

CPA

Certified Public Accountant Examination

Stage: Advanced A1.1

Subject Title: Strategy and Leadership

Revision Guide



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

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STUDY TECHNIQUE

What is the best way to manage my time?

- **Identify all available free time between now and the examinations.**
- **Prepare a revision timetable with a list of “*must do*” activities.**
- **Remember to take a break (approx 10 minutes) after periods of intense study.**



What areas should I revise?

- **Rank your competence from Low to Medium to High for each topic.**
- **Allocate the least amount of time to topics ranked as high.**
- **Allocate between 25% - 50% of time for medium competence.**
- **Allocate up to 50% of time for low competence.**

How do I prevent myself veering off-track?

- **Introduce variety to your revision schedule.**
- **Change from one subject to another during the course of the day.**
- **Stick to your revision timetable to avoid spending too much time on one topic.**

Are study groups a good idea?

- **Yes, great learning happens in groups.**
- **Organise a study group with 4 – 6 people.**
- **Invite classmates of different strengths so that you can learn from one another.**
- **Share your notes to identify any gaps.**

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EXAMINATION TECHNIQUES

INTRODUCTION

Solving and dealing with problems is an essential part of learning, thinking and intelligence. A career in accounting will require you to deal with many problems.

In order to prepare you for this important task, professional accounting bodies are placing greater emphasis on problem solving as part of their examination process.

In exams, some problems we face are relatively straightforward, and you will be able to deal with them directly and quickly. However, some issues are more complex and you will need to work around the problem before you can either solve it or deal with it in some other way.

The purpose of this article is to help students to deal with problems in an exam setting. To achieve this, the remaining parts of the article contain the following sections:

- Preliminary issues
- An approach to dealing with and solving problems
- Conclusion.

Preliminaries

The first problem that you must deal with is your reaction to exam questions.

When presented with an exam paper, most students will quickly read through the questions and then many will ... **PANIC!**

Assuming that you have done a reasonable amount of work beforehand, you shouldn't be overly concerned about this reaction. It is both natural and essential. It is natural to panic in stressful situations because that is how the brain is programmed.

Archaeologists have estimated that humans have inhabited earth for over 200,000 years. For most of this time, we have been hunters, gatherers and protectors.

In order to survive on this planet we had to be good at spotting unusual items, because any strange occurrence in our immediate vicinity probably meant the presence of danger. The brain's natural reaction to sensing any extraordinary item is to prepare the body for 'fight or flight'. Unfortunately, neither reaction is appropriate in an exam setting.

The good news is that if you have spotted something unusual in the exam question, you have completed the first step in dealing with the problem: its identification. Students may wish to use various relaxation techniques in order to control the effects of the brain's extreme reaction to the unforeseen items that will occur in all examination questions.

However, you should also be reassured that once you have identified the unusual item, you can now prepare yourself for dealing with this, and other problems, contained in the exam paper.

A Suggested Approach for Solving and Dealing with Problems in Exams.

The main stages in the suggested approach are:

1. Identify the Problem
2. Define the Problem
3. Find and Implement a Solution
4. Review

1. Identify the Problem

As discussed in the previous section, there is a natural tendency to panic when faced with unusual items. We suggest the following approach for the preliminary stage of solving and dealing with problems in exams:

Scan through the exam question

You should expect to find problem areas and that your body will react to these items.

PANIC!!

Remember that this is both natural and essential.

Pause

Take deep breaths or whatever it takes to help your mind and body to calm down.

Try not to exhale too loudly – you will only distract other students!

Do something practical

Look at the question requirements.

Note the items that are essential and are worth the most marks.

Start your solution by neatly putting in the question number and labelling each part of your answer in accordance with the stated requirements.

Actively reread the question

Underline (or highlight) important items that refer to the question requirements. Tick or otherwise indicate the issues that you are familiar with. Put a circle around unusual items that will require further consideration.

2. Define the Problem

Having dealt with the preliminary issues outlined above, you have already made a good start by identifying the problem areas. Before you attempt to solve the problem, you should make sure that the problem is properly defined. This may take only a few seconds, but will be time well spent. In order to make sure that the problem is properly defined you should refer back to the question requirements. This is worth repeating: Every year, Examiner Reports note that students fail to pass exams because they do not answer the question asked. Examiners have a marking scheme and they can only award marks for solutions that deal with the issues as stipulated in the question requirements. Anything else is a waste of time. After you have re-read the question requirements ask yourself these questions in relation to the problem areas that you have identified:

Is this item essential in order to answer the question?

Remember that occasionally, examiners will put ‘red herrings’ (irrelevant issues) into the question in order to test your knowledge of a topic.

What’s it worth?

Figure out approximately how many marks the problem item is worth. This will help you to allocate the appropriate amount of time to this issue.

Can I break it down into smaller parts?

In many cases, significant problems can be broken down into its component parts. Some parts of the problem might be easy to solve.

Can I ignore this item (at least temporarily)?

Obviously, you don’t want to do this very often, but it can be a useful strategy for problems that cannot be solved immediately.

