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CAF 06

MFA Made Easy (Managerial Portion)

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VOLUME - II

COMPREHENSIVE QUESTION BANK
(85+ QUESTIONS)

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CH # 1

POLITICAL ENVIRONMENT AND BUSINESS

PRACTICE QUESTIONS FROM PAST PAPERS OF BMS (OLD CFAP PAPER)

- 1 Briefly discuss the following:
- Environmental Scanning (2.5 marks)

PRACTICE QUESTIONS FROM ICAP STUDY TEXT FOR MFA

- 2 From the regime of Z.A Bhutto and the connected political environment, elaborate the effects of a socialist regime on the business and economy

Tutor's Note:

The question has been tailored to meet the requirements of the answer

CH # 4 INFORMATION & COMMUNICATION TECHNOLOGIES

PRACTICE QUESTIONS FROM PAST PAPERS OF BMBS (OLD CAF PAPER)

- 1 Describe briefly the salient features of a Virtual Organisation. (04)

PRACTICE QUESTIONS FROM PAST PAPERS OF BMS (OLD CFAP PAPER)

- 2 The trend of outsourcing of certain activities by business firms to external entities has gained considerable momentum in the past few years. Identify four advantages which, in your opinion, these firms expect to derive from outsourcing of selected business activities to external entities. (04)
- 3 Superb Engineering Limited (SEL) manufactures parts and components for assembly/manufacture of automobiles. During the past few years, the company has witnessed phenomenal growth in its product lines and sales revenues have registered significant growth. However, the overall profitability has not shown a corresponding increase. SEL considers that a substantial proportion of the efforts and energies of the management and staff at various levels are expended in handling a very wide range of diversified activities. SEL is, therefore, examining the feasibility of outsourcing certain activities of its operations to outside parties. You are required to identify four advantages and disadvantages each of Business Process Outsourcing in the above situation for SEL. (06)
- 4 Alpha, a small management consultancy firm, deals with corporate trainings on various finance matters. It gets the required training data in an Excel format through email. The data is kept on a central computer that can be accessed remotely through the internet with a password. Recently, a long-standing corporate client has asked Alpha to provide consultancy on an investment decision. Not willing to pass the opportunity, the directors at Alpha have said yes to the client as they believe that their senior executives have the capability to perform the task. However, the directors are concerned about the risks of handling such sensitive and confidential investment information with the existing IT controls in place. Required: Briefly explain the general system software controls that Alpha should employ to protect data confidentiality. (04)
- 5 (a) Describe briefly any four measures which would ensure the effectiveness of password as a control. (06)
(b) Explain briefly the important features of Intranet. (04)
- 6 Computer viruses are programs designed to deliberately corrupt computer systems. Viruses are classified into different types based on their effects and the damages that they cause. Briefly explain how the following types of viruses can corrupt the computer systems
- (i) Trojan horse
 - (ii) Worm
 - (iii) Logic bomb
 - (iv) Time bomb (03)

CH # 6 COMPREHENSIVE QUESTIONS OF CH 1 TO 5**PRACTICE QUESTIONS FROM PAST PAPERS OF BMBS (OLD CAF PAPER)**

- 1 Flavorsome, a US-based fast food chain has gained worldwide recognition due to unique taste, exemplary ambiance and economy meals. It is considering to exploit an opportunity to expand its business in major cities of Xanata. Xanata is a developing country where demand for fast food is ever increasing and during the last decade, local as well as international fast food chains have enjoyed substantial profits. Despite widening wealth gap, fast food has gained immense popularity among lower and middle class. However, social awareness groups are pressurizing health ministry to revise public health policy by introducing stringent regulations on food industry. The government is offering tax holiday to encourage foreign investment. This incentive is strongly being opposed by local business community. In the past few years, Xanata has seen high inflation rate and the government is considering to raise the minimum wage rate by 25%.
- Burger Buddy, a leading local fast food chain is gaining popularity because of its social contributions, advanced technologies, use of social media/mobile application for promotional activities, etc.

Required:

Identify the environmental factors relevant to the above situation and group them for the purpose of PEST analysis. (12)

PRACTICE QUESTIONS FROM ICAP STUDY TEXT FOR MFA

- 2 Ryde is a rapidly growing transportation service provider. It is an app that connects users who are interested in car pooling their way to work or around the city. People like its features such as easy accessibility through the mobile app and sharing of commute. The company believes that it will provide easy commute to people and also help address traffic congestion issues. However, there are controversies such as minimum wage laws for drivers and bans by some authorities that make it difficult to compete. Drivers have questions about its insurance policy in case of an accident, will the company:
- hold the driver as accountable or,
 - take the blame on itself.
- Moreover, businesses like Ryde have given rise to a 'shared' economy where there is no need to invest in physical assets or hire a large workforce for the provision of service. A lot of factors come into play considering the environment of Ryde's business model. It is important to analyze the environmental factors of business. Suppose you are hired as a consultant to plan the launch of Ryde in Pakistan and are asked to study the external business environment of Ryde? You may quote examples to support your findings.
- 3 FROOT is a leading brand of fruit juice concentrates operating in local and international markets such as the United States, Canada, UAE and Europe. Senior Management of FROOT is due to start working on their next 5-year plan. The business environment of the beverages market keeps changing and the management is of the view that a fresh environmental analysis should be carried out before embarking the next five-year plan.

The company has faced a lot of business issues and survived a difficult time during the recent COVID-19 pandemic. What factors in the business environment should be considered for a company like FROOT?

- 4 Hike is globally renowned brand that manufactures and distributes world class apparel and equipment used in hiking and mountaineering sports. The company is headquartered in Italy serving all of Europe and North America. Recently the GM Marketing of Hike visited the northern areas of Pakistan and saw that the country has tremendous potential for adventure based tourism in Gilgit Baltistan. He also observed that a lot of local as well as foreign tourists visit the northern areas for hiking expeditions and adventure sports. Upon his return to Italy, he has suggested to his CEO that the company should enter the Pakistani market to sell their products. The CEO has asked for a proposal before a final decision can be made. You are required to develop an external analysis as part of his proposal to launch in Pakistan. You may quote examples to support your findings.
- 5 InfoTech is a manufacturer of spare parts of information and communication technology products such as smart phones, computers and network devices. InfoTech is exploring new markets to diversify and expand its business. Some planning experts have identified People's Republic of Highland. Highland is also one of the fastest growing countries in relation to technological advancement and adoption since it has a literacy rate of 70% and most of the workforce are university graduates. Highland remained under the shadows of its neighbor for a long time and remained more inclined towards a communist political ideology. Only recently the country has started encouraging foreign companies to invest in business and commercial infrastructure. The government of Highland wants to promote the booming IT industry and therefore is keen to find out more about InfoTech and its business. Before the management of InfoTech makes a decision, they want to analyse to business environment it will operate in. What are the elements of the business environment that InfoTech should focus on?

CH # 7**COMPETITIVE FORCES****PRACTICE QUESTIONS FROM PAST PAPERS OF BMBS (OLD CAF PAPER)**

- 1 Muntaha Group (MG) is considering to introduce airline services in a developing country. The management of MG is in the process of analysing the airline industry to determine the intensity of competition.

Required:

Explain the competitive forces that may have shaped the airline industry, considering Porter's Five Forces Model. Your answer should clearly mention the strength of each force with related arguments. You may assume necessary details. (12)

- 2 In a market environment which offers an exceptionally high rate of return to the existing players, the threat of new entrants is imminent. However, well-entrenched players in these markets have sustainable advantages which act as deterrents to prospective competitors from entering in these lucrative markets.

Explain briefly the factors which act as deterrents and make it difficult for new comers to enter and compete in such markets. (08)

PRACTICE QUESTIONS FROM PAST PAPERS OF BMS (OLD CFAP PAPER)

- 3 Etihad Limited manufactures and sells three products. The following information is available in this regard:

Year	Product 1 (See note-1)		Product 2 (See note-2)		Product 3 (See note-3)	
	Sales	Total market size	Sales	Total market size	Sales	Total market size
Rs. in million						
Actual						
2017	74	132	3	70	10	100
2018	72	134	2	71	14	120
2019	74	133	2	69	16	140
Forecasted						
2020	73	135	2	68	18	160
2021	74	134	1	62	22	190

Note 1: Product 1 is a long-standing product that has been consistently selling in the same market.

Note 2: Product 2 has been consistently selling in the same market for quite some time.

Note 3: Product 3 was introduced in 2017 and is still considered new in the market.

In the current year, 2019, the market share of the biggest competitor for Product 1 is 20%, Product 2 is 44% and Product 3 is 37%.

Required:

Analyse the information provided above and devise strategies for each of three products. (14)

- 4 Captain of the Sea (COS) is a state of the art cruise ship with an enormous capacity to carry 5000 passengers. It has been built to display several striking features for a cruise ship. This includes one of a kind 3-storey full-length shopping mall that continues to attract a large number of customers and repeat business.

Required:

Suggest how following the strategy, helps COS in providing a suitable defence against each of Porter's five competitive forces. (05)

- 5 Glory is a series of high-end smartphones and tablets designed, manufactured and marketed by Marvel Group (MG). MG is highly regarded for innovative product designs and aggressive marketing campaigns. The mobile phone industry is one of the fastest growing sectors of economy where a number of competitors attempt to outperform each other in terms of product designs, features and pricing.

MG is in the process of introducing new series of foldable smartphones (Glory Ultimate) that could be a vital breakthrough in mobile phone industry. The management of MG intends to adopt life cycle costing for Glory Ultimate.

Required:

(a) Discuss the benefits that MG may enjoy by adopting life cycle costing (03)

(b) List the costs that MG might have to incur in each phase of the life cycle of Glory Ultimate. (04)

(c) Suggest the strategies that MG may adopt to extend the maturity phase of Glory Ultimate. (04)

- 6 Fashionista by Agha Ansari is considering growth opportunities for its organisation which has the following divisions:

Salon:

This division was a brainchild of Agha Ansari. It was established in early 1990s and got immediate recognition and appreciation because of state-of-the-art design and highly qualified stylists. This division has a dominant position having substantial market share. Although overall market is maturing and has low growth rate, this division has been earning high returns on investment.

Cosmetics:

This division was established six years ago. The cosmetic industry has been emerging; however, presently this division has low market share

Required:

According to the Boston Consulting Group Matrix:

(a) Identify and discuss the quadrants in which above divisions fall. (05)

(b) Discuss any two strategies that Fashionista may adopt for each of its divisions (06)

- 7 Explain briefly the characteristics of a fragmented industry/business. Give two examples of such an industry/business (04)

- 8 Placed below are products A, B, C and D along with their characteristics:

<u>Products</u>	<u>Growth</u>	<u>Market</u>
A	Low	small
B	High	high
C	Low	high
D	High	small

In the context of Boston Consulting Group matrix, identify the categories to which the above products pertain (04)

- 9 Rivalry among competing firms is usually considered to be the most powerful of Michael Porter's Five-Forces Model of competitive analysis. Identify and illustrate the circumstances in which rivalry among the competitors would be intense. Also identify any one business in Pakistan in which you consider rivalry among competitors to be intense and give a reason for your choice. (09)
- 10 Discuss the relevant competitive environment in the context of Michael Porter's Five-Forces Model of Competition in each of the three scenarios presented below. Substantiate your answer by stating the significant characteristics of competitive environment facing the organisations in each of the scenarios.
- (i) Ocean Ship Breaking Company is located in a country which has access to skilled low-cost manpower, convenient berthing/ship-dismantling facilities, liberal tax incentives and an expanding domestic market for sale of steel scrap. Despite the above favourable factors, very few entrepreneurs have interest in this so called 'dirty and demanding' business. On the other hand, the shipping industry is facing a surplus of unserviceable vessels. These vessels have to be scrapped as early as possible due to their high maintenance costs and port charges.
- (ii) Two companies have developed genetically modified rice seeds after intensive research at a considerable cost. These companies have also made substantial investments in physical facilities for producing the seeds. These seeds have resulted in unprecedented increase in per acre yields in the three countries in which these seeds have been marketed to-date. Both the companies expect phenomenal increase in their revenues and earnings after they launch their products in other rice growing countries due to the envisaged demand in these countries.
- (iii) In Country PQR there are six cement manufacturers of similar strength and resourcefulness. These manufacturers share among themselves 90 percent of the aggregate market which is expected to remain stagnant due to lack of demand for new housing and absence of plans for major infrastructure projects in the country in the foreseeable future. (09)
- 11 What are the different types of entry barriers which may discourage entrants from establishing new manufacturing units in spite of substantial demand/supply gap for products in any industry? (07)
- 12 (vi) Neptune Chemicals, a manufacturer of industrial chemicals, has established independent units who would be responsible for development of their own marketing strategies within the company's overall market and customer focus to be able to serve the needs of the various categories of customers more efficiently. The independent units are _____ of Neptune Chemicals.
- 13 According to the Boston Consulting Group Matrix, business organisations which have multi- divisions and compete in different industries pursue separate strategies for their various business divisions. The BCG Matrix describes the characteristics of the markets and the relative competitive position of the various business divisions as Stars, Cash Cows and Dogs. Explain the distinctive characteristics of each of these types of business divisions in terms of their relative market positions. Also mention the types of business strategies which should be pursued by each of these types of business divisions. (09 marks)
- 14 Explain briefly what you understand by the term Market Segmentation. State the criteria which are essential for classification of markets in different segments. (05 marks)

- 15 Identify the force of competition which is relevant in the context of Michael Porter's Five Forces Model of Competition in each of the scenarios presented below. Substantiate your answer by highlighting the salient features of the Model of Competition selected by you in each of these scenarios.
- (i) Four companies of similar size and strength are engaged in the manufacture of detergent powder for washing clothes. These companies are key market players and jointly share 95% of the aggregate market which is not expected to witness any significant growth in the foreseeable future.
- (ii) Soundhealth Pharmaceuticals and Goodcare Pharmaceuticals are manufacturers of two new medicines for treatment of cancer. The medicines have been developed after a long period of research at a very substantial R&D cost and are highly effective. Both the existing manufacturers are earning exceptionally high profits in a market which is expected to witness growth in the future.
- (iii) Lucky Coal Mines Limited is the sole supplier of coal to a cement plant located in close proximity to the mines. The cement plant requires substantial quantities of coal for firing of its kilns. Quality of this coal is most suitable for the cement plant and also cost-effective due to low transportation costs. Lucky Coal Mines has several buyers who are willing to purchase the coal because of its high calorific value. (09 marks)
- 16 List and explain briefly four factors which in your opinion create Exit Barriers and prevent existing participants from quitting a loss-incurring industry. (08 marks)
- 17 What is meant by a Strategic Business Unit (SBU)? (03 marks)
- 18 Identify the business strategy/policy/tool which an organisation is pursuing in each of the following situations:
- (b) The management tool that enables a firm to classify its range of products according to their current market share and expected growth is called.
- (c) The assessment tool used to compare and identify the variance between a firm's current market coverage and potential market opportunities for its products is called _.
- 19 According to Michael Porter the nature of competitiveness in any industry is a composite of Five Forces. The Competitive Analysis model developed by Porter is widely followed for formulating business strategies in many industries. List the five Competitive Forces stated by Michael Porter. (05)
- 20 The advent of internet has revitalized the competition in the global markets. It has increasingly become a vital component of business strategy and a strong catalyst for survival and growth in a competitive environment.
- In the context of retail industry, discuss the impact of internet on each of the Porter's five competitive forces clearly identifying whether internet has strengthened or weakened these forces. (10)

PRACTICE QUESTIONS FROM ICAP STUDY TEXT FOR MFA
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- 21 Glory is a series of high-end smartphones and tablets designed, manufactured and marketed by Marvel Group (MG). MG is highly regarded for innovative product designs and aggressive marketing campaigns. The mobile phone industry is one of the fastest growing sectors of economy where a number of competitors attempt to outperform each other in terms of product designs, features and pricing.

MG is in the process of introducing new series of foldable smartphones (Glory Ultimate) that could be a vital breakthrough in mobile phone industry. The management of MG intends to adopt life cycle costing for Glory Ultimate.

Required:

- Discuss the benefits that MG may enjoy by adopting life cycle costing.
- List the costs that MG might have to incur in each phase of the life cycle of Glory Ultimate.
- Suggest the strategies that MG may adopt to extend the maturity phase of Glory Ultimate.

22 A company produces five different products, and sells each product in a different market. The following information is available about market size and market share for each product. It consists of actual data for each of the last three years and forecasts for the next two years.

