KISUBI BROTHERS UNIVERSITY

A CONSTITUENT COLLEGE OF

UGANDA MARTYRS UNIVERSITY (UMU)

A Committee of the Council of KBU

KBU EXAMINATIONS

KMBA 1104

STRATEGIC MANAGEMENT EXAMINATION

SATURDAY, 23 APRIL 2010

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours.**
2. Section **A** has **ONE** compulsory question carrying 60 marks.
3. Section **B** has **THREE** questions and only **TWO** are to be attempted. Each question carries 20 marks.
4. Please read further instructions on the answer booklet.

Section A: Drinksoft (U) Ltd

Drinksoft is a Ugandan Breweries company founded in 1998. Initially, the company was involved in distribution and retail of both soft and alcoholic drinks manufactured by different companies.

In 2000, the company underwent successful restructuring which enabled it to expand. Currently, Drinksoft produces a soft drink called Livewell, a drink made of water, sugar and other chemical additives. All these additives are World Health Organisation (WHO) and Uganda National Bureau of Standards (UNBS) approved, in addition to meeting other quality control requirements. The company also provides consulting services in the areas of lean manufacturing, Kaizen implementation, quality control, etc to breweries and other manufacturing companies in the East African region.

Drinksoft employs 50 people, of which 60% are technicians, working in production, quality control, and other factory floor processes. Five people work in the consulting department. The rest of the staff work in administration departments including ICT, finance, HR, marketing, audit and the executive office. James Kirungi is the managing director and owns a controlling interest (55% ordinary shares) in the company. He was the brain behind the creation of Drinksoft and has substantial experience in the breweries industry having worked with Amazulusoft Ltd, one of the top 10 leading manufacturers of alcoholic products headquartered in South Africa.

As the managing director, James Kirungi's role is to provide strategic oversight to the business in addition to ensuring the appropriateness of risk management and efficient day-to-day administration. The breweries technical aspects including quality assurance processes and consulting services are managed by the Technical Director, Dr Peter Mayanja, one of the minority shareholders. He is responsible for research and development (R&D) on the Livewell product portfolio as well as for technical aspects and consulting services. The third shareholder director is Grace Amumpaire, who holds the other minority shareholder with 10% of the voting interests. Grace, a highly qualified marketing professional, works as the head of marketing and sales. She is involved in all Drinksoft's marketing efforts including promotion of the Livewell soft drink and other alcoholic product range, in addition to advising on the marketing of consultancy services offered. Her background is in the marketing of fast moving consumer goods (FMCGs). The company's three founding shareholders are also the three full-time working directors.

Drinksoft operates in highly saturated markets, with many substitute products. The key threat however comes from two global companies namely: (i) Globalsoft Ltd, a multinational corporation with strong known soft drink brands which are five different products, each with its own strong target market, and (ii) Primedrink Plc, another global company headquartered in the United States with presence in all developed and emerging markets. Primedrink Plc has six soft drink products under its product range, with each product having a strong brand value and recognition. Despite the competition, Drinksoft see their Livewell product as market leaders in terms of taste and healthiness although this segment of the soft drink market appears to be increasingly driven by price and product awareness.

The new challenges

The soft drink industry is not an easy one. It requires huge capital investment in terms of brewing equipment and machinery, in addition to involving huge working capital requirements. Given the nature of the soft drinks industry, any brewer is able to produce a product of more or less the same quality. The Recent entry by many manufacture of bottled mineral water is the biggest threat to Drinksoft's Livewell product. Within just a space of three years, over six different companies have joined the industry and competition is intense. The challenge is that everyone knows water to be healthy, and that it is a product for people who are healthy conscious. Accordingly, water manufacturers do not spend a lot of money in marketing and promotion. They have to ensure efficient distribution channels and availability at convenient locations – especially hotels, schools, supermarkets, etc.

The next steps

In response to the competition, James Kirungi called for a strategic retreat meeting dubbed "Drinksoft 2010 and beyond: succeeding in the new environment", to deliberate on the way forward. He invited all the directors, heads of departments together with their assistants. In total, they were 25. While calling for the meeting, James sent out a four point agenda: (1) *Cost leadership* – become the cheapest manufacturer, in order to compete on price (2) Endeavour to offer *differentiated* products and services at all times (3) *Acquire* Rwanda Breweries s.a.r.l, the fourth leading soft drinks manufacturer and distributor in Rwanda and (4) *Diversify* i.e. offer consulting services and logistics management (involving distribution of other manufacturers' products) in addition to producing the Livewell and bottled mineral water products.

