Brothers Ltd. also supplies a range of educational material, but has been one of the leaders in the development of online testing and has shown strong profit growth over recent years. All of Karim Brothers Ltd.'s initial five founders remain on its board and still hold 45% of its issued share capital between them. From the start, Karim Brothers Ltd.'s directors have been used to making quick decisions in their areas of responsibility. Although listing has imposed some formalities, Karim Brothers Ltd. has remained focused on acting quickly to gain competitive advantage, with the five founders continuing to give strong leadership.

Book Syndicate Ltd.'s initial bid of five shares in Book Syndicate Ltd. for three shares in Karim Brothers Ltd. was rejected by Karim Brothers Ltd.'s board. There has been further discussion between the two boards since the initial offer was rejected and Book Syndicate Ltd.'s board is now considering a proposal to offer Karim Brothers Ltd.'s shareholders two shares in Book Syndicate Ltd. for one share in Karim Brothers Ltd. or a cash alternative of Tk.22.75 per Karim Brothers Ltd. share.

It is expected that Karim Brothers Ltd.'s shareholders will choose one of the following options:

- (i) To accept the two-shares-for-one-share offer for all the Karim Brothers Ltd. shares; or,
- (ii) To accept the cash offer for all the Karim Brothers Ltd. shares; or,
- (iii) 60% of the shareholders will take up the two-shares-for-one-share offer and the remaining 40% will take the cash offer.

In case of the third option being accepted, it is thought that three of the company's founders, holding 20% of the share capital in total, will take the cash offer and not join the combined company. The remaining two founders will probably continue to be involved in the business and be members of the combined company's board.

Book Syndicate Ltd.'s finance director has estimated that the merger will produce annual post-tax synergies of Tk.20 million. He expects Book Syndicate Ltd.'s current price-earnings (P/E) ratio to remain unchanged after the acquisition.

Extracts from the two companies' most recent accounts are shown below:

	Book Syndicate Tk.m	Karim Brothers Tk.m
Profit before finance cost and tax	446	182
Finance costs	(74)	(24)
Profit before tax	372	158
Tax	(76)	(30)
Profit after tax	296	128
Issued Tk.1 nominal shares	340 million	90 million
P/E ratios, based on most recent accounts	14	15.9
Long-term liabilities (market value)	540	193
Cash and cash equivalents	220	64

The tax rate applicable to both companies is 20%.

Assume that Book Syndicate Ltd. can obtain further debt funding at a pre-tax cost of 7.5% and that the return on cash surpluses is 5% pre-tax.

Assume also that any debt funding needed to complete the acquisition will be reduced instantly by the balances of cash and cash equivalents held by Book Syndicate Ltd. and Karim Brothers Ltd.

Requirements:

- a) Discuss the advantages and disadvantages of the acquisition of Karim Brothers Ltd. from the viewpoint of Book Syndicate Ltd. 4
 - b) Calculate, and comment on, the funding required for the acquisition of Karim Brothers Ltd. and the impact on Book Syndicate Ltd.'s earnings per share and gearing, for each of the three options given above. 12
5. The Central Electric Supply Company (CESCO), which started operating over two decades ago, has incurred a massive loss of Tk 5.41 billion in the past fiscal year, the largest in its history, as per last financial statements. Central Electric Supply Company (CESCO) endured record loss in FY23 for selling electricity with a narrow profit margin and for the faltering taka against the dollar.

Last five years financial statements of CESCO show the following information:

(in billion Taka)

	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue	40.75	40.0	44.38	47.21	53.72
Cost of sales	37.10	38.98	41.19	42.00	51.05
Profit/loss	2.30	0.48	0.74	0.68	(5.41)
Foreign exchange gain/loss-	-0.18	.091	.0034	.084	-4.28

Managing Director of CESCO said they purchased bulk electricity from the Bangladesh Power Development Board (BPDB) at a much higher rate, compared to the previous fiscal year, but could not increase the prices at the consumer level as much.

The bulk price at which CESCO buys power jumped more than 28 per cent to Tk 6.70 per kilowatt since November last year in two phases while the retail price at which it charges consumers rose about 15 per cent to Tk 7.86 in three phases since January this year.

The state-run power distributor was in profit until the first half of the fiscal year despite a marginal loss in the second quarter due to the bulk price hike in November. Third quarter through March this year witnessed a loss of Tk 1.45 billion. The quarterly loss escalated in the fourth quarter to Tk 4.04 billion.

Other power distribution companies, including Dhaka Power Distribution Company, West Zone Power Distribution Company, Northern Electricity Supply Company and Bangladesh Rural Electrification Board, are in similar business turmoil. However, CESCO's 80 per cent loss came from foreign exchange transaction loss. Loans taken from foreign lenders must be paid in dollars. The company earns in taka but pays back foreign debts in dollars.

The US dollar has appreciated more than 30 per cent against the Taka since February last year, making CESCO pay Tk. 4.28 billion in excess to the lenders in FY23. CESCO has more than Taka 29 billion in foreign loans, including debts from the Asian Development Bank, Japan International Cooperation Agency, and Asian Infrastructure Investment Bank.

Electricity distribution to the consumer level resulted in a loss of Taka 1.13 billion in the fiscal year since the profit made could not cover the expenses, according to the financial statements published on Monday. On top of that, CESCO had to pay much higher against its foreign debts as the taka lost value against the dollar in the year, expanding the annual loss.

