Certified Finance and Accounting Professional Stage Examination

The Institute of Chartered Accountants of Pakistan

9 June 2023
3 hours – 100 marks
Additional reading time – 15 minutes

Strategy and Performance Measurement

Instructions to examinees:
(i) Answer all **SIX** questions.
(ii) Answer in **black** pen only.

Q.1 (a) Finance Printing Press (FPP) is a specialist business publisher that commissions, prints, and distributes books on financial and business management. It is based in Serenica, a high-cost economy, where their printing works were established 50 years ago. 80% of the FPP's sales are made through bookshops in Serenica, where FPP's books are displayed in a custom-built display case specifically designed for FPP. The remaining 20% of FPP's sales are generated through mail order via full-page display advertisements in magazines and journals. Most of these sales are to customers based outside Serenica. Due to high selling prices and distribution costs, FPP's books are expensive to purchase outside Serenica.

The management is concerned over declining demand for books, prompting the marketing director to urge the company to reconsider its business model. He strongly believes that FPP's conventional approach to book production, distribution, and marketing is costly and no longer viable. He intends to reassess various elements of the marketing mix, taking into account the opportunities offered by e-business.

Required:
Discuss how e-business can assist FPP in leveraging the 7Ps of the marketing mix. **(15)**

(b) FPP's marketing director is considering to place an advertisement for hiring of an E-Commerce Specialist in a national newspaper. This advertisement will also be used to market FPP's repute.

Required:
Briefly explain important items that must be included in the advertisement. **(03)**

Q.2 Furqan, ACA, has recently joined StarTech Solutions (STS), a well-established family-owned company. STS specializes in high-tech gadgets and electronics supply. STS customers have diverse payment preferences, including debit/credit card transactions, 30-day credit business accounts, and a significant number of cash payments made by customers who collect goods in person. The preference for cash payment is influenced by the nature of their businesses, such as events management or entertainment, where cash payments are common.

During his first week at STS, the sales director, a close relative of a principal shareholder, gave Furqan a cheque to settle an account for a major customer. The cheque included an overpayment because it didn't account for the retrospective bulk discount. The sales director further explained that for certain customers, one of their key management personnel personally collects the discount in cash. This practice helps to maintain strong relationship, foster loyalty, and encourage repeat purchases. Furthermore, it facilitates regular face-to-face meetings with the key management personnel of the customers and minimizes bank charges.

Curious about the customers' preference for cash refunds instead of simply paying the net amount owed, Furqan seeks an explanation from the sales director. In a professional manner, the sales director asserts that it is not their prerogative to question the customers' motives.

Required:

(a) Discuss the fundamental principles of ethics that may be compromised by Furqan. **(04)**

(b) Advise the course of action that Furqan should take into account to resolve the matter. **(11)**

Q.3 Opulent Designs (OD) is a renowned luxury furniture mega store known for its eye catching designs and durable products. It offers three-years warranty on all its products. The OD store is an exquisite Moghul palace-style five-story building with large glass window displays, located at the center of the city. Each floor is dedicated to a different product category that is managed by the floor in-charge who has about ten support staff, known as Customer Managers (CM), working on the floor. The floor in-charge is responsible for all activities on the floor and reports directly to the owner of the store. OD does not have separate functional teams to manage operations. For marketing, the owner of the store hires expert vendors to periodically organize exclusive events and collaborations with renowned interior designers and influencers. For hiring staff members, the owner relies on the floor in-charge to do their own hiring, which is normally done through referrals.

When the customer decides to purchase a product from OD, they are assigned to a floor-specific CM as their main point of contact. The CM presents the customer with a form containing several options for popular designs, wood types and fabric choices for the furniture. CMs get a hefty commission for each customer they assist, which fuels their competitive drive to secure prime sales spots on the floor.

Once the customer's order is confirmed, the CM contacts the warehouse manager at the central warehouse, located at the basement of the building, to check the availability of the required materials. If any materials are out of stock, the CM takes approval from the floor in-charge and normally places an order for twice the required material by directly emailing the suppliers who are situated around the world. The shipment of materials usually takes between 20 to 30 days to reach the warehouse. Upon arrival of the materials, the warehouse manager notifies the CM, who then transfers the required design of furniture and material to the factory in-charge at a remote site. The excess material ordered is stored in the warehouse for future use.

At the factory, the skilled artisans bring the designs to life through intricate hand-carving and meticulous craftsmanship. The individual crafted components of the furniture are then passed on to skilled craftsmen who assemble them with precision, ensuring structural integrity. After this, a rigorous quality assurance check is conducted to ensure that every piece meets OD's quality standards. The furniture is then handed over to the finishers who enhance its natural beauty by polishing it and carefully packaging it for distribution. Once the job is complete, the factory in-charge notifies the CM, who then arranges reliable delivery personnel to deliver the furniture to the customer. In the event of any post-delivery issue, customers normally contact the CM for solutions.

