THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

INTEGRITY

NOVEMBER 2005 EXAMINATIONS
(PROFESSIONAL)

STRATEGIC MANAGEMENT
(Paper 2.7)

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

SECTION A

CASE STUDY

QUESTION 1

<u>Read the following case carefully and answer ALL the questions that follow it.</u>

TAKING SPORTSWEAR DEVELOPMENT TO GREATER HEIGHTS AT KSF LIMITED.

KSF Sportswear Limited is a private limited company which was registered in Ghana in 1983 by four sportswear manufacturing professionals because they believed that the sportswear industry had enormous potential and that they could make some good business by producing high quality but moderate sportswear and equipment.

Each of the four founders contributed thirty million (30 million) cedis as share capital and this has not changed since inception . The range of products of KSF which include football jerseys, hoses, shin guards, football boots and athletics shoes are sold to wholesalers who eventually retail them.

Currently, the company employs 33 people and has a turnover of twenty billion cedis (20,000,000,000 cedis). Normal post tax profit is between one hundred and two hundred million cedis (100,000,000 – 200,000,000 cedis) but half of this goes to the founders.

KSF's assets at it's last year end were as follows:

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Freehold	400,000,000
Equipment	200,000,000
Vehicles	100,000,000
Stocks and Debtors	200,000,000

KSF has a policy of settling bills as soon as they are due. The KSF founders rule out using debt financing as they feel this will compromise their independence. The Research and Product Development function had been handled by Mr. Mensah until the early 1990s. Mr Mensah is a founder of the company and even though he has now retired from full time duties, he still works for KSF on part time basis and is still a shareholder. He also has equal shareholding like the other founders.

Mr Antwi, a young graduate with specialization in the production of sportswear who had done national service previously with KSF has been appointed on full time basis as replacement for the retired Mr Mensah. Mr Antwi has since his arrival submitted several proposals aimed at new product development. One of such new products is the PAKA SPECIAL RUNNING SHOES (PSRS), which performed well in initial trials. Mr. Antwi is not a shareholder of the company.

PAKA SPECIAL RUNNING SHOES

This is a comfortable running shoe has that been adjudged to be unique and of excellent quality. It has been confirmed to aid runners and thus give users advantage during running competitions. The PSRS was made in the product development department and the variable cost of its manufacture was one hundred and sixty thousand cedis (160,000 cedis) per unit. The unique hard studs of the shoes were designed by Mr Antwi; however, ownership of the patent is vested in the company.

PROSPECTS OF THE MARKET

KSF has no marketing outfit but the company has commissioned a consultant to study market prospects for the PSRS in Ghana and the West African Sub Region. The results of the study have been promising. The consultants have made the following observations:

1. The PSRS would sell at least one million pieces in the first year in Ghana, at a retail price of two hundred and fifty thousand cedis (250,000 cedis). The consultants further believe that sales would be constant at this level for five years after which sales are projected to fall to about two hundred and fifty thousand (250,000) pieces for sometime.

2. They suggest that KSF should seek international patent protection for the PSRS because, eventually, the product is likely to be acceptable in many other countries.

3. The consultants' charges were two hundred million cedis (200,000,000 cedis) and this amount is double what KSF would normally spend on marketing in a year.

4. The consultants have made an offer to KSF to study the world market for a fee of four hundred million cedis (400,000,000 cedis). Alternatively they suggest that they could carry out a study of individual markets for a fee of forty million cedes (40,000,000 cedis) per country.

STRATEGIC LOOK AT THE FUTURE:

As a result of the Ghanaian market study, KSF realized the need for further advice from the consultants. This additional request will cost KSF additional three hundred million cedis (300,000,000 cedis) which it decided to finance from a bank overdraft. The consultants also suggest the following strategic options.

MANUFACTURING OF THE PSRS:

An investment of two hundred billion cedis (200,000,000,000 cedis) would be required to do this. This would mainly go into manufacturing processes, working capital and launch expenses to enable KSF meet the Ghanaian market demand. More substantial investment would be required to meet future international demand. However, the consultants are unable to forecast this cost until KSF commissions them to do further market study.

SELLING THE PATENT:

Sale of the patent is likely to fetch KSF some substantial income but the consultants are not in a position to project this because no offers have been sought.

GIVE OUT THE FRANCHISE TO MANUFACTURE AND MARKET THE PSRS:

This option, the consultants suggest, would be more attractive to many companies.

You are required to: (Attempt all questions)

a. Carry out a SWOT analysis of the KSF Company Limited. (8 marks)

b. Analyse and evaluate the three strategies suggested by the consultants indicating particularly, what implications these strategies may have for the KSF's functional areas of Finance, Human Resource, Marketing and Production. (24 marks)

c. What alternative strategic options in your opinion are available to KSF? (10 marks)

d. Is there a basis for continued co-operation amongst the founders after the invention of the PSRS? (8 marks)

(Total: 50 marks)

SECTION B

ANSWER ANY TWO (2) QUESTIONS

QUESTION 2

a. You have been appointed a consultant to advise Yoofi Farms, a firm in the Ghanaian Poultry Industry. Identify and explain any five (5) key factors you would consider in carrying out an external environmental analysis of the company. (15 marks)

b. Qualitative Decision Making by Management has been described as critical to successful strategy implementation. State and explain four (4) qualitative decision making factors. (10 marks)

(Total: 25 marks)

QUESTION 3

a. What is strategy evaluation? (3 marks)

b. Explain briefly, five (5) guidelines for evaluating strategy. (10 marks)

c. State and explain two (2) advantages and two (2) disadvantages each of the Boston Consulting Group (BCG) Matrix as a tool for evaluating Corporate Strategy. (12 marks)

(Total: 25 marks)

QUESTION 4

In analysing and choosing the most suitable strategic option that delivers competitive advantage, organisations must be mindful of stakeholder expectations:

a. Using an industry of your choice, determine what primary and secondary expectations stakeholders may have. (16 marks)

b. Define and explain the following in terms of global strategic options;

   i. Customization

   ii. Branding

   iii. Channel Management (9 marks)

(Total: 25 marks)