Note that if you leave something out, you should leave space in the solution to put in the answer at a later stage. There are a number of possible advantages to be gained from this approach:

- 1) It will allow you to make progress and complete other parts of the question that you are familiar with. This means that you will gain marks rather than fretting over something that your mind is not ready to deal with yet.
- 2) As you are working on the tasks that you are familiar with, your mind will relax and you may remember how to deal with the problem area.

- 3) When you complete parts of the answer, it may become apparent how to fill in the missing pieces of information. Many accounting questions are like jigsaw puzzles: when you put in some of the parts that fit together, it is easier to see where the missing pieces should go and what they look like.

3. Find and Implement a Solution

In many cases, after identifying and defining the problem, it will be easy to deal with the issue and to move on to the next part of the question. However, for complex problems that are worth significant marks, you will have to spend more time working on the issue in order to deal with the problem. When this happens, you should follow these steps:

Map out the problem

Depending on your preferred learning style, you can do this in a variety of ways including diagrams, tables, pictures, sentences, bullet points or any combination of methods. It is best to do this in a working on a separate page (not on the exam paper) because some of this work will earn marks. Neat and clearly referenced workings will illustrate to the examiner that you have a systematic approach to answering the question.

Summarise what you know about the problem

Make sure that this is brief and that it relates to the question requirements. Put this information into the working where you have mapped out the problem. Be succinct and relevant. The information can be based on data contained in the question and your own knowledge and experience. Don't spend too long at this stage, but complete your workings as neatly as possible because this will maximise the marks you will be awarded.

Consider alternative solutions

Review your workings and compare this information to the question requirements. Complete as much of the solution as you can. Make sure it is in the format as stipulated in the question requirements. Consider different ways of solving the problem and try to eliminate at least one alternative.

Implement a solution

Go with your instinct and write in your solution. Leave extra space on the page for a change of mind and/or supplementary information. Make sure the solution refers to your workings that have been numbered.

4. Review

After dealing with each problem and question, you should spend a short while reviewing your solution. The temptation is to rush onto the next question, but a few moments spent in reviewing your solution can help you to gain many marks. There are three questions to ask yourself here:

Have I met the question requirements?

Yes, we have mentioned this already. Examiner Reports over the years advise that failure to follow the instructions provided in the question requirements is a significant factor in causing students to lose marks. For instance, easy marks can be gained by putting your answer in the correct format. This could be in the form of a report or memo or whatever is asked in the question. Likewise, look carefully at the time period requested. The standard accounting period is 12 months, but occasionally examiners will specify a different accounting period.

Is my solution reasonable?

Look at the figures in your solution. How do they compare relative to the size of the figures provided in the question?

For example, if Revenue were 750,000 and your Net Profit figure was more than 1 million, then clearly this is worth checking.

If there were some extraordinary events it is possible for this to be correct, but more than likely, you have misread a figure from your calculator. Likewise, the depreciation expense should be a fraction of the value of the fixed assets.

What have I learned?

Very often in exams, different parts of the solution are interlinked. An answer from one of your workings can frequently be used in another part of the solution. The method used to figure out an answer may also be applicable to other parts of your solution.

Conclusion

In order to pass your exams you will have to solve many problems. The first problem to overcome is your reaction to unusual items. You must expect problems to arise in exams and be prepared to deal with them in a systematic manner. John Foster Dulles, a former US Secretary of State noted that: *The measure of success is not whether you have a tough problem to deal with, but whether it is the same problem you had last year.* We hope that, by applying the principles outlined in this article, you will be successful in your examinations and that you can move on to solve and deal with new problems.

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Stage: Advanced Level 1

Subject Title: A1.1 Strategy & Leadership

Examination Duration: 3.5 hours (Open Book)

Assessment Strategy

Examination Approach

Strategic management is the main focus of the paper. Students are expected to demonstrate a thorough understanding of the processes involved in reviewing competitiveness and evaluating long-term options and the relevant marketing strategies. Individual related business topics are selected for detailed assessment on a planned basis each year, throughout a cycle of examinations (typically three years).

Students are expected to demonstrate strategic thinking and creativity through their ability to analyse business scenarios critically, carry out SWOT analyses and identify/justify innovative strategic options. In addition to understanding business in a Rwandan context, students should display a global outlook and an awareness of the importance of business ethics and social responsibility in organisations.

A thorough understanding of currently recognised theories and concepts relevant to the above areas and the ability to apply appropriate analysis techniques and business models effectively is essential. Equally important is the capacity for synthesis, demonstrated particularly by integrating areas such as marketing, knowledge management, project management, financial control and organisation behaviour. The ability to communicate clearly and succinctly is an overriding requirement. The marking scheme strongly favours the demonstration of critical analysis, judgment and innovations, rather than the mere identification of concepts and models or descriptive writing about these.

Examination Format

Assessment is by an open-book examination of 3.5 hours' duration. This examination uses a case-study approach to test students' ability to apply critical analysis, demonstrate synthesis and decision-making. It consists of one compulsory question, based on a major case-study (worth 50% of the marks for the examination) plus a choice of two out of three optional questions, each worth 25% of the marks for the examination. The optional questions may also refer to material in the major case study.

Given this is an open-book examination students will be allowed to bring their analysis and research with them into the examination centre for reference, as appropriate, in their answers to the questions.