(Rs. million)	Year - 2	Last year Year - 1	Current year	Next year Year + 1	Year + 2
	Actual	Actual	Actual	Forecast	Forecast
Product 1					
Total market size	50	58	65	75	84
Product 1 sales	2	2	2.5	3	3.5
Product 2					
Total market size	150	152	149	153	154
Product 2 sales	78	77	80	82	82
Product 3					
Total market size	40	50	60	70	80
Product 3 sales	3	5	8	10	12
Product 4					
Total market size	60	61	61	61	60
Product 4 sales	2	2	2	2	2
Product 5					
Total market size	100	112	125	140	150
Product 5 sales	4	5	5.5	6	6.5
In the current year, the market share of the market leader, or the nearest competitor to the company, has been estimated as follows:					
Market share of market leader or the company's nearest competitor					
Market for:	%				
Product 1	37				
Product 2	26				
Product 3	12				
Product 4	29				
Product 5	20				

Required

Using the Boston Consulting Group model, how should each of these products be classified?

How might this analysis help the management of the company to make strategic decisions about its future products and markets ('product-market strategy')?

- 23 Fashionista by Agha Ansari is considering growth opportunities for its organisation which has the following divisions:

Salon:

This division was a brainchild of Agha Ansari. It was established in early 1990s and got immediate recognition and appreciation because of state-of-the-art design and highly qualified stylists. This division has a dominant position having substantial market share. Although overall market is maturing and has low growth rate, this division has been earning high returns on investment.

Cosmetics:

This division was established six years ago. The cosmetic industry has been emerging; however, presently this division has low market share.

Required:

According to the Boston Consulting Group Matrix:

- Identify and discuss the quadrants in which above divisions fall.
- Discuss any two strategies that Fashionista may adopt for each of its divisions.

- 24 SinoPharma (SP), is engaged in manufacturing and selling of pharmaceutical products. The following information pertains to two of its products:

InstaB

It is a mature branded product whose patent expired at the end of 2015. Thereafter, two competitors launched their generic products i.e. GenA and RapidA in 2016 and 2017 respectively. The table below shows sales volume of InstaB, GenA and RapidA over the years:

Year	2014	2015	2016	2017	2018	2019	2020*	2021	2022
Sales volume in '000'									
InstaB	220	220	115	90	80	70	60	50	45
GenA	-	-	110	108	90	94	100	112	116
RapidA	-	-	-	26	55	60	63	62	63
Total market size	220	220	225	224	225	224	223	224	224

*indicates current year

Azkaard

Azkaard was launched in 2012 in the market and its patent is expiring in 2022. It continues to enjoy great returns in a mature low growth market. However, SP is concerned that Azkaard too will meet the fate of InstaB unless proper competitive strategies are planned before its patent expires. One of the suggestions is to discontinue Azkaard as soon as the patent expires and utilize the resources on other products which have potential in the existing market.

Required:

By using the information provided above, analyze and recommend the strategies for

InstaB and Azkaard from the perspective of Boston Consulting Group (BCG) Matrix.

- 25 There is intense public concern about 'global warming' and the effect on the world's climate of carbon emissions into the atmosphere. This concern is growing. It is recognised that the consumption of oil products could be having a major impact on the world climate.

The known reserves of oil and natural gas in the world are falling. Consumption is exceeding discoveries of new reserves. Many of the known reserves are in politically unstable countries.

New technology is being developed for the production of fuel out of corn. Corn can be converted into ethanol (a 'bio-fuel') and cars are now being manufactured that will run on ethanol. However, the technology is in a very early stage of development.

The US government has set a formal target for the production of bio-fuels. The European Union also announced that a minimum of 10% of transport fuel consumed in the EU by 20X0 should come from bio-fuels.

You work for a company that specialises in commodity trading. It buys and sells a range of agricultural products such as corn. At the moment, its purchases of corn are resold mainly to food manufacturers. Most of its suppliers are in North America.

Required

Identify opportunities and threats that appear to exist for your company, over the next five years or so.

- 26 It is widely realised that companies pass through various stages of growth during the different periods of their existence.

Required

State **four** dominant characteristics which would be apparent in a company which is in:

- a) the start-up or initial stage of its business;
- b) the rapid and dynamic growth stage of its existing business.

- 27 Strategists involved in the marketing of Fast Moving Consumer Goods (FMCG) keep a close watch on the various stages of the Life Cycle of their products and adjust their strategies accordingly.

Required

List the type of marketing-mix strategies of Products, Pricing, Distribution and Sales Promotion which should be pursued to meet the requirements of the products which are in the **introduction, growth, maturity** and **decline** stages of their product life cycle.

- 28 Horizon Limited (HL) is engaged in the business of manufacturing and marketing of a wide range of consumer durable products. The company's products are at different stages of their Product Life Cycles. Consequently, HL pursues different promotional strategies for products depending on the stage of their Product Life Cycles.

Required

State the types of Promotional Strategies which HL may pursue for marketing of its wide range of products in the

(i) Introduction, (ii) Growth, (iii) Maturity and (iv) Declining stages of their Product Life Cycle.

- 29 a) A typical product life cycle has four main phases: introduction, growth, maturity and decline. Fourteen products are listed below. Match these products to the stage they have arguably reached in their life cycle, by filling in the following table.

Products:

- Portable DVD players
- Fax messaging
- (Hand-written) postcards
- Personal identity cards using 'iris-based' technology
- E-mails
- Credit cards
- Personal computers
- Fourth generation (4G) mobile telephones
- Cheque books
- Typewriters
- Smart cards (in banking)
- E-conferencing
- 3D printers
- Driverless cars

Introduction	Growth	Maturity	Decline

- b) Identify a product or service whose life cycle has not conformed to traditional pattern of introduction, growth, maturity and decline.
- 30 a) Identify and explain briefly six factors which have contributed to the significant increase in importance of International Trade in the preceding 3-4 decades.
- b) According to Michael Porter the nature of competitiveness in any industry is a composite of Five Forces. The Competitive Analysis model developed by Porter is widely followed for formulating business strategies in many industries. List the five Competitive Forces stated by Michael Porter.
- 31 a) Describe the Boston Consulting Group (BCG) matrix.
- b) Explain the product-market strategy that might be chosen for products in each quadrant of the matrix.
- c) Identify 2 weaknesses of BCG matrix as model for strategic analysis.
- 32 A) Explain the purpose of using Porter's five forces model.
- B) List the five forces in the model.
- For each of these five forces, list four factors that could affect the strength of the force.
- 33 The purpose of market segmentation is to divide a market into different sections, each with a distinctive group of potential customers. A segmentation strategy is then developed, and a different marketing mix is used to market a product to each segment. Typically, a different price is charged for the product in each segment, but it may be necessary to vary the product offered to each segment of the market, in order to meet the needs of customers in that segment.

Required

Suggest ways in which a railway company might segment its market for rail travel.

- 34 A tuition company provides a range of tuition services and educational publications to students preparing for professional accountancy examinations.

Required

Suggest ways in which the tuition company might segment its market for teaching services and products.

CH # 8**INTERNAL ANALYSIS****PRACTICE QUESTIONS FROM PAST PAPERS OF BMBS (OLD CAF PAPER)**

- 1 Falcon Air (FA) is an airline that operates scheduled services to all the major cities within the country and sixteen international destinations. FA takes pride in its excellent customer services and is known for spacious passenger seats. It has a fleet of 12 new aircrafts and 4 aging aircrafts that it plans to replace with new ones soon.

The ongoing COVID-19 pandemic has had grave impact on the global aviation industry and FA operations have also taken a bad hit. It has incurred heavy losses due to international travel restrictions and there is uncertainty in local air travel business due to the strict travel SOPs to be followed. In an effort to support the local aviation industry, the government has waived airport tax for local air travel for the time being. FA management welcomes the government support and is determined to weather the storm caused by the pandemic.

Required:

- (a) Conduct SWOT analysis for FA. **(04)**
- (b) Explain whether the strength of each of porter's five forces has risen or declined for the aviation industry due to the ongoing pandemic. Provide reasons for your answer. **(06)**
- (c) Based on your analysis in (a) and (b) above, provide recommendations to FA with supporting reasons. **(05)**
- 2 The following SWOT matrix is prepared by a management trainee for ProPharma (Private) Limited, a small company manufacturing pharma products:

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none"> ▪ Recent merger of two major competitors ▪ Highly-skilled scientists in the workforce ▪ New scientific discoveries have not yet been fully exploited 	<ul style="list-style-type: none"> ▪ Slow progress with existing research projects ▪ Extensive research knowledge of employees ▪ Strong growth potential of the industry
<u>Opportunities</u>	<u>Threats</u>
<ul style="list-style-type: none"> ▪ Poor record of converting research projects into new product development ▪ High investment in advanced equipment ▪ Patents on six products 	<ul style="list-style-type: none"> ▪ High profit margins ▪ Stricter regulation of new products ▪ Recent increase in employee turnover

Required:

Review the information provided in above matrix and re-classify the information under the correct heading where necessary. **(06)**

- 3 Eat Smart (ES), a family owned business is being managed by Mr. & Mrs. Khan. ES has been enjoying high profits and strong client base and is highly regarded for its premium quality diet food, energy drinks and low carb salads. The food is prepared under the supervision of Mrs. Khan, a foreign qualified nutritionist who has hired a team of qualified staff having sound knowledge and experience. Mr. Khan is a marketing graduate and looks after the supply chain activities i.e. from ordering and safe storage of ingredients to dealing with customer complaints and encouraging feedback.

At present, ES is offering take-away and delivery services. Dine-in service is not being offered due to the fact that Mr. & Mrs. Khan have been busy in managing routine work. ES relies on word of mouth and social media pages for promoting the business.

Given the low set-up costs and growing demand for healthy food, number of new online businesses have entered into the market. Some restaurants have also started to offer separate diet food menus.

'Be Fit' (BF), a chain of fitness center, has approached ES to partner with them in preparing diet plans and meals for its members. Partnering with BF would mean hiring of additional staff at various levels of operations and management.

Required:

- (a) Perform SWOT analysis for ES.(08)
 - (b) Identify the activities forming part of primary value chain as suggested by Porter and give two examples related to each such activity in ES. (06)
- 4 According to Michael Porter the activities of a business entity include primary value chain and secondary value chain. Identify the activities performed by the secondary value chain and describe briefly how they add value for the business entity.
- 5 Zenith Fertilisers Limited (ZFL) is a leading manufacturer of fertilisers in an industry dominated by four competitors. Two rival competitors are reported to be planning to increase their manufacturing capacities to produce fertilisers for cultivation of high yielding crops as they anticipate substantial growth in the future. ZFL firmly believes that it must also strengthen its capacities significantly to be able to retain its position as an important player. Discuss the specific areas in which ZFL must focus to meet the challenges posed by the rival competitors. (04)
- 6 According to Michael Porter, five activities in the primary value chain make the most significant contribution towards the success of any business enterprise. Identify and explain briefly the constituents of the primary value chain as enunciated by Michael Porter. (08)

PRACTICE QUESTIONS FROM PAST PAPERS OF BMS (OLD CFAP PAPER)

- 7 Established in the year 2006 in Karachi, Good Food Restaurants (GFR) has achieved remarkable growth and presently owns and operates a chain of ten restaurants in Karachi, Lahore and Islamabad. GFR's operations have been highly profitable because it has a significant base of loyal customers who are not only a source of repeat business but they also promote its image through word-of-mouth advertisement.
- Identify the opportunities and threats for GFR. (*Mention any four points in respect of each*)*Note: Only list the parameters – explanations are not required(08)*
- 8 Gertonia is the largest economy in the European region and enjoys a stable and business friendly government. Its automotive industry is well known for producing top quality speed car brands and is considered an industry leader in the world. It has an excellent road network with no speed limit that makes it perfect to meet the Gertonian's appetite and demand for quality and speed.

Gertonia's automotive industry is the largest industry sector and employer in the country which includes from the large car manufacturers to extensive support network of many subsystems, component and parts manufacturers. The industry is well supported by iron and steel industries, efficient financial and IT systems, well reputed technical education institutes, heavy public and private expenditure in education and highly skilled workforce. There is an intense competition and a constant pressure on manufacturer to innovate.

Fredrick Dunden, Head of Auto Industry Union, believes Gertonia has developed a national comparative advantage over many other countries, however, he is hesitant about the future leadership position for speed cars mainly due to the tougher regulations on emission requirements prompted by Gertonia's deteriorating environmental conditions, petrol depended engines and systems of speed cars, government plans to introduce speed limits on all areas to reduce the increasing rate of car accidents in some areas, changing needs of the tech-savvy consumers and the rising trend of people interested in driving rented speed cars rather than owning one.

Required:

Discuss the threat(s) and weakness(es) of the automotive industry for speed cars presented in the case, and provide suggestions to Fredrick Dunden to tackle these issues. (12)

- 9 City Express (CE) operates inter-city passenger bus service over 20 districts of Sindh. It was incorporated in 2015 when Government of Sindh (GoS) awarded the company exclusive road permits to operate in distant areas of Sindh. CE was an instant success because of wide area coverage, low ticket pricing and large fleet of state-of-the-art buses. In view of the encouraging response from general public, GoS is also considering to introduce a new inter-city train service.

GoS has been providing subsidies, granting various tax exemptions and promoting services of CE by extensive coverage in the electronic and social media to encourage CE to operate in areas with low profit margins. Still, certain routes are not profitable. In these routes, buses often depart late and schedules are cancelled frequently. The management of CE is considering to negotiate with GoS to relax restrictions on fixation of fare rates to counter increasing fuel costs.

Required:

Perform SWOT analysis for CE. (06)

- 10 The Coffee Hub (TCH) is a newly established chain offering gourmet blend coffee in a variety of flavours in a state-of-the-art customer friendly coffeehouses. It imports the highest quality of coffee beans from suppliers around the globe. Besides own operated coffeehouses, it has issued operating licences to other stores as well. TCH also offers packaged coffee to online customers.

Required:

List the activities to be carried out by TCH in respect of its primary value chain based on the classification suggested by Porter. (08)

- 11 Established in the year 2006 in Karachi, Good Food Restaurants (GFR) has achieved remarkable growth and presently owns and operates a chain of ten restaurants in Karachi, Lahore and Islamabad. GFR's operations have been highly profitable because it has a significant base of loyal customers who are not only a source of repeat business but they also promote its image through word-of-mouth advertisement. Identify the strengths, weaknesses for GFR. (*Mention any four points in respect of*

each)Note: Only list the parameters – explanations are not required(08)

- 12 Evaluation of a firm's strengths and weaknesses includes comparison of the efficiency of its value chain vis-à-vis those of its competitors. State the specific measures which a firm should take if it is faced with a situation in which weak linkages in its value chain create cost disadvantages and impair its competitive position (05)
- 13 Quality is a strategic advantage which can be achieved by an enterprise through long-term commitment to excellence in all areas of operations. Identify the factors you consider to be most critical for achieving quality as a sustainable strategic advantage. (04)
- 14 Various types of Benchmarking are used as points of reference or standards against which performances of organisations are measured. State the difference between Internal Benchmarking and Functional Benchmarking. Give one example each of Internal Benchmarking and Functional Benchmarking. (05)
- 15 Long-life Concrete Limited (LCL) is a manufacturer of pavement blocks and enjoys a sustainable cost-leadership position in its line of business. Recently, a number of competitors have posed serious challenges to the favourable cost-leadership advantage enjoyed by LCL over its rivals. State the different strategies and tactics that LCL should pursue to sustain its cost-leadership advantage over its competitors. (06)
- 16 Briefly explain the following concepts:
• Benchmarking (2.5)
- 17 Briefly explain the following:
- Core Competence (3)
- 18 In the current economic scenario, business organizations are under continuous stress to achieve economies in their production and operating costs. The pressures for cost reduction emanate from the management as well as the competitors and customers. Identify eight operational and strategic areas which must be scanned continuously by an industry leader to achieve cost economies and maintain its competitive advantage. (08)

PRACTICE QUESTIONS FROM ICAP STUDY TEXT FOR MFA

- 19 The Coffee Hub (TCH) is a newly established chain offering gourmet blend coffee in a variety of flavours in a state-of-the-art customer friendly coffeehouses. It imports the highest quality of coffee beans from suppliers around the globe. Besides own operated coffeehouses, it has issued operating licences to other stores as well. TCH also offers packaged coffee to online customers.

Required: List the activities to be carried out by TCH in respect of its primary value chain based on the classification suggested by Porter.