As OD's business continues to grow, it encounters pressing challenges that require immediate attention. Notably, there have been recurring issues such as substandard customer service on the floor, inconsistent delivery times, inadequate finishing of products, and instance of furniture damage upon receipt.

Required:

(a) Discuss changes in primary and secondary value chain activities to address issues encountered due to business growth. **(15)**

(b) The competition among CMs for prime sales spots has increased staff politicking against each other. Suggest any **five** job design strategies to mitigate the adverse effects of this competition. **(05)**

Q.4 FastSafe Logistics (FSL), a well-established logistics company, was founded 30 years ago specializing in the transportation and storage of goods. Over the years, FSL has built a strong reputation in the market, boasting a loyal customer base and a significant presence in the region.

The logistics industry has been witnessing steady growth in recent years, primarily driven by the increasing demand for e-commerce and online shopping. However, this growth has also led to heightened competition with new entrants and existing players expanding services.

While FSL faces increased competition, including rivals benefitting from economies of scale, the company has observed a surge in orders for specialized services such as cold storage and hazardous material handling. On the technological front, FSL lags behind in service offerings particularly in areas like live tracking and other digital tools. Accordingly, it also lags in serving the needs of the e-commerce demand, where digital capabilities have become increasingly important.

Additional information:

	2022	**2021**
	--- Rs. in million ---	
Revenue	700	680
Maintenance cost	55	40
Operating profit	140	200
Total capital employed as at the end of the year	800	700

Average international crude oil prices (per barrel)	USD 85	USD 65
Number of customer complaints – Delayed deliveries	65	23
Number of customer complaints – Damaged deliveries	52	55

FSL follows a practice of replacing its major operating assets, including vehicles and equipment, every 10 years. The most recent major replacement took place approximately 8 years ago.

Required:

(a) Analyse the financial and non-financial performance of FSL. **(12)**

(b) Briefly explain the key factors that contribute to FSL's competitive advantage. Also suggest strategies to mitigate the issues identified in your analysis in (a) above, by using these factors. **(08)**

Q.5 Presented below are the vision statement, mission statement, goals and objectives of MicroTech - a fast growing technology solutions provider.

Vision Statement:
To be the leading provider of cutting-edge technology products globally.

Mission Statement:
To build cost-effective technology solutions for our clients.

Goals:
- Goal 1: Build the most innovative Know-Your-Customer (KYC) solution in the market.
- Goal 2: Improve operational efficiency and reduce costs.

Objectives:
- Implement a good KYC solution within the next six months.
- Implement automation software to streamline internal processes and reduce software development costs.

Required:

(a) Analyse and adjust, if required, the coherence between the vision statement and goals in relation to the mission statement. **(05)**

(b) Assess and refine, where necessary, the objectives to ensure that they meet the criteria of SMART objectives. **(05)**

Q.6 Smart Electronics (SE), a company specialized in the manufacturing and selling of smartphones, experienced remarkable success when it launched its latest smartphone, the 'Horizon-S'. Despite its high price, Horizon-S quickly gained popularity among consumers due to its unique features and design. Following its established practices, SE adopted lifecycle costing for Horizon-S, paving the way for strategic decision-making throughout the product lifecycle. Through intensive marketing efforts, SE successfully created awareness and excitement among potential buyers, resulting in significant sales growth that endured for well over a year. This outstanding performance enabled SE to establish a strong market presence and gain a considerable market share.

Observing the tremendous success of Horizon-S, SE's direct competitor, Ztronics (ZT), sought to replicate SE's achievement by developing its own smartphone called the 'Z-factor' that boasted all the features of the Horizon-S, and the added innovative feature of 360-degree rotating phone camera. ZT also employed lifecycle costing for the development and production of the Z-factor. The market reception for the Z-factor was positive, and upon its launch, the market share of Horizon-S started to reduce. However, to ZT's dismay, just after a few months of Z-factor's launch, three other reputable competitors also launched their smartphones, which closely replicated the configurations and features of the Z-factor but at significantly lower prices.

Required:

(a) Identify the costs that SE may have incurred on Horizon-S at each phase of the lifecycle to date. **(04)**

(b) Briefly discuss the current pricing strategy employed by SE and ZT. Also, recommend future pricing strategy(ies) for their respective product considering the evolving market dynamics outlined in the scenario. **(07)**

(c) Suggest strategies, other than pricing, that SE and ZT may adopt for their product to extend the existing product lifecycle. **(06)**

(THE END)