<i>Marks Allocation</i>	<i>Marks</i>
Compulsory Question (case-study)	50
Choice of 2 questions out of 3 (25 marks each)	<u>50</u>
Total	100

Learning Resources

Core Texts

Johnson G., Scholes K., Whittington R., , Exploring Corporate Strategy, 8th. Edition (2008) Prentice Hall, ISBN 978-0-273-71192-6.

Daft / New Era of Management, International 9th Edition / Cengage 2010 / ISBN-13: 9780324598193 / ISBN-10: 032459819X

Dess, Eisner and Lumpkin / Strategic Management – Text and Cases / McGraw-Hill 2009 / ISBN 0073530417 ISBN 9780073530413

Kotler Philip, Kevin Lane Keller, Marketing Management, 14th. Edition (2011) Prentice Hall, ISBN: 0273753363

Gunnigle G., Heraty N., Morley M., Human Resource Management in Ireland, 4th. Edition (2011), Gill and Macmillan, ISBN 9780717149797.

Mullins / Management and Organisational Behaviour 9th Edition / Pearson 2010 / ISBN 027372861X ISBN 9780273728610

Manuals

A1.1 Strategy & Leadership- Institute of Certified Public Accountants of Rwanda

Supplementary Texts and Journals

Dalkir, Kimiz / Knowledge Management in Theory and Practice/ Butterworth-Heinemann 1st edition
2005 / ISBN - 10: 075067864X /
ISBN -13: 978-0750678643

Brassington F., & Pettitt S. / Principles of Marketing / 4th. Edition, (2006) / Pearson Education /
ISBN -10: 1405846348 /
ISBN - 13: 978-1405846349

Useful Websites (as of date of publication)

www.marketingteacher.com - Marketing Teacher
2000 – 2007.
www.strategy-business.com - Strategy + Business.
www.strategyanalytics.com - Strategy Analytics.
<http://www.icparwanda.com/services.php>

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REVISION QUESTIONS AND SOLUTIONS

Stage: Advanced Level 1 A1.1
Subject Title: Strategy and Leadership

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SECTION A

1. Case Study

Creative Pasta (CP) opened for business in a small “suburban” kitchen in Musanze about fifteen years ago. Knowing it was in an important gorilla trekking and tourist spot, CP concentrated on food for the American/European traveller. The company produced small quantities of gourmet pastas and sauces using food processors and hand-operated pasta makers. Its hand-made products were sold to local hotels, restaurants and, more recently, grocery stores in the district. Consumers showed a growing enthusiasm for fresh pasta given CP’s superior quality and nutritional value, as well as its ease of preparation. The two founders of the business, John and Mary Redmond, were convinced of an increasing interest in nutritional, convenient gourmet food options. They were committed to creating inspired new pasta options, using non-traditional ingredients, in what was a very traditional product. Being not that far from Lake Kivu some tourists who had been on Lake Kivu fishing trips would call in, bringing their catches and ask for custom-made raviolis.

Mary Redmond had eight years impressive experience in brand management and as a new products development executive in a busy, established fresh-food company in Kigali. The role involved researching food trends, consumer trends, working closely with clients on product-development issues, supporting and ensuring high levels of service. It also included working on brand development, the preparation of new product briefs, ideas, marketing, and liaison with the factory. Over the years, Mary became aware of growing sales in the UK and throughout Europe indicating that refrigerated foods pleased customers seeking meal solutions that provided both convenience and quality benefits. In particular, products that offered a unique point of difference by integrating refrigerated components that helped consumers prepare fresh, home-made meals in a fraction of the usual time, was of particular interest to her. She and her husband had both been to Rwanda several times for holidays. Mary and became convinced of a growing opportunity. She left the company and Ireland to set up Creative Pasta in Musanze, and was joined by her husband a couple of years later.

John Redmond, a fully qualified food technologist, also had considerable experience which involved developing manufacturing processes and recipes for a large food and drink products company. He worked on existing and newly discovered ingredients and technologies to invent new recipes and concepts, as well as modifying foods to create, for example, fat-free products and ready meals.

It did not take long before CP was able to distribute its products into some important hotels and restaurants and began to extend its facilities to make room for this demand. Shortly after setting up Creative Pasta in Musanze, , the company opened a 500 square-metre production plant with flexible modern manufacturing facilities and later brought on board some state-of-the-art packaging techniques to preserve flavour and extend product shelf-life. However, the company today finds itself with excess production capacity which it believes was caused by a recent fall in consumer demand (reduced tourism?) and over-ambitious sales forecasting.

Mary took on responsibility for the sales, marketing and financial management of the company with the help of an assistant. John took on responsibility for manufacturing operations. However, the couple work closely as a team.

Today, CP is a manufacturer, distributor, and marketer of refrigerated gourmet fresh pasta products and sauces throughout Rwanda. It has established itself as an important supplier to two grocery chains, some leading hotels, restaurants and cafes. To enable this growth, the production facility continued to expand over the years, and now employs over 80 people, many of whom are from abroad (Burundi, Uganda and South Africa) , are attempting to learn the languages Kinyarwanda and English, and mostly earning little more than the minimum wage. Overall the atmosphere throughout the organisation is not good, people seem to derive little satisfaction from their work and staff attrition rates have been high, although this has improved in recent times. Many are low-skilled operators; confidence levels are low; and many have considerable personal needs that pre-occupy them.