- 20
- a) What is the purpose of benchmarking?
 - b) Describe the nature of:
 - i. Internal benchmarking

-
- ii. Competitor benchmarking (or competitive benchmarking)
 - iii. Operational benchmarking (also called process benchmarking and activity benchmarking)
 - iv. Customer benchmarking
- 21
- a) Define added value.
 - b) Suggest how a strategy for adding value might be developed.
- 22
- About ten years ago, the owners of a small dairy farm producing milk and cream switched to organic farming methods and making organic dairy products – milk, cream, cheese, yoghurt and ice cream. They sell their branded products through three distributors in the region. In addition, they use direct marketing to sell some cheeses as expensively-packaged gift products. Catalogues are sent to potential customers by e-mail, customers buy the products online and they are then delivered direct to the customer.
- The owners of the farm believe that their success has been due to their ability to add value for their customers.
- Required**
- Suggest how the farm may have succeeded in adding value for its customers.
- 23
- a) List the primary activities and secondary activities in a value chain.
 - b) Explain the significance of the value chain for business strategy.
 - c) Identify the primary activities in the value chain for a publisher of educational text books.
 - d) Identify the primary activities in the value chain for a company selling insurance policies (such as car insurance) by telephone.
- 24
- a) Identify a model or techniques that you might use to carry out:
 - i. an analysis of an entity and its activities
 - ii. an environmental analysis
 - iii. an industry analysis
 - iv. a strategic position analysis
 - v. an analysis of a strategy for change
 - b) What measures might you use to assess the effectiveness of marketing?
 - c) The Mayor of Capital City wants to improve the road traffic situation in the city by reducing traffic congestion. At the moment, there are frequent traffic jams and transport times through the city are very slow. The Mayor is particularly concerned about delays to public transport services (buses) and taxis. He is discussing with his Road Management Committee a strategy to reduce traffic congestion in the city.
 - i. Suggest two **critical success factors** (CSFs) that might be used for developing the strategies to reduce road congestion.
 - ii. Suggest two **strategies** for achieving success in these areas.
 - iii. For each critical success factor, suggest a **key performance indicator** (KPI) for setting a measurable target of performance, and comparing actual results against the target.
- 25
- a) Define a core competence, and describe factors that create a core competence.
 - b) For any two successful major companies that you know, identify and explain what you consider to be their core competence (or core competencies).
 - c) Explain the significance of core competencies for product-market business strategy.

- 26 The Righton Supermarkets Group is the largest supermarket group in the country. In spite of a decline in total consumer spending in the national economy last year, spending in the supermarket sector as a whole increased, and Righton also increased its market share. It now has over 20% of the market for food-and- drink shopping in the country. It is also enjoying strong growth in the sale of non- food products such as clothing (it has its own brand of fashion clothes) and domestic electrical goods. The group has just announced record annual profits, and investors expect the growth in profitability to continue, in spite of signs of weakness in the national economy. Rival supermarket groups have been attempting to regain lost market share. Two rival groups merged a year ago. Another competitor was acquired a few years ago by a major US supermarket group and is pursuing an aggressive competitive strategy. Righton's success is due partly to its reputation for low prices and reasonable- quality products, and its efficient in-store service. The group continues to acquire land and to purchase retail property with the intention of building more out-of- town stores and smaller in-town convenience stores. It does not have any business operations outside the country. There is some concern about the possibility of government action to prevent the group from exploiting its 'near-monopoly' position in the market.

Required

- a) What is the purpose of SWOT analysis?
 - b) Using the information provided, carry out a SWOT analysis for the Righton Supermarket Group.
- 27 The AZ Group is one of the world's leading pharmaceuticals companies. It was created five years ago by the merger of Entity A with Entity Z. The group's operations are based mainly in Western Europe and North America. The North American market currently accounts for 40% of world sales for pharmaceutical companies. In the past two or three years, AZ has been involved in clinical trials in countries in South America and Asia, aimed at developing new medicinal drugs. These countries were selected because regulatory controls over medical research are less stringent than in the US, Canada or Western Europe. The group has suffered some setbacks in its business in the past twelve months:
1. There have been serious concerns among the public and the medical profession about the safety of one of AZ's most successful drugs, Carora.
 2. A new drug developed by AZ failed to obtain regulatory approval in the US. Approval is needed from the national regulator before it can be sold in the market.
 3. Another new drug that AZ has been developing has had disappointing clinical trials. Clinical trials are carried out before further testing and application to the national regulators for approval.
- R&D spending accounts for a substantial proportion of total annual expenditure of the AZ Group (and other pharmaceutical companies).

Required

- a) Using the information provided, carry out a SWOT analysis for the AZ Group.
- b) Suggest a strategy that the AZ Group might pursue as a way of developing and growing its business in the future.

CH # 9**ETHICAL DECISION MAKING MODELS****PRACTICE QUESTIONS FROM PAST PAPERS OF BMS (OLD CFAP PAPER)**

- 1 Mr. Faysal Adil (Faysal) is an experienced chartered accountant. He is on the board of directors of Aitmaad Builders & Contractors (ABC). Government has recently invited tenders for construction of country-wide hospitals. The successful bidding on these tenders would give ABC a considerable competitive advantage.

Faysal's younger brother is an influential member of a committee responsible for awarding the contract. Faysal is under the pressure of the management to influence his brother to obtain favour for ABC in the tendering process.

Required:

Identify and briefly discuss how the fundamental principles of Code of Ethics of ICAP may be compromised if Faysal proceeds with the management's advice. (06)

- 2 Explain the term Business Ethics and discuss its increasing significance in the present business environment. (05)

PRACTICE QUESTIONS FROM ICAP STUDY TEXT FOR MFA

- 3 Opulent Furniture (Pvt) Ltd is one of the largest furniture retailers and has its manufacturing facilities and retail shops across the globe. The company designs and sells premium quality furniture and hardwood flooring. The company, due to the nature of its products, is aware of the deforestation it causes in different regions where it operates. However, the company's values and principles display a high regard for environmental concerns as shown in their vision statement: "At Opulent Furniture our vision is to provide the highest quality furniture for all our customers across the globe whilst integrating environment-friendly practices in the manufacturing of our products."

A recent report entitled "Companies Costing the Environment", published by the Environmental Protection Agency, suggested that Opulent Furniture was clearcutting virgin trees over thousands of acres. If this large-scale deforestation continued, South Asia would be left with significant environmental damage such as loss of habitat, higher stream temperatures, flooding and dying fish which could take decades to repair.

Opulent defended itself by claiming that it sources 55% of its wood from sustainable sources and is aiming to reach 80% in the next five years. It also referred to its heavy contribution towards forest management and reforestation.

AIA has recently joined the company as an Assistant Internal Auditor at a very handsome salary package. She is assigned to verify the sourcing of wood used during the last six months. She has found that the verification process regarding supplies of Forest Stewardship Council (FSC) certified wood is not effective. Most of the time the description on invoices for the wood is accepted as sufficient evidence of sustainable sourcing. She also noted that the spending on forest management includes significant amounts for staff forest visits, which in her opinion are meant for sourcing wood rather than any supporting activities for forest management. She has taken her concerns to the CFO who has told her this is the way business is conducted in the industry, and asked her not to highlight these

areas in her report. Two days later, the company offers her complete hardwood flooring along with rosewood furniture for her apartment at a 50% discounted price. She is surprised, since as per company policy this is only offered after one has been employed for more than two years.

Required:

You are required to apply the AAA model on the above scenario and resolve the ethical conflict using the relevant questions

- 4 SafeStores Limited (SL) is a company engaged in providing wide-ranged storage services to other companies. Two years ago, SL rented a property for ten years in a small city, which is surrounded by agricultural land. It built a warehouse having humidity, light and temperature control systems. It also had some sterilized sections to store fresh pulps of fruits. This storage facility significantly helped the villagers to store and preserve their produce.

Recently, the local Court took notice of unauthorized use of amnesty plots of land in the city and issued an order to the authorities to demolish all unauthorized constructions and recover the land. SL, through a 30-day demolition notice received at the storage facility, discovered that the property they rented out was illegally constructed over the plot of land originally allotted by the government for the construction of a school. The owner of the property built a small school on about 30% of the land and on the rest of the land built a bulk store structure. SL storage facility was built in the said structure. The demolition notice shocked the management of SL, as demolition in 30 days can cause substantial loss of business, cost of damages to clients and cost of shifting and re-construction. You, as CFO of SL informed the CEO that in order to minimize the expected losses, SL needs at least one year to properly plan re-construction and shifting. On the instruction of CEO, you met with the lawyer and discussed the way out. Lawyer reviewed the facts of the case and concluded that this is a lost case for the owner of the property, whereas SL as a tenant may become an aggrieved party and can file an appeal for one-year notice time. However, he was of the opinion that Court is likely to issue stay order in its first hearing, but will conclude the case within one month. It is also likely that Court would not allow more than three months. He proposed some strategies that can possibly delay the conclusion of the case and resultantly demolition for six months. You noticed that these strategies include adjournment request on false medical grounds, exaggeration of cost of damage to clients and showing overestimated time and cost for shifting and re-construction. You are preparing your recommendations for CEO on lawyer's advice.

Required:

Use Tucker's five-question to analyze lawyer's advice for recommendation to the CEO

- 5 Urban Hotels Ltd. (UH) is a leading name in the hospitality industry in Pakistan. UH recently developed executive suites advertised at Rs. 36,000 per night. Unfortunately, even after adequate marketing and high levels of comfort, the new rooms are rarely booked. The management is concerned that the standard rooms are more profitable and the new suites are taking up space and becoming a liability. Therefore, the CEO, being authorised to do so, decides to offer these suites at a reduced rate of Rs. 18,000 per night. His decision is communicated to the concerned staff for implementation. However, whilst completing the extra bookings resulting from the reduced rate, the data entry staff erroneously entered the cost as Rs. 28,000, which remained unnoticed for three days. During these three days, 118 nights were booked. The matter was presented to the CEO who finally decided that:
- Promotional stands will be placed at booking counter showing original reduced prices as Rs. 18,000 without mentioning an effective date.
 - In order to avoid possible negative reaction from guests who had booked

during the first three days and were yet to check out, the error would be corrected with retrospective effect in their bills. This was applied to 48 out of the total of 118 nights booked during the first three days.

- c) Any guest who had booked and left would not be refunded the excess charges. This was applicable to 70 out of the total of 118 nights booked during the first three days.
- d) Any replies by hotel staff to requests by customers for clarification on this matter will not mention the issue is an error.

Required:

You are required to apply the Trucker Model on the above scenario and resolve the ethical conflict using the relevant questions

- 6 Maham belongs to a rich family, and she is the first girl in her family to complete a Master's degree from Oxford University. On her return she visited her grandparents living in her native hometown. She was amazed by the hospitality and was showered with gifts. One particular gift caught her eye- a beautiful hand woven set of accessories and chaddar, the intricate design and masterful strokes winning her heart. She discovered that making hand woven fabrics and embroidery are a common pastime for the women in the village and they are unaware of the potential value of their products. Maham decided to take a few of the pieces and managed to sell them at a good price. Inspired by this success, she decided to set up a distribution centre to sell the handicrafts made by women in the village to high-end customers. She hired female workers on a daily wage basis (that conforms to the minimum wage law) and provided them material to produce large quantities of handicrafts. The centre was highly successful; she earned huge profits during her first year and decided to expand the business by displaying her products at the International Heritage Fair, the biggest South Asian Arts and Craft Exhibition. Through this exhibition she received several big orders and now she plans to expand and run it as her main business. While planning for expansion she decided to hire women at the monthly wage that conforms to the minimum wage law. She knows that for next few years there would not be any competitor and workers would not have any other competitive opportunity.

Required

Apply Tucker's Model on the wage policy of Maham's expansion plan.

- 7 Iqbal Khan is the Marketing Head of Delta Beverages which is currently facing tough competition from STU, a new entrant in the market. Despite all his efforts, sales are declining which is a matter of concern for him and his team. Iqbal is invited to the Pakistan Advertising Association Awards ceremony, where he meets the Marketing Manager of STU. The manager tells Iqbal that he has next quarter's marketing plan that he would be willing to share with him. All he wants in return is that if he applies for a job in ABC Company then Iqbal should help him get it using his contacts there. Later, Iqbal finds out that the Manager who approached him was disgruntled because someone else in the team received the award and recognition for the marketing plan that he formulated, which explains why he was willing to share his company's confidential information with a competitor. Iqbal Khan receives a sealed packet from Marketing Manager of STU next day.

Required

Which fundamental principles are violated if Iqbal Khan uses the information given by Marketing Manager of STU and supports his appointment in ABC Company?

- 8 High Towers (HT) is a construction company known for its quality, on-time delivery and highly trained workers whether at senior or junior levels. Since HT accepts government contracts in high security risk areas, it receives grants for providing standardized training

to its workers. As per the rules, there is a requirement that the Company engage only the government's pre-qualified trainers. However, HT believes these trainers are of poor quality. Instead of sending its workers to these trainers, HT has an arrangement with a private trainer who is cheaper and provides better quality training. The Company has been working with this private trainer for the last two years, and more than 300 employees have completed this training.

To prepare claims for the expenditure, the Company has an "arrangement" with one of the pre-qualified trainers to raise invoices. You are the Chief Financial Officer of HT and lead the team that handles training claims including the provision of invoices. You are not comfortable with this system and are reassessing the whole situation.

Required

Which fundamental principles are violated in the above situation?

- 9 You are a non-executive director at a recently listed company PCL Limited which has significant revenue stream from government contracts. Your recently widowed aunt approached you for financial advice regarding investing Rs.10 million in PCL shares. She feels that PCL shares at the current market price is a good investment in terms of capital appreciation. However, you feel that strict decisions of the board against adopting unethical practices of the sector are going to impact the prospects of winning government contracts in future. Therefore, you think this will not be a sound decision.

Which ethical dilemma are you facing?

- 10 Rehan Bukhari was posted to XYZ Region as the Regional Manager in order to set up a manufacturing subsidiary. While attempting to set up a new headquarters and manufacturing facility, he is facing delay in approval from the local authorities lasting many months. To resolve the issue, he met three senior officials who indicated that setting up the subsidiary would go smoothly if Rehan's company would pay them Rs. 2,000,000 as a facilitation payment in addition to total official charges of Rs. 300,000. They told him this was a reasonable amount compared to what other companies usually pay them for the same assistance.

Rehan was dismayed since he was aware that bribery was against his company's policies on how to do business and that its violation would not be tolerated under any circumstances. Two days after the meeting he receives a call from the CFO that if the delays are not resolved soon he will be replaced by a more efficient manager.

Rehan was approached by a consultant who offered to get the approvals without further delay at a fee of Rs. 2,800,000. There is a budget of Rs. 3,000,000 as a provision for payments to consultant for legal and other services. He is now thinking of hiring the consultant.

Required.

Apply Tucker's model on the hiring of consultant.

- 11 You are a non-executive director of PrecastConc Limited (PCL) that deals in precast structures used in buildings, bridges and as trench covers. PCL has a few medium term agreements with pre-qualified steel suppliers. In a Board meeting, the Procurement Committee is presenting the case of a private company, Strong Steel (Pvt.) Limited (SSL), which was pre-qualified in 2013 as a supplier of steel. Recently, an Internal Audit report identified that a key pre-qualification criterion was not applied in SSL's case. The Procurement Committee, considering the exemplary contract performance history of SSL, is suggesting a special waiver of the shortcoming for a period of the next two years, which the Board approves.

As a normal course of SSL's client relationship strategy, higher management and directors of PCL regularly receive small gifts such as family passes for amusement parks and entertainment shows, diaries, and fruit baskets.

Required

Apply the AAA model on the above scenario.

ICAP

Recommended

Answers

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CH # 1**POLITICAL ENVIRONMENT AND BUSINESS****PRACTICE QUESTIONS FROM PAST PAPERS OF BMS (OLD CFAP PAPER)**

- 1 Environmental Scanning is the process of collecting information about the external marketing environment in order to identify and interpret potential trends. It includes analysis of collected information to anticipate whether the trends represent opportunities or threats. Environmental scanning includes assessment of political developments, economic trends and social and cultural influences which would affect the organization.

PRACTICE QUESTIONS FROM ICAP STUDY TEXT FOR MFA

- 2 Mr Z. A. Bhutto was avowedly committed to socialist economy, which envisaged the state as the major player on the economic scene. Therefore, after attaining power he started a nationalisation programme. In the first phase of the programme, a number of basic industries were nationalised. In the second phase, the state took control of financial institutions including banks and insurance companies. And in the third and final phase, rice-husking units were nationalised. (PPP first government 1971-77 nationalised industries due to their believe that blatant private investment during the Ayub Khan era (1958-69) has created economic disparity and accumulated all the capital of the country in the hands for few).

The nationlisation policy of the Bhutto government was seen by many economists as a serious threat to the efforts for economic development during 1960s and resulted in economic inefficiency and mis- allocation of resources.

Undeniably economic growth slowed in the wake of nationalisation. This is corroborated by the fact that during 1960s, Pakistan's economy grew on average at 6.8 per cent per annum, during 1970s, growth rate fell to 4.8 per cent per annum on average. It is also true that most of the nationalised units went into loss, because decisions were not market-based. However, rapid economic growth is not the only macro-economic objective of a government. The government has also distributional objectives so as to reduce economic disparities. During 1960s rapid economic growth was accompanied by concentration of resources in a few hands.