At the meeting, after a brief update from James, Grace Amumpaire, the marketing lady, was asked to set the ball rolling. Particularly, to give an overview of what she thinks should be done. Here is Grace: "Look at the way the customer tastes and drinking habits are changing. Every year there is a new kind of customers as old users become health conscious and stop taking drinks with sugar and alcoholic content. Surely, once people grow old, they want to drink water only. So our Livewell product's market is mainly for people aged 12 to 35. Because we have a new market every year, we must continuously advertise aggressively so that we are a first choice drink. We need to advertise aggressively such that when a person thinks of quenching thirst what comes to mind is either Livewell soft drink or Livewell water (which I notice is item two today on the agenda). That way, our extra sales effort and a bigger sales force will easily be covered by additional unit sales. We must tackle any other competition head on and capture some of their market share. New companies which are just making water are making more profits that we are doing because we think by just making products and not letting people know about them is enough. That is not so in our type of business and industry." In a low tone, she concluded: "We cannot grow with our shylock way of doing things. We all know that money makes money. Last year Drinksoft spent Ugx. 10 billion on advertising while Globalsoft and Primedrink spent five times more, in the region of Ugx. 55 billion and Ugx. 60 billion respectively. If we cannot win the war, why bother getting into it?"

James Kirungi, was all long alert and taking notes. He said that ‘I think Grace is over exaggerating things here. Although our current advertising has generated lots of enquiries very few of these resulted in firm sales. In fact, the high level of spending on promotion is straining our cash flow.' He added that, ‘since approving an overdraft facility for the marketing and promotions department last year, the overdraft has been going up without noticeable improvements in revenues.’ As he was talking, he reached for his briefcase and removed some papers and circulated around saying, ‘as you can see in this letter from the bank, our overdraft is increasing year-on-year (y-o-y) and this cannot be sustained as a source of funding. Clearly, if there is no noticeable return on advertising, why continue doing it?’

The financial controller, Steven Birungi said ‘I think we need to put all these into perspective before making wildest dreams. For the last two years I have cautioned you on the dangers of over expansion, and the practice of doing something because the competitor is doing it. Although our Livewell product was doing well, we introduced four other products. In the process, we neglected Livewell at a time it needed massive advertisement and efficient distribution. This has badly affected all our products in the sense that we have no recognizable *cash cow*. If you look at our financials, the impact on the statement of income as well as the statement of financial position is clear: the Livewell units sold fell by 30% in 2008 compared to 120,000 units in 2007. At the retail price of Ugx. 1000 each, this represents a significant loss of revenue. Although we made Ugx. 289 million profits on consultancy services, which has consistently been 15% higher per annum compared to sale of soft drinks, we rarely focus on promoting this service line. In fact we can be more profitable with Kaizen and quality control consulting than manufacturing and selling soft drinks! Even more, we did not spend any money in advertising for consultancy services, yet it brings the most profits. Our current ratio has been steadily deteriorating since 2006, changing from 1.1 then to 1.3 today. Given our increasing capital gearing (increasingly relying on borrowed money to finance our business expansion), our going concern is increasingly being threatened and we cannot sustain a business with such a model. With our current loan hitting the Ugx. 4 billion mark, at 18% interest per year, we are doing not so well given that our share capital is just Ugx. 2 billion. Most of our suppliers have been increasing prices and we have no choice. The cost of electricity and water is going up. All these are increasing our operating costs. As we make a strategic choice today, we have to be mindful that any strategy that will involve huge capital spending will not be feasible for the long-term, given that it must involve generating a ROI (return on investment) of more than 18% annually to offset the cost of capital.'