CP pursues a strategy of sustainable growth through the maintenance of its existing product lines and the introduction of new products. The company is also committed to providing a superior level of customer service, and uncompromising standards of quality in its products. The company states that it is focused on the establishment of a satisfying work environment where everyone is recognised as being equally responsible for the company's success.

In the past, in Ireland, when it came to pasta, the biggest decision Mary had to make was choosing spaghetti or macaroni. Today, new pasta choices available include dried, frozen, and fresh as well as plain, flavoured, and vegetable dyed. CP is known for its innovative approach, bringing to market, products that stimulate and excite consumers. Its product range includes ravioli, limited edition ravioli, tortellini, whole wheat pasta, cut pasta, pasta sauces and various specialty items including organic varieties. Each are an excellent source of whole grains, have three times the fibre content of regular pasta and provide the consumer with tasty, nutritious meal options. All are made from natural ingredients such as durum wheat and

free-range eggs, have a classic appearance and an 'al dente' (firm) texture. It is easy to distinguish between these and dried pasta, as they are soft, moist and ready to cook.

The CP range of pasta sauces offers a perfect match with a favourite style of pasta. Sauces are prepared with fresh carefully selected ingredients, and contain no preservatives.

Each CP product is packaged fresh so as to provide the highest quality possible, and as such are never frozen. All packaging is specially designed to keep the product fresh throughout its shelf life which varies between 21 and 60 days, depending on the product. Effective formulation hurdles, proper testing and new technologies have helped the company create safe refrigerated foods that deliver convenience and freshness.

Having carried out detailed investigative consumer research, Mary describes her primary target market as tourists on self-catering holidays and young urban professionals with busy lifestyles who are conscious of the health aspects of the food they eat, who tend to eat alone, who do not always have the willingness or ability to prepare a meal and who have a taste for the better things life has to offer.

The mission of Creative Pasta is to be a nationally recognised leader in distinctively flavoured, premium-quality gourmet pasta.

The company includes in-store product tastings in targeted stores nationwide, as part of its promotional mix. The objective is to drive sales volume, and to promote brand awareness and consumer trial. Recently, Mary successfully experimented with the use of QR product barcodes (short-form codes) promoting CP in selected stores in Kigali. These barcodes can be scanned by a special app (application) on a smartphone, and can be linked to product information or materials such as videos. CP shelf talkers on display in the various stores prompt shoppers either to snap a QR code or text a key word to a short number. Customers were then offered recipes that matched specific interests, including formal or romantic dining and even wine pairings. "As a premium brand, our main target customers are smartphone users, so this mobile strategy makes a lot of sense for us" she says. "As marketers we have looked for fresh ways to engage with customers through new technologies. We want to communicate in a modern way, and we want to be able to surprise our customers in a different way and give them something of value. From this we have gathered a lot of useful information. We feel we can now encourage enthusiasts, and at the same time, we want to offer store owners a good proposition," she added

Given the nature of change in the industry and the economy, CP is anxious to put in place a strategy suitable for this period of difficult market conditions and position the business well for an upturn in the economy. You have been asked for advice on the direction the company should take as it faces uncertain times ahead.

REQUIRED:

Prepare a report for the directors of Creative Pasta, John and Mary, in which you:

- a) Analyse the strategic position of Creative Pasta, drawing on your assessment of the key drivers of change prevailing in the environment, applying the relevant theories and models;
- b) Examine the key issues facing Creative Pasta and evaluate the company's options in dealing with such issues; and
- c) Propose a strategy to ensure the best way forward for the company.

(Note: The scenario presented above is not intended to be comprehensive. You will be expected to make whatever additional logical assumptions about Creative Pasta and its environment that will give you sufficient scope to demonstrate a high level of critical thinking, analytical skills and strategic vision, as over 50% of available marks will be allocated to these areas).

(50 Marks)

SECTION B - ANSWER TWO QUESTIONS ONLY.

2. Creative Pasta (CP), the small food manufacturer referred to in Question 1, produces and sells gourmet pasta and sauces out of a 500 square foot facility in Musanze. The following activities add value to CP, either directly or indirectly.
- The receiving and warehousing of various ingredients, material, and packaging and their distribution to the processing plant as needed.
 - The purchasing people buy the wheat flour, the olive oil, the various other ingredients and the packaging etc.
 - The chefs manage the preparation of the various products.
 - The chefs exercise strict standards of quality production, presentation and hygiene in the processing plant kitchens.
 - The food technologist manages and further develops the manufacturing processes and recipes and works on existing and newly discovered ingredients to invent new recipes and concepts.
 - The sales and marketing staff focus on creating profitable business growth, new product development and work closely with customers to understand their emerging needs, whilst liaising internally to ensure the delivery of innovative solutions in line with customer requirements.
 - In addition there are various other activities concerned with procurement: food processing equipment; website design, development/ management and hosting; and printed promotional material etc.
 - The physical distribution and storage of finished products is a key issue for the business, especially considering the relatively short shelf life of most of its products.
 - Both Mary and John look after the area of developing technology and systems for food production, financial control and managing the people employed.
 - The partners take joint responsibility for the making of strategic decisions, the acquisition of capital and the overall management of the company.
 - The partners together make the strategic decisions, acquire capital and organise the company.
 - After sales service.
 - Staff training.