CH # 4 INFORMATION AND COMMUNICATION TECHNOLOGIES

PRACTICE QUESTIONS FROM PAST PAPERS OF BMBS (OLD CAF PAPER)

- 1 A Virtual Organisation is an organisation which does not have an identifiable physical existence as it does not have a head office or operational premises. A Virtual Organisation conducts its operations by means of IT systems and communication networks through a chain of business contacts to which it outsources all its operations. A critical factor for the successful operation of a Virtual Organisation is the ability to manage the different external relationships and co-ordinate their activities to achieve positive business outcomes. A Virtual Organisation may or may not have any employees.

PRACTICE QUESTIONS FROM PAST PAPERS OF BMS (OLD CFAP PAPER)

- 2 Business firms expect to derive the following advantages by outsourcing of selected business activities to external entities:
- (i) Reduce requirements of capital investment and human resources as the facilities and services are provided by the external entities to whom these activities have been outsourced.
 - (ii) Place greater focus on core value-added activities of the business as the ancillary activities are outsourced to external suppliers.
 - (iii) Achieve cost economies as the suppliers of the outsourced activities are able to obtain the advantages of economies of scale.
 - (iv) Derive benefits of the particular expertise and innovations of the external entities who provide these services.
- 3 The advantages of Business Process Outsourcing are:
- (i) Outsourcing would enable the managers and the staff to concentrate in activities which are of critical importance for the achievement of the corporate mission, thus improving their core competencies and the overall productivity.
 - (ii) Outsourcing may help to reduce the operating costs of SEL.
 - (iii) Outsourcing would enable SEL to reduce the amount of capital investment that it would otherwise have to incur in the facilities which would be provided by the outsourced agency. Also enable SEL to improve core activities performance.
 - (iv) Careful selection of outsourcing companies would help to acquire new know-how and expertise from the outsource agencies as they would be providing similar services to their several customers.
- The disadvantages of Business Process Outsourcing are:
- (i) Outsourcing involves loss of some control and places excessive reliance on outsiders.
 - (ii) Outsourcing can result in loss of valuable in-house skills.
 - (iii) Outsourcing may result in creation of competition in future.
 - (iv) Outsourcing may result in disclosure of critical confidential information to outsiders.
 - (v) If the level of the performance is not the same then it might result in brand dilution and shift in brand loyalty.
- 4 **Passwords:**
Alpha should follow strong password policy. The policy may include having a password with a combination of letters, numbers and symbols that is not easily guessed, periodically changing passwords, etc.

Encryption:

The data confidentiality can be maintained at Alpha by asking the clients to encrypt data before sending it through network. When Alpha has received the encrypted data it can decrypt it with a decryption key to access the data.

Firewall:

Alpha should use firewall to protect its computer that stores the client data to protect it from unauthorized access from within and outside the company. It can also be used to obtain reports on blocked messages for further analysis and action.

Install anti-virus software

Alpha should install anti-virus software to protect it from viruses that can harm the system and compromise data confidentiality.

- 5
- (a) The measures to ensure the effectiveness of password control are as follows:
- (i) Passwords should not be easy to guess or difficult to remember.
 - (ii) Appropriate controls for setting of passwords should be adopted to avoid use of weak passwords. For example, it must contain alphabets, numbers and special characters and must not be less than a specific length, say eight characters.
 - (iii) Password settings should include maximum and minimum age e.g., there should be a forced password change policy to change password, say, after 30 days. Also there should be a minimum age of passwords, e.g. 10 days before which passwords cannot be changed.
 - (iv) Password settings should retain password history so that users may not be allowed to reuse any of their last, say, five passwords.
 - (v) Password policy should include appropriate account lockouts, e.g. user account may be locked after specified number of unsuccessful attempts and the subsequent unlocking process should be done by the administrator after compliance with the investigation procedure.
 - (vi) First passwords should be communicated in a secure manner and system should force users to change their passwords after first login.
 - (vii) Passwords must be stored in irreversible encrypted format.
- (b) Employees to communicate with each other. Intranet allows the employees to share in- Intranet involves use of internet technology within an organisation to facilitate its house information relating to products, policies and procedures and company newsletters. Intranet also uses public communications network and is therefore exposed to the risks of unauthorised access to files and software by the users of internet. Access to intranet can be secured against unauthorized access by firewall hardware and software.

6 **Trojan Horse**

It is type of virus that is disguised and often hidden within other software or files. Whilst the user believes that the system is carrying out a program, the Trojan Horse secretly spreads the virus.

Worm

This is a version of corrupt data that replicates itself within the system and moves from one file or program to another.

Logic bomb

Logic bomb is designed to start working, i.e., corrupting data or affecting data processing, when a certain event occurs

Time bomb

Time bomb is designed to start working, i.e. corrupting data or affecting data processing on a specific date.

CH # 6 COMPREHENSIVE QUESTIONS OF CH 1 TO 5**PRACTICE QUESTIONS FROM PAST PAPERS OF BMBS (OLD CAF PAPER)**

1 Relevant environmental factors for the purpose of PEST analysis:

(i) Political factors:

- Foreign investment is encouraged by government by offering tax holidays.
- Strong opposition of existing tax incentives may pressurize government to reconsider the policy.
- Government is considering to raise minimum wage rate which would increase costs and may affect the profitability of businesses.

(ii) Economic factors:

- Demand for fast food is growing and fast food chains are enjoying substantial profits.
- There is a widening gap in terms of wealth distribution and demand for fast food items is mainly from middle and lower class which might be affected as the gap further widens.
- Xanata is facing high rate of inflation which may have adverse impact on economy of the country and customers' ability to buy.

(iii) Social factors:

- There is an increased trend on habits of eating fast food among middle and lower classes that may comprise of major proportion of population of Xanata.
- There is a pressure on health ministry to revise health policy which may adversely impact the business prospects of fast food chains.
- Social contributions are appreciated by consumers.

(iv) Technological factors:

- There is a trend of using advanced technologies among fast food chains as reflected in the success of Burger Buddy.
- Use of social media and mobile application for promotional activities is also on rise.

PRACTICE QUESTIONS FROM ICAP STUDY TEXT FOR MFA

2 **POLITICAL FACTORS**

Ryde has been an innovative service that is becoming popular. The governments in Pakistan are facing the challenges of unemployment and bad civic services. Chances are that this business would be supported by Governments of any ideology.

ECONOMIC FACTORS

The industry that Ryde operates in is the sharing economy. It means that this industry is based on sharing physical or intellectual resources. In this case, Ryde users register themselves to respond to customer needs and drive them to a location. It's often deemed cheaper than taxis and easier to schedule a ride since it's in the same vicinity. Ryde has grown at a rapid pace since its initial launch and its reach is increasing. But the countries may debate restricting its services due to Ryde having an unfair competition against regular taxis or public transportation. The increasing competition can also cause a drop in pay despite the new opportunities.

People may consider whether this type of services bring new avenues to earn an income or takes away livelihood from existing services (Ryde vs. traditional public transport). This gives rise to large part of the workforce that is pushed out of business and adds to the unemployed population.

SOCIAL FACTORS

Customers of Ryde enjoy its easy-to-access platform. The main target market of the company is the young generation from upper middle class that wants convenient and fast service which is available on their smart phones with a tap of the finger. These are tech-savvy people who are drawn towards fast and reliable digital services and products.

Another large part of the customers are women. Today more women are integrating in society as they become more independent. The number of girls has increased in universities as well as workplaces. An app like Ryde provides these women an easy and safe option to find their own commute.

The cheaper price due to the use of technology and collaboration is also attractive to many.

TECHNOLOGICAL FACTORS

Ryde has leveraged the power of social media in today's age of technology and connectivity. Buyers are searching for cheaper transportation options and Ryde fulfills this need using technology as an enabler.

Consumers make schedule commutes through the app. An estimate for the ride cost can appear in the app depending on many factors like drop off location, traffic density and weather. They can pay for the ride up front, through a debit/credit card or through a digital wallet on the app. And drivers who are registered and available in the area respond and pick up the passengers to take them to their destination.

Technology also brings its inherent risks. The app is pivotal to Ryde. It can't function if the app goes down or suffers difficulties. The company must ensure everything is updated, reliable and ready to go. The company must also maintain back up infrastructure such as data servers and networking. Many drivers use 4G networks to connect to the app — it's deemed critical to do their jobs.

LEGAL FACTORS

Additionally, how the company is dealing with competition laws in the taxi industry as being the only such service and taking the largest market share, and whether Ryde was abiding by these rules. Some government officials also think that drivers require commercial licenses as well, since they are driving as Ryde drivers they should have the additional documentation.

Some major laws that the company must follow include labor and employee safety laws, competition and monopoly laws and other laws related to road traffic (e.g. driver's license and vehicle documentation) and ownership of vehicles, etc.

The company must also ensure that the vehicle being used are tested for road-worthiness and the users have regularly filed vehicle taxes, etc.

3

POLITICAL FACTORS

FROOT is a multinational and exports to multiple countries including the United States, Canada, UAE and Europe, etc. Hence, the varied political factors like government policies and legislations etc. in different countries could influence its operating business accordingly.

The taxes and duties related to import and export also play a huge role. Even the production and distribution policies can impact the strategies and its business model significantly. As FROOT is a juice concentrate, the governments with pro-growers' ideology would be more interested in protecting the interest of growers. Similarly,

governments with strong environmental commitments may make policies on waste management and packaging.

As the government is keen on increasing exports and wants to encourage such industries that produce high quality products for the international market, FROOT can leverage on this factor to increase its sales and profitability.

ECONOMIC FACTORS

During the recent COVID-19 pandemic lockdown, the sale of longer shelf-life food products like that of FROOT got impacted tremendously.

As consumer spending got decreased and consumption worsened across the country as well as globally, the brand might have suffered a lot. With supply chains getting hampered and many distribution channels like retail stores and markets, restaurants being shut down, the consumption and sale would have decreased. But with the situation getting better now and restaurants, commercial places getting opened once again, the consumers are again focusing on more consumption. This is an opportunity for FROOT having high consumer appeal to position and market itself accordingly. It can increase its share over different segments like carbonated drinks with its high fruit juice content.

SOCIAL FACTORS

There are a lot of social factors which play a huge role in consumers eating and drinking choices. Factors such as lifestyle, employment, education level, status, culture and the community impact the consumer choices and decision-making process. Even the demographic factors such as age, gender, location and income status have a major role in consumer buying decisions.

Youngsters and children have an inclination towards beverages at home as well as restaurants. Pakistan being a population with large young demography is a good market for FROOT.

With the rising culture of dining out and urbanization, this brand has a huge potential to focus on its competitive strategies.

TECHNOLOGICAL FACTORS

With rising technological innovations in product design, packaging, promotional channels, the beverage industry is evolving in itself.

As sales and distribution channels are increasing and making a shift to E-commerce platforms the company should focus on increasing its distribution through unconventional channels as well besides the regular stores.

Apart from this, a lot of technological innovations are happening in terms of manufacturing and operations. FROOT may need to invest in latest equipment and upgrade its assembly lines to become more efficient.

With the rising internet penetration among consumers, this brand can leverage the online digital marketing for boosting its sales and other operations.

LEGAL FACTORS

The beverage industry is regulated and controlled by several laws as any other industry. The company has to deal with authorities which regulate many aspects like licensing, packaging, labeling and other necessary permits.

All legal factors which include health and safety laws, environment laws, consumer protection laws etc. must be taken into consideration while formulating strategies.

4 POLITICAL FACTOR

The political environment of Pakistan will have a huge impact on Hike's business strategy as it is a multinational company which would have to adapt to local environment.

Moreover, the government wants to encourage tourism in Gilgit Baltistan and has taken measures to attract foreigners as well as locals to explore the unique locations and opportunities for entertainment. There has also been a lot of focus on hiking and mountaineering as Pakistan boasts some of highest peaks and mountain ranges in the world.

Similar to any other developing country in the region Pakistan has faced political instability in past. However, in recent past the country has seen political stability. All political parties are reasonably expected to support tourism, which is encouraging for planned venture.

ECONOMIC FACTOR

According to the economic surveys, GDP of Pakistan has been growing at slow but steady pace. The affordability of hiking equipment by good size of population is a critical question. Due to this uncertainty, a large investment in hiking business in Pakistan would be a high risk venture.

SOCIAL FACTOR

The population has a huge youth entering the workforce through which a stronger middle class is steadily emerging. The country also has the advantage of an affordable and abundant workforce with fairly good English speaking skills. Hike could tap on this potential to its advantage.

Moreover, for last few years, with the improved tourism site in Pakistan, locals are visiting northern areas. This could be an attractive segment for Hike, though hiking would be a new sporting activity for Pakistanis.

A very critical analysis of law and order situation, current and in near future, would be important to take decision.

TECHNOLOGICAL FACTOR

Hike would have to make provisions for the technology it needs to sell and distribute its products. Since it is not going to manufacture in Pakistan, the advanced equipment and assembly lines would not be a concern for now.

Top social networking sites in Pakistan are Facebook, Twitter, Pinterest, Instagram, YouTube, and LinkedIn have a substantial following that is good tool for Hike to use for promotional campaigns and advertisements.

The success of other global tech platforms like Careem and Uber have paved the way for brands like Hike to utilize a market that is willing to accept technological change.

LEGAL FACTOR

In terms of legal environment, Hike should keep an eye on the copyright of designs of its apparel and equipment plans to sell in Pakistan.

Other laws that Hike may want to study closely are laws relating to corporate taxes, employment, minimum wages and incorporation of business and the ease of doing business in Pakistan.

5 Political factors

InfoTech would have to carefully consider how the politics of a country affects a foreign company entering into the market. Most countries with a communist ideology want businesses that are closely controlled by the government. A lot of government intervention, in such countries, could affect smooth operations of the company. Some countries encourage joint ventures with the local companies rather than independent investments to have greater control over the business sector.

The government may have higher taxes to curb certain business activity and businesses would not be allowed to own assets independently.

Economic factors

While considering Economic factors, InfoTech should monitor key economic indicators of Highland in the recent years. These indicators may include;

- The Gross Domestic Product and its growth
- The levels of foreign direct investment
- International Trade and balance of payments
- Interest rate levels and monetary policy
- Cost of Products and services available in the country (Inflation)
- Unemployment levels and the availability of reasonable human resource

Social factors

Considering the social environment of Highland, it can be noted that the situation of Highland seems favorable for companies like InfoTech. People in Highland are adopting technology at faster rate as compared to other countries in Asia. They are open and willing to experience innovative products and services.

InfoTech should also consider education levels in Highland and especially the languages that are commonly spoken as that will affect the products they manufacture. Literacy would affect the acceptance of advanced technology amongst industrial and consumer markets.

Youth is a primary target market for technology products. The larger the market, the more beneficial it will be for InfoTech. It is important for InfoTech to study the demographics of Highland's population in terms of age, gender and social classes. This would give useful insight into the size of the market for related technology related products.

Technological factors

Although Highland has an advanced technological base, but InfoTech should study whether the technologies it is working on have a market in Highland. It should also consider the ease of technology transfer when entering a new country.

Legal factors

As any other country Highland would have laws and regulations that foreign companies would be expected to follow. Some specific laws that would need attention would be:

- Laws of incorporating a business
- Labour and Employment laws
- Copyright, patents and licenses
- Insurance and Regulatory costs
- International Trade regulations
- International payments regulations, etc.

CH # 7**COMPETITIVE FORCES****PRACTICE QUESTIONS FROM PAST PAPERS OF BMBS (OLD CAF PAPER)**

- 1 (i) Threat of new entrants
The threat of new entrants in an airline industry is low because of the following probable reasons:
- The new entrants in an airline industry would have to make large capital investment (acquisition of airplanes, extensive marketing campaigns, acquisition of license, etc.).
 - The airline service would require particular set of skills, knowledge and experience that could be time consuming and cost bound.
 - The new entrant might find difficult to develop customer base as customers usually have high concerns of safety and trust in an airline industry.
 - Airline industry is highly regulated (stringent aviation and other regulations) in terms of entry, operations and exit.
- (ii) Threat of substitutes
The threat of substitute services in an airline industry is low to moderate because of the following probable reasons:
- The threat may be considered as moderate for domestic travelling because of the presence of number of substitutes such as trains, cars, boats, etc.
 - The threat may be considered as low for international travelling as air travel usually remains the first choice of customers.
- (iii) Bargaining power of suppliers
The bargaining power of suppliers in an airline industry is high because of the following probable reasons:
- The airline industry mainly relies on aircraft and related parts manufacturers and fuel suppliers. Given the small number of suppliers, they can exert high bargaining powers.
 - There are no or may be very few substitutes to aircrafts and fuel, therefore, airline industry has to heavily rely on suppliers.
- (iv) Bargaining power of customers
The bargaining power of customers in an airline industry is high because of the following probable reasons:
- The costs of switching from one airline to another are low thereby empowering buyers to exert high bargaining power.
 - In a developing country, the customer groups are likely to comprise of people who may be price sensitive than brand sensitive.
 - Customers have easy access to pricing information offered by other airlines to make comparison.
- (v) Competitive rivalry
The competitive rivalry in an airline industry is high because of the following probable reasons:
- The airline industry involves high fixed costs that might be identical for each airline company; thereby the companies compete by means of differentiation or costs leadership by attempting to attain economies of scale.
 - The demand for airline services often remains constant or has low growth rate, thereby, airline companies compete for a fairly fixed amount of sales and customers.
 - The costs of entry and exit are high in an airline industry thereby companies may be reluctant to leave the industry and attempt to survive by means of competing with each other.