An official of CESCO said that when they had taken out the loans the exchange rate was around Taka 82 per dollar. The rate has been elevated to Taka 109 to Taka 110, leading to the additional cost. "If the electricity price at the consumer level is not raised and the local currency continues to lose value against the dollar, it will be difficult [for CESCO] to come back to profit in the coming quarters," the CESCO official said, requesting for anonymity.

The company's electricity sales revenue increased 14 per cent year-on-year to Taka 53.72 billion in FY23, as consumption and the number of users rose, but distribution revenue slumped almost 49 per cent year-on-year to Taka 2.68 billion. The loss per share has been estimated at Taka 13.61 for FY23, as opposed to a profit of Taka 1.59 per share for the year before.

Despite enduring the huge loss, the company will pay 10 per cent cash dividend only to general shareholders, which is approximately Taka 128.58 million. The money will come from the company's reserves of Taka 22.21 billion.

Requirements:

- a) Evaluate the financial performance of CESCO. 4
- b) Discuss and analyses the root causes of financial crisis of CESCO including other nationalized power sector organizations. 3
- c) Evaluate the factors causing increasing in dollar price in Bangladesh? 5
- d) Suggest government how to face the foreign currency crisis? 3

6. Star Hotel operates in hospitality industry and runs 10 restaurants across the country. Star Hotel competes with other rival chains by targeting mainly 18-25 year-olds and providing healthy food options in a spacious restaurant using organically grown ingredients and served by staff who are in the same age group. It has 20 permanent locations spread across the country. The chain has traditionally performed well and continues to make high levels of profits. However, these profits have leveled off in the last two years and the first quarter of this year saw the first year-on-year, like-for-like drop in sales that the company has experienced in its ten-year life.

The company's CEO, Rashida Akter, believes that this is due to a number of factors such as a recent downturn in the economy, the market becoming saturated with rivals, and limited space for further expansion. She also feels that the company hasn't taken advantage of the growing trend for pop-up restaurants. These restaurants are often created for very short periods, such as during a music festival or national events and public holidays, using temporary locations such as food trucks, disused premises or market stalls. The aim is to maximize sales during a small-time frame whilst minimizing costs. Reservations are not taken, and the restaurants are therefore more accessible to a wider range of customers and can be an important step in breaking into new market segments.

Rashida Akter therefore put together a team of staff to manage a project aimed at exploiting this growth opportunity. The team was headed by Alisha Farzana who had been working in the company's IT function. The project launched in the second quarter of the year and the new pop-up restaurants opened in the third quarter of the year.

The team's first job was to design the process for setting up and running the pop-ups. Processes were designed for venue location, asset management, food production, material supplies, marketing, and sales. Work was put in to ensure that each process worked as efficiently as possible and, because of Alisha Farzana's background, there was as much automation and e-processing as possible. Alisha was able to ensure that adequate IT systems and controls were in place for elements such as e-procurement, social media marketing, sales recording, staff monitoring, and inventory management. Social media marketing was particularly successful as Star Hotel gained many followers who would not only act as feedback and a word-of-mouth marketing service for the pop-ups but were also useful in suggesting venues and occasions for the pop-ups.

Specialist team roles were created for pop-up restaurants within the organisational structure. These teams would be managed by a member of the project team who would ensure that the new processes were followed and applied. Staff for the pop-ups would be seconded from the nearest permanent location and would return to that location when the pop-up closed.

Everything seemed set for success and both Rashida Akter and Alisha Farzana had high expectations for the venture. But having run the first two pop ventures (one to coincide with a large weekend music festival and the other situated at a major tourist resort for three months) profits and feedback have not been as good as expected. Alisha Farzana was confident that all the systems were in place to make the pop-ups a success. The IT System worked well, premises were sourced and furnished to expectations, all food and service materials were at the venues, and social marketing was a particular success. Onsite project managers understood the processes well and were experienced in team management.

Feedback from customers was no better than average. Many customers were happy that they could now access Star Hotel at a point that would not be available to them. But others were unhappy with the level of service provided. Some regular Star Hotel visitors complained that the pop-ups were disorganized with slower than usual service, whilst first-time visitors had comments such as 'surly staff', 'lack of co-ordination', and 'messy premises'.

But the greatest resistance appeared to come from pop-up staff. The following are samples of comments gathered as part of a lessons-learned review:

I turned up at my normal location one day but was told I'd be spending the weekend working on the van at the music festival. It took me an extra half-hour travel to get there each day.

I volunteered for the tourist resort pop up thinking it would be good for my career. But there was little chance to get involved in decision making and when I returned to my normal location, I found that someone else had gotten a promotion that I was hoping for.

I enjoyed my time at the pop-up, but we seemed to spend most of it learning the new processes which were very different from what we were used to. They worked well once we were used to them but there were many mistakes at first.

Rashida Akter is committed to making the pop-ups a success and wants to learn from the mistakes of these initial trials. She intends to meet with Alisha Farzana to discuss how the project can best move forward.

Requirements:

- a) Explain the type of strategic change that Star Hotel appears to be going through with the new pop-up venture. 8
- b) Analyse the reasons for the failures in the pop-up venture. 7

---The End---