REQUIRED:

Drawing on the work of Michael Porter:

- a) Map out the main primary and secondary activities of Creative Pasta's value chain.
- b) Critically analyse the key success factors where the business must excel if it is to outperform the competition.

(25 Marks)

3. Kivu Airlines (KA) is a small regional airline operating largely to small airports throughout Rwanda and the EAC. Its mission is to provide a safe, reliable, efficient regional air service to its customers, with a particular penchant for customer service, a sense of pride in its operational excellence and a personality that's warm, welcoming, relaxed and confident.

Over the last two decades, productivity has played a significant role in the airline industry's ability to control costs and accelerated growth. Gaining competitive advantage has been much about more flexible work rules that allow the cross-utilization of virtually all employees alongside a culture of cooperation among teams. This has translated into lower unit labour costs.

Kivu Airlines has operated on the edge of real failure for a number of years and as such has been in crisis mode. However, in the last two years the company's situation has much improved and it has successfully returned to profitability.

As a newly appointed CEO, you have just taken responsibility for a workforce in which productivity has been high but you are concerned about the performance effectiveness of the company. Your predecessor achieved this outcome at the expense of devitalising and debilitating the team in a considerable way. An authoritarian leader, he enforced change through a wall of resistance and kept continual pressure on subordinates. A task-oriented manager, he had a high concern for production and a low concern for people and viewed employee needs unimportant and simply a means to an end, he expected performance in return for pay. He pressured employees through rules and punishments to achieve the goals of the company; he was very strong on schedules and was intolerant of dissent. In essence, he

achieved increases in output, at least in the short term, by increasing the driving forces for productivity in the organisation.

However, in the process he upset the equilibrium between both the driving forces for productivity and the restraining forces. By his actions, new restraining forces developed, such as increased hostility, antagonism, intensive poaching of KA's best staff by other airlines, low industry average salaries and poor employee morale. By the time of his departure the restraining forces were beginning to increase and the results became manifest in staff turnover, absenteeism, and other areas, which lowered productivity shortly after you arrived. Today, a new equilibrium, at a significantly lower productivity level exists.

You are committed to recovering the output of the workgroup. You believe a change of management style is necessary where there is a greater concern for people and a stronger emphasis on healthy interpersonal relationships because of the necessity for employees to work well together if they are to deliver the service, as outlined in the airline's mission statement.

REQUIRED:

Drawing on appropriate theorists, such as Lewin and Kotter & Schlesinger, make recommendations to overcome resistance from KA's employees and to generate positive behaviour.

(25 Marks)

4. By the end of 2011, it is anticipated that there will be more people with smart-phones than there are with non- smart-phones. The internet is being integrated everywhere, from printers to refrigerators while at the same time desktop computers are being used less and less. Consumers are embracing all sorts of applications on their mobile devices from checking out train, tram or bus departure and arrival times to learning a language. For many the wait to get home to log-on to their computers has become unacceptable. The smart-phone is rapidly becoming a second computer, or for many younger people, their primary computer. Increasingly, users are turning to applications for many of their information / entertainment / communication needs, providing them with immense levels of support.

AdvanceComs (AC) is a highly successful mobile phone manufacturer whose business has been built on innovation and commitment to shaping the future of technology in mobile communications. However, today it's position in the market has fallen dramatically, defeated by a competitor with only three years' experience in producing mobile phones. Fixated on an operating system (software platform) which it developed over a period of ten years at a very considerable cost, the very technology that set it apart from rivals is now slowing the business down.

With all of the evidence pointing to the mobile-phone industry moving from a device battle to a platform battle, AdvanceComs recently announced a strategic partnership with Rockland Systems (RS), a major operating system provider. This partnership is expected to allow the business to deliver phenomenal handsets, enabling AC to compete successfully in the smart-phone market. "It will require both teams to work together in a symbiotic and collaborative way", the chief executive of AC commented at a recent conference.

With these factors in mind, AdvanceComs has committed to an engaged work force that generates value for the company, loyalty among customers, and believes that success very much depends on an ability to manage and build both human and social capital.

REQUIRED:

Differentiate between human capital and social capital explaining fully their importance to AdvanceComs.

(25 Marks)

(Total : 100 Marks)

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION 1

1.1 DRIVERS OF CHANGE.

POLITICAL/ENVIRONMENTAL FACTORS

Rwanda is a developing country and is growing its tourism potential;. The Government is in the young East African Community (EAC) . As the farming sector is encouraged to become more efficient and is dedicated to reduce the dependence on subsistence farming and increase the size and economies of each holding, there is a challenge for new jobs to replace those lost to farming.

Food safety and quality have been among the key issues on the political agenda in recent times. The food industry continues to be subject to more regulation in fields such as labelling of food products, to environmental regulation in fields such as pollution, emissions and disposal of waste. The tourism industry is also demanding healthier foods and menus attractive to the discerning and up-market traveller

The implications for food processors are the need to take the lead on providing healthier food or risk losing tourists. Additionally, any legislation is likely to bring an increase in costs for producers, because the increased regulation is expected to create a need for skilled personnel with relevant qualifications in quality control and food safety. Compliance calls for more training of employees.