- 2 The well-entrenched market players possess the following sustainable advantages which are deterrents to potential new entrants who may pose competitive threats:

(i) Economies of scale –

In an industry which offers significant economies of scale, the big firms are able to achieve substantially lower costs vis-a-vis the small producers. It is therefore difficult for a new firm to enter the market as it would not be able to initially achieve economies of scale and its average costs would be higher than those of the existing large-scale producers. Consequently, the existing firms are able to deter potential competition from new entrants.

(ii) Capital investment requirements –

If a new entrant to the market would have to make substantial initial capital investments in physical assets, this will act as a deterrent to new firms from entering the market. This is because they would incur substantial losses if their new business venture does not succeed and would therefore not want to take such high investment risks.

(iii) Access to distribution channels –

In certain markets, there are only a limited number of distribution outlets or distribution channels. A new entrant would face difficulties in gaining access to these established distribution channels; this would be deterrent to new competitors from entering this market.

(iv) Technical Know-how –

It is time-consuming and expensive for a new entrant in a market to acquire the know-how and experience as it would have to undergo the learning curve experience. This time period and the high expenses during the initial setting-up period would be a deterrent to the prospective rivals.

(v) Switching costs –

Switching costs are the costs that a buyer would have to incur in changing from an existing supplier to a new supplier. In certain industries, switching costs can be prohibitively high for a customer. High switching costs can be strong deterrent to new entrants to break into such a market.

(vi) Government regulations –

Regulations within an industry, granting of rights can make it difficult for new entrants to break into a market, e.g. it might be necessary to obtain a license to operate, or to become registered in order to operate in an industry. Companies which already operate in such an industry might have the benefit of patent rights that are deterrents to new competitors.

PRACTICE QUESTIONS FROM PAST PAPERS OF BMS (OLD CFAP PAPER)

3

Product 1:

Analysis of Info:

- It is a product in a market with low growth.
- Its market share is consistently very high and is forecasted to remain high.
- Its market share in the current year, 2019, is 56% (55.6%), which makes it the market leader.
- It is a long standing product in the existing market.

- It displays the characteristics of a mature product with dominant position.
- This is a Cash Cow product.

Future Strategies:

- It should be dealt with consistently to keep reaping profits.
- The cash generated by product 1 can be used to invest in other products.
- Market penetration, although difficult to implement in a low growth market, should be used when expansion is required as it is the least risky approach. For example, this can be obtained through cost leadership and acquisition of competitors, etc.

Product 2:

Analysis of Info:

- It is a product in a market with declining growth.
- Its market share is consistently very low and is forecasted to dip lower.
- Its market share in the current year is about 3% (2.9%) which is much less than the 44% market share of the market leader.
- It is an existing product in the existing market.
- It has weak position and seems to be in the decline phase.
- This is a Dog product.

Future Strategies:

- If the product is generating required ROIs or positive NPV, EM can choose to keep the product till it is feasible.
- Divest the product as it is projected to decline and may incur losses.
- If EM decides to keep this product for any reason (e.g. profit, brand value, product synergy, etc), market penetration strategy may be used for expansion, however, EM should avoid risky investments on this product.

Product 3:

Analysis of Info:

- It is a product in a market that is showing high growth.
- It has low market share.
- Its market share in the current year is about 11% (11.4%) which is less than the 37% market share of the market leader.
- It is considered a new product in the new market.
- It resembles an entrepreneurial venture in a high growth market.
- This is a Question Mark product.

Future Strategies:

- The market is growing quickly, there is an opportunity to increase market share, but initially it will require a substantial investment of cash to increase or even maintain market share. EM should keep investing in the growth of this product.
- EM can invest cash generated from product 1 into Product 3.
- Differentiation or focus strategy may be used to gain a larger market share.

4

Differentiation strategy can affect Porter's five forces in the following ways:

- (i) Threat from potential entrants
Offering the services in line of COS would require significant capital investment which might create entry barriers for potential entrants.
- (ii) Threat from substitute products
The uniqueness of services being offered by COS i.e. one of a kind shopping experience in a cruise ship may reduce the threat of substitute products significantly.
- (iii) Bargaining power of suppliers
With differentiated features COS can yield higher margins with which it can offset suppliers' power.
- (iv) Bargaining power of customers
Customers of BOS are likely to be less price sensitive as cruise ship is offering luxury, thereby, they are less likely to exert bargaining power.

- (v) Competitive rivalry
BOS is offering one of a kind 3-storey full-length shopping mall in a state of the art cruise ship with a customer base unlikely to be affected by pricing war, thereby, competitive rivalry is likely to be low.
- 5
- (a)** MG may enjoy the following benefits by adopting life cycle costing:
- The potential profitability of Glory Ultimate would be assessed before major development is carried out and further costs are committed. It may assist management in deciding whether to introduce new series at all or not.
 - It may assist in identifying various types of costs over the life of Ultimate Glory. Strategies may then be devised to reduce / control these costs.
 - It may assist in developing a pricing strategy that would cover the costs and achieve desired level of profits.
- (b)** MG might have to incur following costs in each phase of the life cycle of Glory Ultimate:
- (i) Introductory phase
- Manufacturing costs (costs of operations)
 - Marketing and advertising costs to raise product awareness
 - Costs of setting up and expansion of distribution channels
- (ii) Growth phase
- Increased costs of working capital
 - Costs of increasing capacity
 - Marketing and advertising costs to raise customer base
- (iii) Maturity phase
- Costs to maintain manufacturing capacity
 - Marketing and product enhancement costs to extend maturity
- (iv) Decline phase
- Costs of withdrawals (costs of remaining warranties)
 - Discounts to attract customers
- (c)** MG may adopt any or combination of the following strategies to extend the maturity phase of Glory Ultimate:
- Differentiate by modifying design, features, packaging, etc. to extend product life.
 - Sell to untapped markets in terms of geographical area, gender, type of customer, life style etc.
 - Revisit pricing strategy by offering discounts or promotional schemes to attract customers who are happy to purchase 'old models' for a lower price and avoid paying the premium required for the new models.

- 6
- (a) Salon:**
According to the BCG matrix, this division is a '**Cash Cow**'. It has relatively high market share in an otherwise low growing market. This division might have attained high economies of scale and/or have become efficient through experience. New entrants would be reluctant to enter as they may perceive that market is old and near decline. This division would be cash rich having high return on investment.

Cosmetics:

According to the BCG matrix, this division is a '**Question Mark**'. This division has relatively low market share in an otherwise high growing market. Since the market is growing quickly, there is an opportunity to increase market share but initially it would require substantial investments to increase or even maintain the existing market share.

(b) Salon:

It may adopt any of the following strategies:

- (i) Since the market is maturing with low prospects of growth, spending on innovation (R&D) should be limited. Reinvestment should be restricted to the extent of maintaining the existing level of market share.

- (ii) The ROI of this division is high and it might be earning substantial net cash inflows. The excess cash may be used to develop cosmetics division which is in 'question mark' quadrant or in any other viable investment opportunity.

Cosmetics:

It may adopt any of the following strategies:

- (i) The market is emerging with probable opportunity of increasing market share. Fashionista may opt to invest substantially (like marketing activities) to increase its market share to become a Star and finally a Cash Cow, if the growth prospects are good.
- (ii) Fashionista may opt to disinvest/abandon the division and formulate an exit strategy if:
- It cannot last long with a small market share and competitors are in a position to apply cost and / or price pressures; or
 - There is a considerable doubt as regards prospects of increasing market share.

7 A fragmented industry/business is an industry/business in which no single enterprise is a major player to be able to influence the industry. The individual market segments for a fragmented industry/business are relatively small and are not considered to be attractive for an organisation of significant size. The mode of entry/exit in a fragmented business is easy and the requirements of investment are small with the result that a large number of such businesses are established in close proximity to each other.

8 Products can be classified according to their characteristics as per BCG matrix as follows:
 A: Dog
 B: Star
 C: Cash cow
 D: Problem child or question mark

9 Rivalry among the competitors will be intense/high:

(i) if the number of competitors is high and they are equal in size, strength and capabilities.

(ii) in case the overall market is not expanding and the competitors resort to price cutting and aggressive promotion to capture a larger share of the aggregate market.

(iii) if there is not much brand loyalty among the customers and it is easy and less costly for them to switch suppliers.

(iv) in industries which have to incur substantial fixed costs. The competitors would strive hard to manufacture and sell larger quantities to spread and recover their fixed costs from sale of a large number of units.

(v) if the products are perishable or have limited shelf lives as the competitors would resort to price cutting and aggressive promotion to dispose of their stocks.

(vi) when there are major exit barriers and alternatives uses of the assets are limited.
 Example: Manufacturers of soaps/soft drinks/biscuits etc., mobile/telephone service providers.
 Reasons: These are relatively low value-products and are purchased frequently by the customers at convenient outlets. The customers can be persuaded easily to change their preferences and hence their brand loyalties.

10 (i) Bargaining Power of Buyers
 Ocean Ship Breaking Company enjoys an exceptionally strong bargaining position vis-à-vis the ship-owners. OSBC can purchase ships at very low prices. Besides, OSBC has the significant advantages of low ship dismantling costs, favourable tax policies and a ready market for sale of steel scrap material combined with limited number of interested entrepreneurs in this line of business which would strengthen its position vis-à-vis the ship owners

(ii) Potential Threat of Entry of New Competitors

Since the market for genetically modified rice seeds is expected to offer significant growth prospects resulting in increase in revenues and lucrative profits by the two companies, there would be a strong attraction for other resourceful research-oriented companies to enter this market. Although the new entrants would have to incur huge R&D costs to develop the specialized products, and make substantial investments in creation of production facilities yet threats from potential competitors cannot be ruled out.

(iii) Rivalry among Existing Firms

Since six companies of equal size and strength are involved in competition in the market for cement which is not expected to show any growth, the strategies pursued by only those companies would be successful to the extent that they have competitive advantages over the strategies of their rivals. Price competition, campaigns for creation of perceptions of better quality of cement, free onsite delivery to bulk buyers and aggressive promotional strategies would be common features among the competing firms.

11 The different types of entry barriers which may discourage new entrants from establishing new manufacturing units in spite of the substantial demand/supply gap for products in any industry are:

- (i) It may be difficult to achieve economies of scale quickly due to technical/operating constraints with the result that the new entrants may sustain substantial losses for a considerable period.
- (ii) The technology and specialised know-how for manufacture of the products may be held closely by a few suppliers and it may be difficult or too expensive for new entrants to gain access to such technology.
- (iii) The existing suppliers may have deeply-entrenched brands and enjoy strong customer loyalty which may make it difficult for the new entrants to compete with them.
- (iv) The existing suppliers may be financially resourceful and enter into price wars to deter new entrants.
- (v) Initial capital requirements may be too large and beyond the capacity of potential new entrants.
- (vi) It may be difficult for new entrants to have access to sources of raw materials as the existing manufacturers may have highly favourable ownership/lease rights of these sources.
- (vii) The existing suppliers may have well-established relations with knowledgeable and resourceful distribution channels and the new entrants may find it difficult to develop new marketing channels for distribution of their products.
- (viii) The government regulatory policies may prohibit new entrants from establishing new units to provide protection to state-owned industries.

12 Strategic Business Unit (SBU)

13 The distinctive characteristics of the different types of business divisions in terms of their relative market positions and pursuit of business strategies are as follows:

- (i) Stars -- Star business divisions have a relatively large share of the market in high-growth industries and offer lucrative opportunities for growth and profitability in the long-run. Substantial investment should be made in Star business divisions to maintain and strengthen their dominant positions. Strategies of vertical and horizontal integration, market penetration and product development may be considered to further consolidate the well-entrenched position of the Star business divisions and to compete aggressively in the market.
- (ii) Cash Cows -- Cash Cows are business divisions which have a relatively large market share but compete in a low-growth industry. The Cash Cows are in a position to generate substantial funds because of their strong competitive position. However,

their requirements of funds for expansion are minimal and they are therefore in a position to generate funds which are in excess of their requirements. The Cash Cows are 'milked' as a source of corporate resources for utilization of funds in other business divisions which offer long-term growth prospects and in which competitive advantages can be achieved. Quite often the Star divisions with the passage of time are relegated to the position of Cash Cows.

- (iii) Dogs -- Dogs are those business divisions which have a relatively small share of the market and compete in a slow or no-growth industry. Dog business divisions are not able to earn fair profits and generally incur losses. Therefore such divisions are often liquidated or divested or subjected to policies of retrenchment to curtail expenditures on salaries and other associated costs. It may not always be advisable to liquidate or divest the Dog divisions as their assets can be disposed of only at throw-away prices because of the company's weak bargaining position. This strategy may pay off if there is a business turnaround at a later stage.

- 14 Marketing Segmentation is a process of dividing the total market into several distinct groups with each group having certain homogeneous characteristics. The groups can be formed on the basis of their geographic locations, income levels, age groups, educational qualifications, psychological behavior, buying habits and cultural backgrounds, etc.

The markets can be divided into segments if the segment fulfill the following criterion:

- (i) The market segment must be capable of classification as a distinctly identifiable and measurable group having common characteristics.
- (ii) The market segment must be of a size which is sufficiently large to elicit interest of the seller in term of its sales revenue and profit potential.

- 15 (i) Rivalry among Existing Firms
Since companies of equal size and strength are involved in competition in a market which is not expected to show any growth, the strategies pursued by any one company can be successful to the extent that it has competitive advantage over the strategies of its rivals. Price competition, campaigns for creation of perceptions of quality differentiation, more convenient and attractive packaging features and aggressive promotion would be observed among the competing firms.

- (ii) Potential Threat of Entry of New Competitors
Since the market has significant growth prospects and present firms are earning lucrative profits, there would be a strong attraction for other resourceful companies to enter this market. Although a new entrant would have to incur huge research and development costs to develop the specialized products, yet threats from successful and experienced companies would always be present.

- (iii) Bargaining Power of the Supplier
Lucky Coal Mines is in a strong bargaining position. It can sell its coal to many other buyers whereas the cement plant would have to incur high transportation costs - switching costs - if it were to procure coal from other mines which are located at a considerable distance. Furthermore, the quality of coal from other sources may not be as suitable for the cement plant. Lucky Coal Mines can therefore dictate its terms e.g. price, advance payments on placement of orders and recovery of transportation costs from the cement plant.

- 16 The factors which create Exit Barriers and prevent existing participants from quitting a loss incurring industry are:

Substantial Investment in Highly Specialized Fixed Assets:

This is particularly relevant in capital-intensive industries which require very large investments in specific-purpose building and machinery. These assets do not have alternative uses and their salvation value is usually low. Substantial initial capital costs and low salvation value of the assets would result in heavy losses and create exit barriers.

High Redundancy Costs:

Organizations having a large workforce with high salaries or contracts that stipulate high redundancy payments have to incur substantial costs by way of severance payments to its employees to exit from the industry. These payments require heavy cash outflows and act as exit barriers.

Ancillary Costs of Closure of Business:

The organization may have entered into long-term contractual agreements with important suppliers or buyers and tenancy agreements carrying substantial penalties in the event of premature termination of these agreements. The high costs of premature termination of agreements are exit barriers as the closure of business would cause huge losses.