Dr. Peter Mayanja stood up, grinning and nodding for the 'wonderful update' in his own words, from Steven. He said, "finally someone has seen what I have been advocating for a long term. If cannot move away completely from making soft drinks, we can just retain Livewell drink and market it aggressively. We obviously don't need a huge portfolio because it means more costs. Ever since we started making a wide product range, our profitability has worsened. We can do better with only Livewell and focus our efforts into consultancy activities. These build on our reputation and industry expertise. As Steven has just shown with the numbers, the margins are good and we can sell on recommendation rather than expensive advertising campaigns. As it stands, my team is being torn between investing resources in developing new products and working on consulting which mainly include Kaizen project implementations and quality control advisory. We cannot be everywhere and succeed. I foresee a danger of losing clients and at the same time failing to keep the edge over the ever increasing competition.'

As the debate and exchanges continued, it was clear that a decision may not be reached. James Kirungi looked at the members and said 'I think we cannot finalise on this today. We need to come back again when we have put all these developments into perspective. Let us go back and brainstorm as to the best way possible. In the meantime, send all your suggestions to the financial controller to summarise and circulate to all of us prior to the next meeting.' The meeting was adjourned.

As the company's strategic consultant, the Managing Director has come for your objective advice in preparation for the next staff meeting.

Required:

(a) Examine the appropriateness of each of Drinksoft (U) Ltd's four point agenda, in light of all facts presented. **(40 marks)**

(b) Analyse the extent to which strategic planning has failed or succeeded at Drinksoft (U) Ltd **(20 marks)**

(Total 60 marks)

Section B

Question 2: Longlast Ltd

Longlast Ltd is a local Ugandan company involved in the production of clay construction materials, especially bricks and roofing tiles. The company was founded in 2000 by two Brothers, Alex Gimeyi and Peter Gimeyi following the housing boom in Uganda at the time. The company has grown at a rapid pace. It currently boasts of 60 fulltime employees, and monthly turnover of Ugx. 102 million, although the company currently just breaks-even. Over 90% of the senior employees have been with the company since inception. In 2006, the company was overwhelmed by high demand for its quality clay products. The reasons for failure to produce enough products to meet demand was attributed to rudimentary clay production process which involves turning clay into wet bricks, which are later dried and then put into the kiln for burning – a process which takes about three weeks or 21 days. As a result, client orders were taking long to be processed, which resulted into many complaints over the company's poor services, with some clients threatening to run away to the industry's market leader, Countryclays Ltd.

In 2008, one of the founding brothers travelled to Germany and South Africa on a study tour to determine how to efficiently process high quality clay building materials, in the shortest time possible. He finally found a solution. At a factory in South Africa, Gimeyi was taken through the manufacturing process whereby, the entire brick making process lasts only seven days right from harvesting raw clay from a swap, up to having finished product ready for client use. This process involves implementing many changes in all departments, especially automating most aspects of the production processes which include clay harvesting, brick making, drying and kiln operations. To do this, Gimeyi has been advised to obtain the services of a Change Agent, a qualified strategic professional to assist in redesigning the processes.

As a Change Agent, you have been approached by Gimeyi to assist in implementing a radical and new automated clay processing processes at Longlast Ltd.

Required:

Describe the methodology you will undertake, clearly stating the steps involved and the rationale of each step. **(20 marks)**

Question 3: ITSimplified Ltd

Charles Kayanja graduated in 2003 as computer repair and maintenance, and also holds CCNA certification, in computer networking. Due to lack of jobs, he established a small company, ITSimplified Ltd to provide outsourced computer repair services. Over the years, the company has steadily expanded in terms of clientele numbers. To meet this demand, Charles plans to shift into big offices so that he is able to recruit more staff and expand capacity. Now Charles is cautious about overexpansion. He wants a formal business planning exercise so that he does everything according to plan. As a strategic consultant, Charles has approached you for help:

Required:

Write a memorandum to Charles Kayanja outlining the topics which should be covered in the business planning exercise, and advising him on the issue of who should be included in the business planning team**. (20 marks)**

Question 4: Easyloans (U) Ltd

You have recently been appointed to a senior position in a bank that has been in existence for over 20 years in the local market. At one management meeting, you quickly discovered that one of the reasons for the bank's loss of market share to new entrants is lack of proper policies and procedures.

Required:

Describe how Michael Porter's value chain can be applied to create competitive advantage for the bank, clearly explaining the factors to consider in assessing the bank's primary and support activities. **(20 marks)**