An ambitious plan to raise food output from farms significantly over the next ten years has been introduced by the government. It is expected to require: the adoption of new technologies; developing new working relationships within the food production chain; piloting new product streams; targeting resources at new markets; enhancing levels of productivity and competitiveness; and, developing production and management skill across the sector. This it anticipates will be achieved by investment in ideas, knowledge and skills, and recognising that collaboration across the food supply chain, with other competitors and, broadly, within the framework of the smart economy, is central to unlocking opportunity.

ECONOMIC FACTORS

Rwanda is a small and developing country and the government is encouraging farmers and land-owners to work towards better food production. Also, as the mineral resources are better exploited and the attraction of the country to tourists especially now that we are moving further away from our troubled past, improves, there should be an increase in the overall/average standards of living. Alongside economic growth from mining, food production and tourists, there will be an increase in the employment and an improvement in life-styles.

There has been deterioration in the international economic environment and a severe tightening in credit conditions. A recovery is not seen as likely until late 2013 at the earliest. Exchange rate volatility is an additional issue for exporters and tourists alike.

So despite the world recession which is not expected to turn the corner until 2013 or beyond, there is future for Creative Pasta albeit a challenging one.

SOCIAL FACTORS

The consumer is the primary driving force in today's global food market and price is the dominant prevailing issue affecting all trends in the market at present.

Consumers are becoming increasingly price sensitive, and convenience is a growing factor leading to demand for quick meal solutions and healthier foods. Increasingly consumers are expected to look for best value by opting for private label brands and availing of sales and promotions. Price is important across all markets with consumers also placing a premium on quality of fresh food and provenance (the geographical origin of food, and the methods used to produce it). Consumer purchasing and eating behaviours continues to show a strong demand for food products in favour of high- value and convenience foods but this looks like it could be changing in the light of the current economic conditions. There are rising health concerns and increased interest and focus on nutrition, food safety, ecology, and environmental sustainability. Sustainability in terms of the environmental impact of the production, food safety, fair trade and working conditions are becoming important factors in the consumers' choice of product.

There is an increasing segmentation of the food market taking place and it is anticipated that future growth will be in the demand for specialist products in niche markets including ethnic, organic and vegetarian foods. It would appear that the prime motivation for both new products and reformulated products is based on innovation, health and well-being. Other motivations include a focus on more natural ingredients, premium label, diet and convenience.

The main drivers of change for the in-home consumption of ready meals market include changing consumer lifestyles and those who simply fear, or hate cooking or simply feel they do not have the time. The factors contributing to the sectors growth include.

- The occasions for formal family meals are becoming less frequent.
- The increasing value placed on leisure time.
- The increase in the number of women working outside the home.
- The rise in the numbers of middle income earners leading to increased ownership of microwave ovens and freezers.
- A rise in younger consumers with disposable incomes who are more likely to experiment.

In the eat-out/foodservice sector key trends include:

- Increasing importance of provenance to consumers.
- An increased demand for healthy food options.
- Demand for traditional meals with one exception, the 20 to 40 year old age group
- Supply chain practices employed by the foodservice operators – grocery stores as well as cafes and restaurants – are becoming more sophisticated.

TECHNOLOGICAL FACTORS

- Automation of plants and processes and new technologies are paving the way for more effective forms of production and the development of new products e.g. biotechnology, information and communication technology, radio frequency identification.
- The future of the food industry is believed to be dependent on the ability to disseminate and use technical know-how in developing its capacity to adopt and exploit new technologies and while doing so improve quality attributes.

- Without sustained investment in technology advance it is likely that the market will be increasingly supplied by food companies investing outside of the country, attracted by low labour costs and fewer regulations.
- E-Tendering: A small number of the larger restaurant and hotel chains have started using electronic tendering in order to secure best prices available in the marketplace.

There is a strong sense that food processors need to constantly innovate and invest in R&D. Developments in packaging and microwaving technology offer potential in this area. Consumers increasingly seek ready meals that are microwaveable.

FACTOR ANALYSIS

Growth in Creative Pasta is linked to market place demand and demand is linked to the following drivers. (+50 represents a strong opportunity for CP and -50 represents a significant threat.

(Editor's note: The candidate is not expected to be an expert on the Food/Meals market, but a table of this sort shows a good understanding of the principles involved as well as evidence of an imagination)

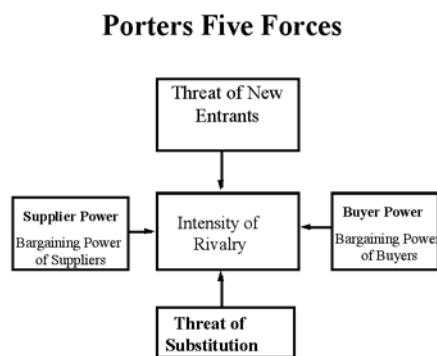
Factor	Influence on industry (0 to 10)	Impact on Creative Pasta (-5 to+5)	Threat to strong opportunity (-50 to +50)
International competition	10	-3	-30
Demand for cheaper options	10	-3	-30
Political & regulatory development	10	-2	-20
Energy costs	10	-2	-20
<ul style="list-style-type: none"> • the competitive food retail environment/power balance • food safety and supply chain integrity • rationalisation of the supply base 	10	-2	-20
Opportunities for new businesses combining pharmaceuticals and food manufacturing	7	3	21
Provenance	7	5	35
Increasing penetration microwave ovens	8	5	40
Consumer trends and social changes <ul style="list-style-type: none"> • Demographic change • Growth in niche markets • Changing lifestyles • Healthy living • Sustainability 			
Availability and exploitation of new technologies.	10	4	40
Supply chain practices	8	5	40
Demand for new products (nutritionally health/weight, convenience, organic, fair trade, ethnic, nostalgic etc)	10	5	50
Productivity initiatives in the industry	10	5	50