High Fixed Operating Costs :

An organization which has very high fixed operating costs and is faced with unfavourable business conditions may continue operations if it is able to recover its variable costs fully and a portion of its fixed costs. This is particularly relevant if the unfavourable conditions are considered to be of a temporary nature and the firm is optimistic about the prospects of an upturn and recovery from its current difficulties. This type of composition of preponderance of fixed costs acts as an exit barrier

- 17 A Strategic Business Unit (SBU) is an independent unit within a large organization and has its own staff, financial resources and products. A separate SBU pursues its own marketing strategy and is established on the premise that a single strategic approach is not always appropriate in a large diversified organisation which markets different products to serve the needs of a wide range of customers.
- 18 The business strategy/policy in each of these situations is:
 (b) BCG Matrix
 (c) Gap Analysis
- 19 The Competitive Forces stated by Michael Porter are:
 (i) Potential threat of entry of new competitors
 (ii) Potential threat of substitutes
 (iii) Bargaining power of buyers
 (iv) Bargaining power of suppliers
 (v) Rivalry among existing competitors
- 20 The impact of internet on each of the Porter's five competitive forces for a retail industry is discussed hereunder:
(i) Threat from potential entrants:
 The internet has strengthened the threat of new entrants by reducing the barriers to entry. Start-up cost in a retail industry has significantly been reduced as new entrants do not necessarily have to make substantial capital investments such as establishing retail outlets, forming sales force, distribution channels, insurance premiums, etc.
(ii) Threat of substitute products:
 The internet has no direct impact on the threat of substitute products in a retail industry. Although customers may have an ease of access to alternative products, retailers may diversify product portfolios which could lessen the threat of substitute products considerably.
(iii) Bargaining power of suppliers:
 The internet has weakened the bargaining power of suppliers. Buyers' ease of access to greater number of suppliers means that bargaining power of suppliers has reduced significantly.
 The internet has strengthened the bargaining power of suppliers as they have access to wider spectrum of customers at relatively lower cost per customer.

(iv) Bargaining power of customers:

The internet has strengthened the bargaining power of customers. Buyers have greater access to information (product, supplier, price, market reality) that has empowered them to make informed buying decisions.

(v) Competitive rivalry:

The internet has strengthened the rivalry among competitors. The availability of detailed information about the retailers and their products (price, products, etc.) has made it difficult for the firms to differentiate (as competitors can easily imitate) resulting in focus being shifted towards the price competition thereby rivalry has intensified.

PRACTICE QUESTIONS FROM ICAP STUDY TEXT FOR MFA

- 21
- a) MG may enjoy the following benefits by adopting life cycle costing:
 - The potential profitability of Glory Ultimate would be assessed before major development is carried out and further costs are committed. It may assist management in deciding whether to introduce new series at all or not.
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 - Manufacturing costs (costs of operations)
 - Marketing and advertising costs to raise product awareness
 - Costs of setting up and expansion of distribution channels
 - ii. Growth phase
 - Increased costs of working capital
 - Costs of increasing capacity
 - Marketing and advertising costs to raise customer base
 - iii. Maturity phase
 - Costs to maintain manufacturing capacity
 - Marketing and product enhancement costs to extend maturity
 - iv. Decline phase
 - Costs of withdrawals (costs of remaining warranties)
 - Discounts to attract customers
 - c) MG may adopt any or combination of the following strategies to extend the maturity phase of Glory Ultimate:
 - Differentiate by modifying design, features, packaging, etc. to extend product life.
 - Sell to untapped markets in terms of geographical area, gender, type of customer, life style etc.

Revisit pricing strategy by offering discounts or promotional schemes to attract customers who are happy to purchase 'old models' for a lower price and avoid paying the premium required for the new models.
- 22 A star is a product in a market that is growing quickly, where the company's product has a large market share or where the market share is increasing. Product 3 appears to be a star. The total market is expected to double in size between Year - 2 and Year + 2. The expected

market share in two years' time is 15%, compared with 7.5% in Year – 2. Its market share in the current year is over 13%, which makes it the current market leader.

A cash cow is a product in a market that has little or no growth. The market share, however, is normally quite high, and the product is therefore able to contribute substantially to operational cash flows. Product 2 appears to be a cash cow. In the current year its market share was over 53%, and it is the market leader.

A dog is a product in a market with no growth, and where the product has a low share of the market. Dogs are likely to be loss-making and its cash flows are probably negative. Product 4 appears to be a dog. The total market size is not changing, and the market share for Product 4 is only about 3%. This is much less than the 29% market share of the market leader.

A question mark is a product with a fairly low market share in a market that is growing fairly quickly. Product 1 appears to be a question mark. The total market is growing quite quickly, but the market share of Product 1 is about 4% and this is not expected to change. Product 5 also appears to be a question mark, for the same reason.

The company should decide on its strategy for the products it will sell.

- It should benefit from the cash flows generated by its only cash cow, Product 2.
- It should invest in its star, Product 3, with the objective that this will eventually become a cash cow.
- It should give serious consideration to abandoning its dog, Product 4, and withdrawing from the market.
- It has to make a decision about its two question marks, Product 1 and Product 5. The main question is whether either of these products can become a star and cash cow. Additional investment and a change of strategy for these products might be necessary, in order to increase market share.

For all the products (with the exception of Product 4, if this is abandoned) the company should also consider ways of making the products more profitable. Techniques such as value chain analysis might help to identify cost savings.

23 a)

Salon:

According to the BCG matrix, this division is a 'Cash Cow'. It has relatively high market share in an otherwise low growing market. This division might have attained high economies of scale and/or have become efficient through experience. New entrants would be reluctant to enter as they may perceive that market is old and near decline. This division would be cash rich having high return on investment.

Cosmetics:

According to the BCG matrix, this division is a 'Question Mark'. This division has relatively low market share in an otherwise high growing market. Since the market is growing quickly, there is an opportunity to increase market share but initially it would require substantial investments to increase or even maintain the existing market share.

b)

Salon:

It may adopt any of the following strategies:

- Since the market is maturing with low prospects of growth, spending on innovation (R&D) should be limited. Reinvestment should be restricted to the extent of maintaining the existing level of market share.
- The ROI of this division is high and it might be earning substantial net cash inflows. The excess cash may be used to develop cosmetics division which is in 'question mark' quadrant or in any other viable investment opportunity.

Cosmetics:

It may adopt any of the following strategies:

- The market is emerging with probable opportunity of increasing market share. Fashionista may opt to invest substantially (like marketing activities) to increase its market share to become a Star and finally a Cash Cow, if the growth prospects are good.
- Fashionista may opt to disinvest/abandon the division and formulate an exit strategy if:
- It cannot last long with a small market share and competitors are in a position to apply cost and / or price pressures; or

There is a considerable doubt as regards the prospects of increasing market share.

24 **InstaB**

It is a 'Dog' as it has a low market share in a low growth market. Its market share has continuously been declining from the year its patent expired. Its market share in the current year is about 27%, which is much less than the share of the market leader (45%). Further, it is forecasted to continue to decline to 20% by 2022.

Recommended Strategies

- If it is no more generating positive cash flows, then the appropriate strategy would be to withdraw it and invest the resources in other products which have potential in the existing market.
- If it is generating positive cash flows, then SP may continue to enjoy the cash flows as long as these are positive before eventually withdrawing from the market.
- If SP decides to continue it, then it is recommended to not to invest heavily as gaining market share in a low-growth market is highly unlikely to achieve.

Azkaard

It is a 'Cash cow' as it has a high market share in a low growth market. It is a patent product and enjoying 100% market share which would continue at least till the patent expires. It is more likely earning substantial net cash inflows due to the benefit of having a patent in place

Recommended Strategies

If SP decides to continue Azkaard when patent expires:

- Defend and maintain market share which might be possible by achieving economies of scale and/or become efficient through experience.
- Try to extend the patent validity as long as possible.
- Do nothing and keep reaping the profits as long as it enjoys positive cash flows and then eventually withdraw from the market.
- Use the cash from the sales of Azkaard for R&D or to further develop other drugs which are in 'Question mark' and or 'Star' quadrants.
- If SP decides to discontinue Azkaard when patent expires:
- Use the sale proceeds of Azkaard for R&D or to further develop drugs that are in 'Question mark' and or 'Star' quadrants.

For last year before patent expires, raise the prices further, if feasible, to gain maximum benefit before competition kicks in that would reduce revenue and market share.

25 There is no 'correct' answer. Strategic managers need to identify threats and opportunities in the environment and the competitive market, but opinions can vary.

PESTEL analysis

There is growing public concern for the environment. Attitudes are changing, and over the time it is probable that attitudes towards the consumption of oil products will become more hostile. At the same time, public support for the use of bio- fuels might grow significantly.

Changes to the ecology and social attitudes have already had an impact on political thinking in the US and EU. Formal targets have been set for the production of bio-fuels. Over the time, these formal targets might become laws or regulations.

The current situation indicates that over the next ten years, there will be a significant shift towards the consumption of bio-fuels. World demand for the raw materials – corn – will therefore increase, and this means that the total amount of land used for the production of corn will also increase. It is very likely that the increase in demand for corn will exceed the increase in supply, and prices will rise. Opportunities for making profits in agriculture and related industries should increase.

These changes offer opportunities to the commodity trading company. There will be more customers wanting to buy corn. More agricultural producers will make corn. There is an opportunity to develop the company's business by finding the new customers and new suppliers. There is also a threat, because competitors will want to do the same thing.

There might also be an opportunity for the company to become involved in trading in ethanol and other bio-fuels.

There is a problem with technology. It is not yet clear how successful the technology for producing ethanol will be. Improvements will be needed, and it is possible that other methods of producing bio-fuels, using other natural products, might become more successful.

Competitor analysis

If the above analysis is correct, the market for ethanol is at an introductory phase of the product life cycle. Demand for ethanol and corn will increase substantially. Trading in these products will also increase.

If profits from trading increase, new competitors are likely to enter the market. Five Forces analysis might suggest that competition in the market for trading corn will intensify. This is partly because of the threat from new entrants, and (probably) an increase in competitive rivalry amongst firms that are in the market already. As the demand for corn increases, demand will exceed supply (for some years at least) and the bargaining power of suppliers will increase. The probability of increasing competition might be seen as a threat.

There might be a segmentation of the market for corn and other grain products in the future, with the market dividing between users of corn for fuel production and users of corn for food manufacture. There might be an opportunity for the company to specialise in selling corn to one type of customer, offering specialist knowledge of their particular requirements as a feature of its service (to give the company a competitive advantage over its non-specialist rivals).

Summary

You might agree or disagree with this analysis. The main point to understand, however, is how to use PESTEL analysis and competition analysis to identify opportunities or threats that an entity will be faced with in the future.

- 26
- a) The dominant characteristics of a company which is in the start-up stage of its business are:
 - High financial costs.
 - Limited cohesiveness in the senior management team.
 - Organization's systems and procedures are not in place.
 - Extremely high workload for key personnel with conflicting and multiple priorities.
 - Resources are not sufficient to meet multiple demands.
 - Relationships with suppliers, customers and other stakeholders are in the developing stage.
 - b) The dominant characteristics of a company which is witnessing rapid and dynamic growth of its existing business are:
 - New markets, products and technology are being introduced.
 - Multiple and conflicting demands for allocation of management, technical and financial resources.

- Rapidly expanding organizational structure.
- Unequal growth in various sectors within the organization.
- Shift in power structures as the organization witnesses expansion in business.
- Constant dilemma between doing current work and building support systems for the future.

27 The marketing-mix strategies in different stages of Product Life Cycle should be pursued on the following lines:

Marketing Stages				
Marketing mix	Introduction	Growth	Maturity	Decline
Product	Basic Product	Product extension, after-sales service and warranties	Diversification of products	Phasing out of weak products
Price	Unit cost, plus	Price to penetrate market	Price to meet competition	Reduce price
Distribution	Build selected distribution channels	Build intensive distribution channels	Strengthen distribution network	Eliminate unprofitable outlets
Sales Promotion	Heavy sales promotion	Reduce effort due to increase in consumer demand	Increase efforts to promote brand	Reduce cost to minimum level

28 Horizon Limited may pursue Promotion Strategies in the marketing of its consumer durable products in their different stages of Product Life Cycles as follows:

Introduction Stage

- inform and educate the potential customers of the existence of the product
- encourage trial of product and create awareness of the benefits that would accrue to the customers by using the product and how it should be used
- secure distribution in leading retail outlets
- place heavy emphasis on personal selling and promotion in trade shows and exhibitions.

Growth Stage

- stimulate demand in selected market segments and promote the particular brand as competition increases
- increase emphasis on advertising to capture a large share of the growing market.
- enter new markets and expand coverage
- identify new distribution channels
- shift emphasis from product awareness to the individual firm's brand preference through aggressive advertising
- promote differentiation

Maturity Stage

- focus on promotion and advertising to persuade the customers to purchase the particular brand rather than to provide information about the product
- selective promotion only as intense competition and increase in promotion expenditures would result in lower profits
- increase R&D budgets to improve product quality vis-à-vis competitors
- extend product lines to meet niche customer demand

Declining Stage

- reduce promotion expenses as the size of the market is shrinking
- focus of promotion towards reminding remaining customers
- rejuvenate old products to make them look new

29 (a)

Introduction	Growth	Maturity	Decline
Personal identity cards using 'iris-based' technology	Smart cards (inbanking)	Credit cards	Cheque books
3D printers	Fourth generation (4G) mobile telephones	Personal computers	Typewriters
Driverless cars	E-conferencing	E-mails	(Hand written) Postcards
			Fax messaging
			Portable DVD players

(b) Radio

'Basic' products have a long-life, and go through periods of regeneration. At one time, radio was expected to go into permanent decline following the arrival of television. However, it has been regenerated at various times, by factors such as radios in cars, local radio stations, digital radio and so on.

Television is another example. Whereas the specific product 'black-and- white television' is in an advanced stage of decline, televisions themselves are still in the maturity phase of their life cycle, and continue being regenerated through innovations such as flat-screen technology, digital television, edge screens and so on.

30

- a) The factors which have contributed to the increase in importance of International Trade in the preceding 3- 4 decades are:
- Reduction in tariffs, quotas, exchange controls and liberalization of trade and investments have resulted in making the imported products competitive in local markets.
 - Phenomenal improvement in communication and transportation technologies has resulted in rapid movement of goods and consequent reduction in transportation costs.
 - Development of free-trade zones such as European Union and North American Free Trade Agreement have resulted in increase in international trade owing to preferential movement of goods and dismantling of high tariff regimes.
 - Global standardization and worldwide brand building with local adaption have created significant market opportunities in different countries.
 - Substantial expenditures have been incurred on R&D and standardization of manufacturing and marketing techniques by global companies in industries such as manufacturing of pharmaceutical products, energy development, telecommunications, fast food, etc. and such companies seek opportunities to apportion these costs to markets in different countries.
 - Important raw material exporting countries now have a growing class of affluent citizens and foreign residents which have resulted in the creation of substantial markets for import of vehicles, construction materials, equipment, edible products and luxury goods.

b) The Competitive Forces stated by Michael Porter are:

- Potential threat of entry of new competitors
- Potential threat of substitutes
- Bargaining power of buyers
- Bargaining power of suppliers
- Rivalry among existing competitors

31 a) The BCG matrix is a 2 × 2 matrix, with one side of the matrix representing the rate of growth in the market (high or low) and the other side representing the relative share of the market enjoyed by a firm's product/service.

(b)

	Strategy	
Low market growth, high market share	Cash cow	<ul style="list-style-type: none"> • Defend and maintain market share. • Possibly low spend on R&D. • Use cash from this product to invest in other business units/products.
High market growth, low market share	Question mark	<ul style="list-style-type: none"> • The product will need a lot of cash to increase market share. The strategic choice is between investing a lot of cash to boost market share or to disinvest/ abandon the product.
High market growth, high market share	Star	<ul style="list-style-type: none"> • Promote aggressively. • Invest in R&D. • Stars should generate enough cash to be self-sustaining.
Low market growth, low market share	Dog	<ul style="list-style-type: none"> • These might generate some cash for the business, and if they do, it might be too early to abandon the product. The product has a limited future, and strategic decisions should focus on its short-term future. • There is a danger that the product will use up cash if the firm chooses to spend money to preserve its market share. • The firm should avoid risky investment aimed at trying to 'turn the business round'.

(c)

- A high market share is not the only factor that determines the success of a product.
- The growth rate in the market is not the only indicator of the attractiveness of a market.

(There is an assumption in the BCG matrix that these are the two key factors for making strategic decisions about products.)

32 a) The five forces model provides a framework for the analysis of an industry in which an entity operates. It is an aid to the development of strategies for the future.

