The Institute of Chartered Accountants [Ghana]

**MAY 2005
EXAMINATIONS**

Part 2

STRATEGIC MANAGEMENT
(2.7)

Attempt All Questions

Time Allowed: 3 Hrs.

QUESTION 1

CASE STUDY

PRODUCT DEVELOPMENT AT GOOD POINT COMPUTERS

Goodpoint Computer which was established some 30 years ago produces personal computers, software, and peripherals such as printers and sells through a network of independent retailers and, with some products, directly through the internet. Good point is a major competitor but has recently experienced a decline in its market share from a high of 18 percent four years ago to 6 percent today. Mr. Kwaku Sampene, the Chief Executive Officer of one of the firm's four divisions, has concerns about several performance indicators and thinks the decline in competitiveness may be caused in part by what he believes to be an overly informal rather than planned approach to new-product development.

Mr. Sampene called in Mr. Kwasi Addo a manager familiar with transforming concepts into products. He said "Kwasi, I'm feeling increasingly uneasy about the way Goodpoint brings new products to market. You know the ropes we go through to transform an idea into sale of new hardware and software. Write me a brief description of the process we go through, something we can use for examining and maybe changing the way we plan for product development".

The next day, Mr. Addo passed the following report to Mr. Sampane.

REPORT ON PRODUCT DEVELOPMENT AT GOODPOINT

Recent products have been late to market, inadequately tested, and lacking in customer after-sales services and technical support. Engineers and computer programmers believe that doing research and development is their source of personal rewards, a belief reinforced by the organization's values and practices that is becoming outdated. Furthermore, we have yet to clarify the distinction between research and product development. This causes the commercialization of ideas to be engineering driven, undisciplined, and developed with little sensitivity to customer needs.

In an industry where the transformation of a product possibility into actual revenue is measured in months, we often take a year or more to reach the market. At times products are created as a result of the personal needs and interest of the developer; in some cases, they are a reaction to something introduced by the competition that threatens to make a Goodpoint product obsolete faster. All this

occurs in an industry where being first to market with a new product goes hand in hand with market share. And with market share, the higher volume of sales increases gross margins.

To get a product to market in this firm, an idea needs the support of a management champion. This champion must lobby people in various parts of the company that have the resources necessary to create the product. If some preliminary interest is shown, a "proof of concept" paper is written and circulated more broadly, until there is some voiced managerial support for the product possibility. Once political support is obtained, a task force develops a formal product proposal to identify the essential technical requirements and to propose a preliminary design.

If the formal proposal wins approval from one or more mangers who will commit some resources, an engineering team is pulled together as a sort of skunk works to develop a prototype then enables the concept to be evaluated in terms of its practicality, manufacturability, customer acceptance, price and function relative to our other products, investment payoff, legal implications and other considerations. A product that passes this stage (generally by having both a manufacturing and marketing manager give their blessings) is then transferred to production engineering.

At this stage further changes may be made to accommodate manufacturing capabilities, placement in a suitable division within the firm, a feedback from customers who test the product. A test allows a sample of customers to use the product under actual conditions and provide feedback about its performance prior to full-scale production). If it still looks feasible an executive will give the go-ahead (it could be the Chief Executive Officer, the Chief Operating Officer, or a division manager), and the project moves into production and distribution.

Once a project has been handed off to production, teams involved at earlier stages of engineering development are disbanded and reassigned to other projects. As a project advances, it is handed off from player to player or team to team until, if it survives, it finally appears on the sale force product and price sheet with a request for advertising and promotion. If problems or questions arise from the product's use, a customer support group may have to reinvent solutions if the documentation and design specification handed of after product development were incomplete.

As the number of "proof of concept" papers and product proposals increases, people at all levels are beginning to wonder if the product development process

needs to become more focused. At times similar work may be underway in other part of the organization, but there is no systematic way of knowing. In conclusion, I don't believe our product development process reflects the best in strategic thinking.

SECTION A: ANSWER ALL QUESTIONS IN THIS SECTION

a(i)   Draw a diagram of Goodpoint's product development process.

(7 marks)

(ii)   What are the strengths and weaknesses of the company's approach to product development?

(8 narks)
(Total: 15 marks)

b(i)   Try to envision what might be going on in the competitive market place and how customers or users are likely to respond when Goodpoint gets into channels of distribution with a new product offering.

(10 marks)

(ii)   What external opportunities and threats is Goodpoint likely to face in the market place?

(10 marks)

c.   From your SWOT analysis (responses to questions a and b), what elements of products planning would you recommend that Goodpoint keep?

(15 marks)

SECTION B: ANSWER TWO QUESTIONS

QUESTION 2

a.   What is competition?

b.   Explain the five basic forces that determine the nature and degree of competition.

(25 marks)

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QUESTION 3

Discuss three concentration strategies firms can employ, highlighting on when each strategy will be appropriate.

(25 marks)

QUESTION 4

a.   Describe value chain as a tool for internal analysis.   (15 marks)

b.   Explain two limitations of value chain analysis.   (10 marks)