The implications of these factors are many and varied and include:

- Price points: Understanding how price points work and the need to offer products at multiple different price points.
- The need to give priority to health and sustainability.
- The expected growth in both global and local niche markets represent an opportunity, particularly for small companies that can exploit communications technology to reach dispersed consumers.
- The food safety emphasis and expected increase in the number of regulations will create a need for staff with new competencies.
- Productivity initiatives are likely to lead to considerable blue collar redundancies

1.2 THE COMPETITIVE SITUATION

Porter's "five forces" model of industry competition is used here to inspect CP's competitive environment and establish the firm's possible profits.



Bargaining power of buyers:

Buying power increasingly rests with the multiple retailers and distributors and is also becoming more concentrated. Many retailers are focusing on rationalising the number of manufacturing partners and line items in their inventory to drive more volume to high priority suppliers and better position themselves as a more valuable business partner to the most profitable manufacturers in the system. Credit risk is a major concern among smaller individual store retailers e.g. hotels, restaurants, pubs.

Bargaining power of buyers is strong

Bargaining power of suppliers: CP is largely in a good position to negotiate with suppliers because many ingredients are commodities and there is a relatively large amount of alternatives available. However, the relatively strong global demand for commodity products and the tight supply situation in a number of key product categories could change things dramatically. Also, quality has reduced the pool of alternatives in some cases and strengthened the bargaining power of those suppliers and in particular innovative packaging suppliers for the retail trade. The uncertainty of food supplies around the world which has arisen because of climate change is problematical. Supplier power is medium. But the discerning buyer is quick to exploit abundance and avoid scarcity – rice may be abundant when wheat is scarce.

The threat of substitutes: A ready prepared pasta meal purchased at your local store can be a substitute for eating out. Indeed premium chilled fresh pasta is known to be considered by some as a more. Preparing food from scratch could be a threat, but CP intend to supply to those who want to prepare food at home – fresh pasta, to those who want ready meals to eat at home and CP intends to supply to hotels and restaurants too.

The threat of new entrants: This is the competitive force that determines how easily a firm's profits might be lowered because the entry of new competitors into the industry. Given the current market conditions where consumers are restrained in their consumption of more indulgent products, threat of new entrants must be low. However, the market is so segmented that a new entrant can always come in to target niche segments. Such a move nonetheless requires moderate to heavy investment in production and distribution facilities. With technology advancing at a pace there is always the chance of a big manufacturer entering the sector, for example following perhaps a breakthrough in increasing the shelf life of a product and/or alongside more efficient and effective logistics. For the moment, threat of new entrants is low, particularly in the current environment.

The degree of rivalry: Challenges include global competition both here and in the export markets. Competition in the chilled ready meal sector is expected to become more intense in all trade channels. Key issues include: extended credit terms where getting paid in a reasonable timeframe is a major difficulty; customers paying less and imported product price competition.

Looking into the future, the prepared meal industry is considered a market with potential while operating in globally difficult times and offers great opportunity given the expected increase in standards of living and consumers' expectations which go along with that.

1.3 THE PREPARED FOODS MARKET

Prepared food manufacturers continued to face a competitive market environment due to a combination of price pressure from customers and rising input prices.

The key challenges facing the food industry in Rwanda over the next year or so may be summarised as follows: financing and cash flow; government policy/regulations; retail and market pressures / consumer trends and competitiveness.

1.4 CORE COMPETENCIES

CP's core competencies are those capabilities that are critical to it achieving competitive advantage. They are the competencies that rivals will find difficult to match and are one of the best ways to outperform them. Prahalad and Hamel's three factors help identify CP's core competencies.

- 1) The core competencies that provide CP with potential access to a wide variety of markets are:
 - A distinctive brand proposition that focuses on a clearly defined target market.
 - Solid direct marketing skills and capability that include database management, smartphone campaign, in- store promotion and tastings.
 - Ability to work closely with trade clients on product development issues, offering high levels of service. CRM skills.
 - Brand management skills.

- 2) The core competencies that will enable CP to make a significant contribution to the perceived customer benefits are:

- Innovative product development: Ability to research food and consumer trends.
 - Ingredient sourcing: The ability to procure an optimised selection of raw materials with particular aspects of quality and nutrition.
 - Ability of the production facility to produce a full range of pasta products with an ability to customise the process to suit retail customer needs.
 - Reliable efficient delivery structure.
- 3) The core competencies difficult for competitors to imitate are:
- Ability to provide custom packaging and merchandising expertise in serving the grocery sector..
 - Ability to provide products that stay fresh longer.