- b)
- Threat from new market entrants
 - Competitive rivalry
 - Bargaining power of suppliers
 - Bargaining power of customers
 - Threat of substitutes
(also described as threats from product and technology development)

c) Some suggestions are given below:

Force	Factor affecting its strength
Threat from new market entrants	<ul style="list-style-type: none"> • Ease of entry into the market/strength of barriers to entry • The cost of investing in the industry • The cost of acquiring the knowledge needed to compete successfully • The availability of routes to market • Geographical factors
Competitive rivalry	<ul style="list-style-type: none"> • The number and size of firms in the industry • The size of the industry and growth trends • The fixed and variable cost structures of firms in the industry • The range of products/services offered • The existence/absence of effective product differentiation strategies
Bargaining power of suppliers	<ul style="list-style-type: none"> • The number of available suppliers • The brand reputation of suppliers • The geographical area covered by a supplier • The importance of product quality/service level quality • The bidding capabilities of suppliers and the bidding processes used • Relationships with suppliers
Bargaining power of customers	<ul style="list-style-type: none"> • The number and size of customers • The frequency of changing suppliers • The cost to a buyer of changing supplier • The importance of product quality/service level quality • Relationships with suppliers; for example just-in-time supply arrangements
Threat of substitutes	<ul style="list-style-type: none"> • The existence of substitute products and their price/quality • Fashions and trends in customer demand • The strength of patents • Changes in market distribution • Possible consequences of legislation

- 33 Possible methods of market segmentation.
- Passenger facilities: first class and second class travel
 - Time: peak time travel, off-peak travel, week-end travel
 - Freight transport and passenger transport
 - Commuter travel, business travel, holiday travel
 - Long-distance travel, short journeys, international journeys

- 34 Possible methods of market segmentation.
- By professional accountancy body
 - By level or stage in the examinations
 - By examination paper
 - Full time student, revision course student, evening class student, weekend course student
 - Learning method: face-to-face courses, distance learning, other home study methods

CH # 8**INTERNAL ANALYSIS****PRACTICE QUESTIONS FROM PAST PAPERS OF BMBS (OLD CAF PAPER)**1 (a) **Strengths:**

- Operates in all major cities within the country
- Operates in 16 international destinations
- Excellent customer services
- Spacious passenger seats
- Fleet of 12 new aircrafts

Weakness:

- 4 aging aircrafts

Threats:

- Worsening global aviation industry due to pandemic / heavy losses due to international travel restrictions
- Uncertainty in local air business due to the strict travel SOPs to be followed
- Waiver on taxes is temporary

Opportunity:

- Tax waiver from government for the time being

(b) **Threat of new entrants**

The threat of new entrants is likely to decline as new investors would not enter the airline industry during this time.

Threat of substitutes

The threat of substitutes is likely to rise as people would want to find more secluded way to travel.

Bargaining power of suppliers

The bargaining power of suppliers is likely to decline as there would be less demand for supplies.

Bargaining power of customers

The bargaining power of customers is likely to decline as due to international travel restrictions, lesser number of flights might be operating, thereby, reducing the bargaining power of customers.

Competitive rivalry

The competitive rivalry is likely to rise due to increased competition among airlines for the limited number of travelers.

(c) **FA should:**

- (i) Concentrate on local air travel business

Reasons:

- there are restrictions on international air travel
- government is supporting local air travel
- FA operates in all major cities within the country

- (ii) Offer discounted rates/promotions to attract the buyers
Reasons:
- the threat of substitutes and competitive rivalry are high
 - airport tax waiver from the government gives room to offer discounts
- (iii) Leverage on and market good reputation for customer services to pandemic related issues
Reason:
 FA enjoys good reputation for customer service. SOPs need to be enforced for which good customer services should help
- (iv) Leverage on and market good reputation for spacious seats to tackle SOP issues
Reason:
 FA enjoys good reputation for spacious seats. SOPs need to be enforced for which spacious seats should help
- (v) Capitalize on low international traffic by diverting younger planes for local travel
Reasons:
- International air travel is restricted
 - This would attract more customers
- (vi) Postpone the existing plan of replacing the aging aircrafts with the new ones
Reasons:
- FA is incurring heavy losses and replacing the aging aircrafts would require high cash flows
 - Due to high uncertainty, new investments should be avoided for a time being

2	<u>Strengths</u>	<u>Weaknesses</u>
	<ul style="list-style-type: none"> ▪ Extensive research knowledge of employees ▪ Highly-skilled scientists in the workforce ▪ High investment in advanced equipment ▪ Patents on six products ▪ High profit margins 	<ul style="list-style-type: none"> ▪ Slow progress with existing research projects ▪ Poor record of converting research projects into new product development ▪ Recent increase in employee turnover
	<u>Opportunities</u>	<u>Threats</u>
	<ul style="list-style-type: none"> ▪ Strong growth potential of the industry ▪ New scientific discoveries have not yet been fully exploited 	<ul style="list-style-type: none"> ▪ Recent merger of two major competitors ▪ Stricter regulation of new products

3 (a) SWOT analysis:

Strengths

Eat Smart (ES) has following strengths:

- It is being managed and operated by qualified persons with a team of qualified staff.
- It is enjoying high profit margins with strong client base.

Weaknesses

ES has following weaknesses to overcome:

- High reliance on family members for management of business.
- No dine-in service is being offered even though other restaurants are offering similar services.

Opportunities

ES has following opportunities to take:

- Partnership with 'Be Fit' to expand the business.
- Start offering dine-in service as client-base is already strong.

Threats

ES is subject to following threats:

- New online businesses are entering into the market because of low set-up costs.
- Existing competitors have also started to offer diet food on their menus.

(b) Activities forming part of primary value chain with two examples:

Inbound logistics

- Procurement of ingredients.
- Safe storage of ingredients.

Operations

- Preparation of diet food, energy drinks and low-carb salads.
- Packaging of food for delivery.

Outbound logistics

- Direct sale by means of take-away.
- Delivery of food to clients.

Marketing and sales

- Marketing by means of word of mouth.
- Marketing through social media pages.

Services

- Responding to customer complaints.
- Encouraging feedback from customers.

- 4 The activities performed in the secondary value chain and their roles in adding value for the business entity are as follows:
 - (i) Purchasing – These activities pertain to the buying of resource inputs viz. materials, plant, equipment and other assets. Appropriate purchases of the requirements of the entity at low costs on favourable terms and ensuring a secure source of supply of key materials/components can add to the value chain and good performance of the business entity.
 - (ii) Technology development – The activities relating to introduction of appropriate technological systems including research and development and IT systems are important activities for innovation and achieving sustainable competitive advantage.
 - (iii) Human resources management – The activities concerning inducting and retaining a cadre of competent and motivated work force is of crucial importance for achieving the objectives of the business entity. Human resource management activities include recruiting, training, developing and rewarding employees. A motivated cadre of employees with knowledge-based skills adds to the value chain of the organisation.
 - (iv) Corporate infrastructure – A well-planned organisation structure with appropriate systems of responsibilities and authorities and clear-cut assignment of duties and roles can add to value chain.

- 5 ZFL should focus in the following areas to meet the challenges posed by its rival competitors :
 - (a) Launch greater research and development efforts to formulate more effective fertilisers by making more investment in research facilities and hiring additional highly qualified staff.
 - (b) Acquire advanced machinery/equipment and other physical facilities to improve the quality and manufacture fertilisers according to the anticipated demand in the country.
 - (c) Appoint marketing personnel to approach the leading distributors of fertilisers and expand marketing network in the important agricultural regions.
 - (d) Revisit its marketing and advertising strategies.
 - (e) Seek patent rights for its new brands of fertilisers products to create and consolidate the brand recognition of its products.

- 6 Michael Porter’s theory of Value Chain states that the following primary activities make

significant contribution towards the success of any business enterprise:

(i) Inbound Logistics – These activities are concerned with receiving and handling purchased materials and components and storing them until needed.

(ii) Operations – These activities relate to conversion of raw materials into products which customers want to purchase.

(iii) Outbound Logistics – These activities deal with storage of finished goods and their distribution and delivery to the customers.

(iv) Marketing and Sales – These activities pertain mainly to the 4Ps of marketing and selling including products, place, price and promotion.

(v) Service – These activities include services after the point of sale, such as installation, warranties, repairs and maintenance and providing training to customers' employees. An important aspect of service is often the responsibility of customer call centers or customer care-service personnel.

PRACTICE QUESTIONS FROM PAST PAPERS OF BMS (OLD CFAP PAPER)

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Opportunities		Threats	
☐	increase in number of prospective affluent customers	☐	loss of trained staff to competitors
☐	increase in number of working families who prefer to eat out	☐	changes in eating habits of health conscious customers
☐	introduction of home delivery services	☐	Aggressive competition from existing restaurants
☐	addition of more facilities/ services like free internet,	☐	entry of new competitors
☐	market penetration in other		

8 Threat: Tougher regulations on emission requirements / Deteriorating environmental conditions

This means companies would need to meet the new regulations, which in many cases would mean changing the speed cars. This runs a risk of loss in business due to high costs, risk of compromise in quality, difficulty in meeting regulations, etc.

Suggestions:

- Make environmentally friendly cars to satisfy regulatory requirements.
- Conduct CSR activities to reduce deterioration of environment causing by cars.

Threat: Government plans to introduce speed limits on all areas

One of the reasons Gertonian can produce high speed cars is because of the local demand to meet Gertonian appetite. Plan to introduce speed limits would mean Gertonians cannot drive fast at will which will consequently affect local demand for fast cars. Hence, this can compromise the leadership position.

Suggestions:

- Gertonian has a business friendly government, as such government can be asked to keep no speed limits for areas that do not run the risk of accidents due to high speed e.g. highways, etc.
- The accidents may be due to reasons other than high speed cars (e.g. bad roads, etc), as such a closer look at the issue should be suggested to the government.

Threat: Changing needs of the IT-savvy consumers

This would require the companies to upgrade to meet the high-tech demands of the consumers. If not responded quick enough, this would result in loss of business.

Suggestions:

This is a manageable threat as Gertonia has efficient IT and financial systems, healthy spending in education and a push to be innovative. The industry should quickly react to meet the customer needs.

Threat: Rising trend of people interested in driving rented cars rather than owning one
This may result in lower demand resulting in lower profitability and an industry wide change from targeting consumers to own the car to targeting organizations that rent out the car.

Suggestions:

- Strategies should be planned to target businesses who would give people cars to drive.
- Expand market and reach areas where people would like to own cars.

Weakness: Not responding quick enough to the changes in environment
Gertonian automotive industry has not been moving quick enough to respond to the changes in the environment, for example, they are not responding to IT-savvy consumers, heavy reliance on petrol and changing trends of driving a rented car rather than owning one.

Suggestion:

- R&D should be encouraged in the industry.
- Private and public investments should be diverted for R&D.
- R&D efforts should be directed towards reducing reliance on petrol dependent engines and systems to produce environmentally friendly cars.

9 SWOT analysis for CE is as follows:

(i) Strengths

- Exclusive road permits.
- Large fleet of state-of-the-art buses.
- Wide area coverage.

(ii) Weaknesses

- Restriction on fixation of fare rates.
- Reliance on GoS for subsidies, tax exemptions and promotion of business.
- Buses often depart late and schedules are cancelled frequently.
- Unprofitable routes.

(iii) Opportunities

- Operate in unexplored markets of other provinces / Start operating intra-city bus services.
- Abandon non-profitable routes.
- Negotiate with GoS to revise the fares / subsidies.

(iv) Threats

- Introduction of new inter-city train services by GoS.
- Non-preferential treatment from GoS in future.

10 Activities that may be carried out by TCH in respect of its primary value chain based on the classification suggested by Porter:

(i) Inbound logistics

- Procurement of the finest quality of coffee beans
- Developing and maintaining strategic relationship with suppliers
- Safe transportation of beans from suppliers to coffeehouses and licensed stores

Adequate storage of beans to ensure that quality remains intact

(ii) Roasting Operations

- of coffee to bring out the deep and intense flavor
- Frequent testing to ensure quality consistency
- Packaging of gourmet blends for online orders

Adequate maintenance of coffee makers (coffee brewer, milk frother etc.)

(iii) Outbound logistics

- Sale of coffee through TCH's own operated coffeehouses as well as licensed stores
- Delivery of packaged coffee to online customers

(iv) Marketing and sales

- Marketing through various mediums i.e. print and electronic media particularly social media
- Marketing through word of mouth by providing high quality of coffee with high level of customer services

Participation in food festivals and related events

(v) Service

- Ensuring best services at all coffee houses
- Complimentary coffee or refund to unsatisfied customers

Encouraging feedback from customers and addressing their concerns, if any

11

Strengths:	Weaknesses
▪ strong customer	▪ Does not hold price leadership position in
▪ Use of superior quality basic ingredients	▪ rising costs of operations and food ingredients
▪ Efficient and courteous	▪ difficulties in procurement of good quality food ingredients
▪ good location of restaurants	▪ heavy investments required in maintaining the existing facilities
▪ consistent high quality	▪ inconsistent quality of food at the

12

A firm may take the following measures if it is faced with a situation of weak linkages in its value chain which create cost disadvantages and impair its competitive position:

- (i) Identify activities in the value chain which are either unnecessary or inefficient.
- (ii) Re-engineer work processes to achieve greater productivity.
- (iii) Introduce more efficient equipment to reduce wastages, achieve economies in labour costs and energy consumption rates
- (iv) Eliminate expensive work activities in the value chain by introducing cost-saving technologies and automation.
- (v) Relocate high-cost activities to those geographical areas where they can be performed at low costs.
- (vi) Outsource activities to vendors or external service providers who can offer these services at lower costs

13

The critical factors for achieving quality as a sustainable strategic advantage are:

- (i) Understanding the needs and preferences of the customers.
- (ii) Paying attention to laid out specifications.
- (iii) Striving to learn and improve continuously.
- (iv) Giving importance to customer feedback.
- (v) Stress on quality assurance in all stage of the value chain.

14

Internal Benchmarking is a method by which one operating unit or function is compared with the other similar function within the same industry. OR is a method by which the best practices or functions are compared within the same organisation.

Functional Benchmarking compares similar functions in one organisation with those of other external entities who also perform that particular function regardless of the industry in which these functions are performed. Example of Internal Benchmarking: Gross profit percentage of one airline with gross profit percentage of another airline.

- 15 Long-Life Concrete Limited should adopt the following strategies and tactics to meet the challenges posed by the competitors and maintain its sustainable cost-leadership advantages:
- (i) Efficient operation of the physical facilities – The manufacturing plant, raw material handling equipment and packaging and loading facilities should operate at high capacities with minimum down-time for maintenance, repairs and other stoppages.
 - (ii) Vigorous pursuance of policies of purchase of raw materials in optimal quantities to minimise costs, including inventory carrying costs and overall financial costs.
 - (iii) Exercise of tight control on all operating costs, such as salaries and wages, power and fuel and other overhead expenses.
 - (iv) Continuous review and revision of marketing strategies to make them more effective and customer-value oriented.
- 16 Licensing is a technique of entering a specific market in which the licensor enters into an agreement with a licensee, by offering the licensee the right to use the manufacturing process, trade mark, patent, trade secret or any other item of value for a fee or royalty.
- 17 Core Competence is the key ability or strength that an organization has acquired which differentiates it from others, gives it competitive advantage and contributes to its long-term success. Core competence accrues due to its favourable location, access to superior quality raw materials, unique capabilities of equipment, acumen of management, skills and competence of workers and marketing insight. Core competence is valuable, rare and difficult for competitors to imitate.
- 18 The economies in production and operating costs can be achieved by focusing in the following areas:
- (i) exploring alternate sources of cheaper raw materials and components.
 - (ii) negotiating with existing suppliers of raw materials and components for more favourable terms.
 - (iii) relocating facilities to areas which have lower costs.
 - (iv) improving capacity utilization to achieve economies in costs.
 - (v) introducing modifications in production designs to reduce costs.
 - (vi) improving machine and worker efficiencies.
 - (vii) re-engineering processes to eliminate activities and bring cost reductions.
 - (viii) hiring contract workers with the objective to reduce labour costs.
 - (ix) outsourcing processes/ manufacturing of components to low cost suppliers if quality control measures can be implemented.
 - (x) adopting efficient inventory management practices such as just-in-time inventory management techniques.

PRACTICE QUESTIONS FROM ICAP STUDY TEXT FOR MFA
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- 19 Activities that may be carried out by TCH in respect of its primary value chain based on the classification suggested by Porter:
- i. Inbound logistics
 - Procurement of the finest quality of coffee beans
 - Developing and maintaining strategic relationship with suppliers
 - Safe transportation of beans from suppliers to coffeehouses and licensed stores
 - Adequate storage of beans to ensure that quality remains intact

- ii. Operations
 - Roasting of coffee to bring out the deep and intense flavor
 - Frequent testing to ensure quality consistency
 - Packaging of gourmet blends for online orders
 - Adequate maintenance of coffee makers (coffee brewer, milk frother etc.)
- iii. Outbound logistics
 - Sale of coffee through TCH's own operated coffeehouses as well as licensed stores
 - Delivery of packaged coffee to online customers
- iv. Marketing and sales
 - Marketing through various mediums i.e. print and electronic media particularly social media
 - Marketing through word of mouth by providing high quality of coffee with high level of customer services
 - Participation in food festivals and related events
- v. Service
 - Ensuring best services at all coffee houses
 - Complimentary coffee or refund to unsatisfied customers
 - Encouraging feedback from customers and addressing their concerns, if any

20

- (a) The purpose of benchmarking is to compare the performance of an entity (or a product, operation or business unit) against 'the best in the business' or against expectations. Benchmarking helps to identify weaknesses that need to be improved.
- (b) **Internal benchmarking.** An entity compares the performance of its business units (for example, its area offices) against the performance of the business unit that is considered the best.
- Competitive benchmarking.** An entity compares its performance and its products against the best and most successful of its competitors.
- Operational benchmarking.** An entity compares the performance of a particular operation, such as handling customer enquiries, or warehousing and dispatch, against the performance of a similar operation in a different entity. This different entity is not a competitor; this means that the benchmarking often involves collaboration between the two entities.
- Customer benchmarking.** A slightly different type of comparison. An entity compares its performance against what its customers expect the performance to be.

21

- a) Added value is the net extra benefit obtained from doing something or by adding an extra feature to a product or service. Ideally, it should be measured as a monetary value, being the extra sales value from the item minus the extra costs of doing it or providing it (although 'value' cannot always be measured easily in monetary terms).
- b) Value is added – or should be added – in all parts of the value chain.
- The writer John Kay argued that adding value is the central purpose of business activity.
 - Value can be added by developing core competencies that provide an entity with a competitive advantage.
 - Competitive advantage is achieved through innovation, reputation and organisational structure.

22

The farm appears to have added value in the following ways:

- It has switched to organic farming. Some customers are prepared to pay more for organically-produced items, partly because organic products may be considered 'healthier' and partly because customers may want to buy produce of animals that have been well-treated.
- It has increased the range of products that it makes and sells.
- It has created a brand for their product: branding can add value.
- It has developed a direct marketing capability, which presumably includes a potential customer database and an e-commerce facility.
- It has developed a direct mail gift product.

23

Value chain activities

Primary activities	Secondary activities
• Inbound logistics	• Procurement
• Operations	• Human resource management
• Outbound logistics	• Technological development
• Marketing and sales	• Infrastructure (general management, accounting etc.)
• Service (after sales)	

b) Companies compete with each other, and their relative success depends on their ability to add value throughout their value chain.

Companies should try to develop strategies that add value. They should look at each activity in the value chain and consider whether it can be improved to add more value. A company can also assess its performance by looking at its ability to add value in each part of the value chain (each primary activity and each secondary activity).

(c) Primary activities:

- Publisher or author thinks of the idea for a book. The material is written or assembled.
- The publisher edits what the author has prepared.
- The text is prepared for printing
- Printing
- Warehousing and distribution of books
- Sale of books to intermediaries (bookshops) or direct (schools, colleges and universities)
- After-sales service: taking back returned (unsold) copies

(d) Primary activities

Inbound logistics	Operations	Marketing and sales	After-sales service
• Managing incoming calls: call systems	• Taking calls	• Obtaining customer information	• Handling claims
	• Providing price quotations quickly	• Targeting customers	• Detecting fraudulent claims
	• Cheap prices for insurance policies	• Advertising and other forms of marketing	• Settlement of successful claims

24

- a) (i) Value chain analysis
 (ii) PESTEL analysis
 (iii) Five forces model
 (iv) SWOT analysis
 (v) Lewin's three-step change model (or Gemini 4Rs)
- b) Measures to assess the effectiveness of marketing might include:
- Growth in sales or total sales
 - Market share or change in market share
 - Sales revenue per Rs.1 of marketing spending
 - Sales revenue per Rs.1 of advertising spending
 - Sales revenue per Rs.1 of sales promotion spending

However, marketing activity is not always aimed at achieved more sales. In the early stages of a product's life, marketing is necessary to create awareness of the product.

It may therefore be appropriate to assess the effectiveness of marketing by trying to measure changes in customer awareness, for example using customer surveys and market research.

For marketing by website, the effectiveness might be assessed by measuring the number of 'hits' on the website every week or every day.

- c) Critical success factors might be:
- reducing the number of cars coming into the city during the day
 - increasing the amount of bus and taxi lanes.
 - Strategies for achieving success
 - introduce a 'congestion charge' on all private vehicles entering the city at certain times of the day
 - increasing the number and length of 'bus and taxi only' lanes. Key performance indicators might therefore be:
 - a target for a reduction in the number of cars entering the city during the day
 - a target for an increase in the number/length of bus and taxi lanes.

25

- a) A core competence is 'something a company does especially well [in comparison with] its competitors. A core competence refers to a set of skills or experience in some activity, rather than physical or financial assets.'

Strong core competencies come from:

- (i) well-organised special skills, knowledge, expertise, ownership or use of technologies, processes or abilities.
- (ii) which are typically achieved or acquired through long-term development and experience.

A core competence creates value for the customer because the customer considers it to be unique and distinguishable, and something that rival suppliers cannot provide.

A core competence is difficult for competitors to imitate.

An important strategic consideration is that a company should be able to transfer its core competencies to other products and markets.

- b) Suggestions
- (i) Sony has a core competence in miniaturisation.
 - (ii) Microsoft has a core competence in developing user-friendly software products.
 - (iii) Federal Express has core competencies in logistics and customer service.
 - (iv) Honda has core competencies in small engine design and manufacture.

(Note: These core competencies do not specify particular products. The competencies could be transferred to a range of different products and markets.)

- c) The significance of core competencies is that they can be used by a company to achieve long-term (sustainable) competitive advantage in ever-changing markets.

26

- a) The purpose of SWOT analysis is to carry out an analysis of the strategic position of an entity, through an assessment of its internal strengths and weaknesses, and the threats and opportunities in its environment. It can be used as a basis for developing strategies for dealing with risks or exploiting opportunities and strengths. However, it is not a tool for evaluating and prioritising strengths, opportunities, weaknesses and threats.

- b) SWOT for Righton Supermarkets Group:

Strengths	Weaknesses
<ul style="list-style-type: none"> • Profitability • Growth in non-food business • Large and increasing market share • Reputation for low prices and reasonable quality • Reputation for good service 	<ul style="list-style-type: none"> • No weaknesses are apparent in the information provided.
Opportunities	Threats
<ul style="list-style-type: none"> • Continuing growth in the size of the market • Further out-of-town and in-town expansion 	<ul style="list-style-type: none"> • High investor expectations about future performance • Activities of competitors • Possibility of government action against monopoly position

27

(a)

Strengths	Weaknesses
<ul style="list-style-type: none"> • Large continuing investment in R&D 	<ul style="list-style-type: none"> • Operations are based in Western Europe and North America: high labour costs compared to competitor companies. • Clinical failure of new drug
Opportunities	Threats
<ul style="list-style-type: none"> • Opportunities for growth in the market for pharmaceutical products outside North America and Western Europe • Establish operations in other countries: lower labour costs, but are the skills available 	<ul style="list-style-type: none"> • Public concerns about the safety of new drugs • Concerns about the regulation of drugs and about regulatory decisions by national authorities

(b)

AZ Group could look for future growth in its markets outside North America. If these markets grow, there will be opportunities for switching production facilities to these countries to reduce costs.

Strengths

- Strong brand and reputation
- Worldwide facilities for manufacture and distribution
- Managers with ideas for improving the business
- Successful experience with EDI
- Successful experience with website and e-commerce.

Weaknesses

- Poor communications between divisions within the company
- Little or no access to information about competitors
- Possibly the decentralisation of IS/IT systems is a weakness. Opportunities
- Possible use of intranet to improve internal communications and interchange of ideas
- Possible use of extranets to improve communications with customers
- Possible use of an executive information system to provide more information about competitors and the market.

Threats

- Strong competition in the market. Competitors have made some successful initiatives
- Significant fall in number of 'hits' on the website

CH # 9**ETHICAL DECISION MAKING MODELS****PRACTICE QUESTIONS FROM PAST PAPERS OF BMS (OLD CFAP PAPER)**

- 1 If Faysal proceeds with the management's advice, he may breach following fundamental principles of Code of Ethics of ICAP:

Integrity

According to this principle, chartered accountants must be honest and straightforward in their professional and business dealings. Faysal might breach this principle by involving in an unethical activity i.e. influencing his brother to gain favors.

Objectivity

According to this principle, chartered accountants must not compromise their professional or business judgement because of bias, conflict of interest or undue influence of others. Faysal might breach this principle by influencing his brother under the pressure of management.

Professional behavior

According to this principle, chartered accountants are required to comply with relevant laws and regulations and avoid any action that they know would discredit the profession. Faysal might breach this principle by knowingly being involved in an activity that could affect the reputation of the profession.

- 2 Business Ethics are the moral principles of conduct applied in the commercial world. Business ethics provide guidelines to individuals and organizations to determine whether a particular action is right or wrong. Good business ethics are essential for good strategic management as issues of ethics permeate in all areas of strategy formulation, implementation and evaluation.

An ethical approach has become increasingly necessary both for corporate success and a positive corporate image. The rapid expansion of information technology has created awareness and enhanced the importance of ethical behaviour in business all over the world. Pressures from employees, consumers and other stakeholders for adherence to ethical and responsible business practices have led many organizations to make public commitment of their ethical business standards. An increasing number of organizations now adopt concepts of personal and corporate accountability in all aspects of their business conduct. Misleading advertisements, poor employee health and safety procedures, causing harm to the natural environment, poor product or service safety standards, insider trading and discrimination in dealing with employees are considered to be violation of acceptable ethical behavior.

PRACTICE QUESTIONS FROM ICAP STUDY TEXT FOR MFA

- 3 Step 1- Establishing the facts of the case.
- Environmental Protection Agency discovers that Opulent Furniture is clearcutting trees
 - AIA's reservation on control on classification of sustainable wood sourcing
 - AIA discovers that the Company has minimal involvement in forest management
 - AIA is offered an undue favour

Step 2- Identify the ethical issues in the case

- Opulent Furniture is clearcutting forests causing environmental concerns
- Senior management offers an undue favour to AIA
- Senior management wants the AIA to ignore the results of her assignment

- Step 3- The major principles, rules and values include,
- AIA is bound to show objectivity in such situations
 - CFO of the Company is bound to show integrity and professional behaviour
 - Senior management is required to present a true and fair view of wood sourcing in financial statements

- Step 4- Each alternative course of action is identified.
- AIA can accept the undue favour, and take no action on the findings
 - AIA can accept the undue favour, and disclose the findings in his/her report
 - AIA can refuse the undue favour, and take no action on the findings.
 - AIA can refuse the undue favour, and disclose the findings in his/her report

- Step 5- Matching norms, principles, and values to options
- Accepting the undue favour, is accepting inducement that is with an intent to influence. Taking no action on the findings is compromising integrity and objectivity.
 - Accepting the undue favour, is accepting inducement that is with an intent to influence. Reporting the findings is in line with the principles of integrity and objectivity.
 - Refusing the undue favour, is refusing inducement that is with an intent to influence. But taking no action on the findings is compromising integrity and objectivity.
 - Refusing the undue favour, is refusing inducement that is with an intent to influence. Reporting the findings is in line with the principles of integrity and objectivity.

- Step 6- Analysis of consequences:
- Accepting the undue favour may damage the reputation of AIA. Taking no action on the findings may support environmental damage that the company is causing, but may save AIA from any career threat. It will also maintain the claim of the Company as being responsible organization.
 - Accepting the undue favour may damage the reputation of AIA. Reporting the findings may be a step towards fair and true presentation of the matter. But it may harm AIA's career in the Company. It may also damage the reputation of the Company.
 - Refusing the undue favour may build good reputation of AIA. Taking no action on the findings may support environmental damage that the company is causing, but may save AIA from any career threat. It will also maintain the claim of the Company as being responsible organization.
 - Refusing the undue favour may build good reputation of AIA. Reporting the findings may be a step towards fair and true presentation of the matter. But it may harm AIA's career in the Company. It may also damage the reputation of the Company.

Step 7- Taking decision

From the above analysis AIA will be able to balance the consequences against primary principles and values by selecting the best fit alternative.

- 4 Is following the lawyer's advice profitable?
- It is profitable for the company if it could delay demolition for six months.
 - It is profitable for the villagers as they will have six months to preserve their produce in the storage and subsequently use the planned new facility
 - It will delay the possibility of expansion in school, which is not profitable for the society.

Is following the lawyer's advice legal?

- Trying to gain time for shifting may not be illegal, though the storage facility is constructed over illegal property.
- Presenting false documentation to the court for delaying hearing is illegal
- Exaggeration of estimated costs may not be clearly illegal

Is following the lawyer's advice fair?

- Trying to gain time for shifting is fair for tenant, as early demolition will be a disproportionate burden on tenant.
- Struggling for extension in notice period is fair with villagers, as early demolition will cause disproportionate loss to them when they will have no facility during the construction period of new facility.
- An extension of six months in notice period will be unfair with the youth of the city who can now go to a bigger school if built over that property

Is following the lawyer's advice right?

- It is not right for you, being responsible to promote the legitimate objectives of your employer, to recommend the any strategy that has any illegal element.

Is following the lawyer's advice sustainable?

- The extension in notice period will prove sustainable for the fruit farms in nearby villages and will encourage farming, which is good for environment.

5 Are the decisions of CEO profitable?

- Decision (b) is not profitable in the short run, but profitable for the business in the long run, as it will build customer loyalty from those who were refunded. It will be profitable for the guests who were yet to check out.
- Decision (c) is profitable for the business since it will save the amount that otherwise is refundable for 70 nights, but will not be profitable for the guests who left the property.

Are the decisions of CEO legal?

- Decision (b) is legally a gratuitous act of the Hotel, as it does not follow the fundamental principles of offer and acceptance under contract law.
- Decision (c) is legal, as it follows the fundamental principles of offer and acceptance in contract law.

Are the decisions of CEO fair?

- Decision (b) is fair to all the guests who booked during the three nights and are yet to check out.
- Decision (c) is not fair to the guests who already checked out, as the discrimination applied by the Hotel has no grounds except that these guests have left the property before the error could be detected by them.
- Decision (b) is fair to the business as it is refunding the amount collected erroneously

Are the decisions of CEO right?

- The guests who have checked out have a moral right to a refund for the excess price they paid compared to what was offered.

Are the decisions of CEO sustainable?

- The case has no environmental issue

6 Is wage policy profitable?

- It is profitable for Maham as she would earn huge profits
- It is profitable for the female workers as it will provide them with proper employment

Is wage policy legal?

- It will be a legal contract, as women will be hired with their free will
- The daily wages conform to the minimum wage law. Is wage policy fair?
- It is unfair because Maham is getting undue advantage of workers' weak bargaining position and lack of knowledge of actual worth of their work.

Is wage policy right?

- Wage policy is right in essence.

Is wage policy sustainable?

- It is sustainable for the environment because the fabrics and embroidery are hand-woven.

7 In the given situation the following are the ethical issues:

- Marketing manager violated the principles of confidentiality.
- Iqbal Khan's action, of using the information which he received unethically, is against the principle of integrity.
- Iqbal Khan also influenced the decision of ABC Company that can impair the independence of mind of decision makers. This is against the principle of objectivity.

8 You become part of the arrangement of fake invoices which is against the principle of professional behaviour.**9**

You are facing a dilemma between two "rights", namely:

- (a) You should not breach the confidentiality of information as member of the Board
- (b) You should not allow your aunt to carry a risk of financial loss, which she cannot bear due to her peculiar situation.

10

Is hiring of consultant profitable?

- Yes, for the company because work will not be delayed further

Is hiring of consultant legal?

- Yes, it is legal to hire a consultant
- There is a budget available for such appointment.
- Is hiring of consultant fair?
- It is not fair with the company to pay such a disproportionate consultant fee.
- Is hiring of consultant right?
- It is not right, as such a high fee of consultant indicates that the consultant would use unfair means to get the approval.

Is hiring of consultant sustainable?

- This situation does not include any information about the environmental impact of manufacturing facility.

11

Applying the AAA model:

The facts of the case are:

- Internal audit uncovered that a key pre-qualification criterion was not applied in SSL's case
- The Board approved the Procurement Committee's suggestion of a special waiver for SSL
- SSL had an excellent contract performance history

The ethical issues in the case are:

- By allowing the waiver, the Board might be unfair with other supplier who fulfil all conditions or those who were rejected due to that particular short coming.
- Objectivity of Board members and management might be threatened by familiarity threat due to frequent client relationship techniques used by SSL.

The norms, principles and values related to the case are:

- The Board had to make decisions free from bias and should ignore any favours offered by the SSL.
- SSL was given reasonable favour due to its good performance record.
- Other suppliers were not given fair chance.

Each alternative course of action were:

- The board allows the waiver.
- The board does not allow the waiver and go for rebidding process.

Matching norms, principles, and values to options as follows:

- Allowing waiver could be compromising the fairness in dealing
- Not allowing waiver is not acting with due care.

The analysis of consequences of each possible course of action are:

- Allowing the waiver sets a tone that the Company is flexible towards its policies. This decision may create a domino effect on future decisions that further dilute the Company's policies.
- Rejecting the waiver would mean the Board will not compromise on the Company's policies. However, it may not be in the interest of the company.

Taking decision

- From the above analysis, it appears that the board balanced the consequences against primary principles and values by selecting the best fit alternative.