Building Creative Pasta's Core Competencies

It is possible that CP will find it difficult to out-manoeuvre rivals who have a superior strategies. In this situation probably its next best avenue to compete more successfully is to develop superior strategies of their own. Building core competencies that rivals can't match is one of the best ways to beat them. These competencies relevant to CP, in addition to those identified above could be summarised as follows:

- Innovation in terms of applying original thinking in the approach to job responsibilities and the improvement of processes, methods and systems.
- Superior cost-monitoring skills which John has from previous experience.

However, atmosphere throughout CP is not good, staff attrition rates have been high, people seem to derive little satisfaction from their work, many lack skills and ability and confidence levels are low. Leadership competency seems to be a considerable issue for John and should be addressed. A combination of approaches would be appropriate to this situation. Hersey & Blanchard's 'telling style' of leadership for followers at low readiness levels is appropriate in this situation, as many staff appear to be unable or unwilling, perhaps because of a lack of knowledge, experience, skills or insecurity, to take responsibility for their own task behaviour. This style would be important to adopt because it is likely that many workers will not know what to do. A highly directive style, it involves giving explicit directions about how tasks should be accomplished. A supportive leadership approach as defined by the path-goal theory would be important and necessary if confidence and morale are to be established amongst the team. It would be important for John to be specific, telling people exactly what

to do, how to do it and when to do it and to commit to initiatives that will help the team to grow and improve their personal as well as their work lives.

The management of key account sales is of strategic importance to CP but it appears to be lacking in this area. This is highly relevant because of the cost of acquiring new business, the increased professionalism of buyers and the expectation of buyers. While Mary possesses some of the skills and qualities she is lacking in some important areas e.g. selling skills, negotiation skills and business awareness. Also, the development of CP’s business within the EAC and further afield would require sales and marketing staff that can function in different cultural and linguistic contexts. Conscious management attention to the task of building strategically relevant internal skills and strengths into CP is one of the central tasks of building CP and the effective implementation of its strategy.

1.5 SWOT ANALYSIS

	POSITIVE	NEGATIVE
INTERNAL FACTORS	STRENGTHS Pasta concepts product portfolio Knowledge, skills and attitudes of partners Core competences Packaging techniques and capabilities Customer base Innovation Logistics (means of transportation and distribution, storage etc.) High standards for food quality, safety and sustainability Service culture Product development Quality ingredients Flexible modern manufacturing facilities	WEAKNESSES Cost base/ productivity Lack of market presence abroad Inadequate growth strategy Key account sales management Organisation climate Skills levels/ new skills requirement Staff training and development Team leadership Excess production capacity Labour intensive Market forecasting

EXTERNAL FACTORS	<p>OPPORTUNITIES</p> <p>The reputation of Ireland for food products Growing consumer interest in gourmet food and in fresh chilled food in particular Demand for cheaper options Political & regulatory development Availability + exploitation - new technologies Provenance Political will supporting the industry Demand for new products (re nutrition health/weight , convenience, organic, fair trade, ethnic, nostalgic etc.) Innovation/ investment in R&D Consumer trends and social changes</p> <ul style="list-style-type: none"> • Demographic change • Growth in niche markets • Changing lifestyles • Healthy living • Sustainability • Increasing penetration microwave ovens <p>Market developments</p> <ul style="list-style-type: none"> • the competitive food retail environment/ power balance • food safety and supply chain integrity • rationalisation of the supply base <p>International competition Opportunities for new businesses combining pharmaceuticals and food manufacturing Changing demographics Industry productivity initiatives Advanced operating systems</p>	<p>THREATS</p> <p>The economy /consumer and trade financial pressures Financing, cash flow, debtor risk Restricted bank credit facilities Exchange rate volatility Increasing competition Rising energy costs Consumer preoccupation with price Increasing buyer power Increased competition, domestic and international Political and regulatory development Multiple store retailers private label focus Substitution threat (retail) Cost conscious consumer and trade channels Global demand increase for commodity food products Rising ingredient prices Grain harvest in China impact on global wheat price Chilled pasta Negative press comments</p> <p>Increased regulation of the industry Changing demographics/population decline - emigration</p>
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1.4 SUMMARY KEY ISSUES

1) Core competencies:

Ensuring superior implementation of strategy

Leadership

HR strategy – deal with low skills and morale issues etc

Key account management

Strengthening existing competencies

New skills requirements

Supply chain practices

2) Competitiveness:

Defend existing revenue and profit levels

Customer base consolidation.

Price competitiveness Increasing buyer power

3) Market development: the export opportunity

4) Productivity initiatives/ excess production capacity

5) Consumer/ trade sector trends: Product development: niche market opportunities; health conscious consumer

6) Establish technology priorities

7) Increased regulation.

8) Optimisation of logistics infrastructure and systems.

9) Financing and cash flow

Extended credit terms/ control of debtors

10) Need for continuous innovation.

2.0 CURRENT STRATEGY

2.1 Gap Analysis

From the evidence available, current strategy does not adequately address many of the issues identified above.

CP's mission statement states it simply to be a nationally recognised leader in distinctively flavoured premium quality gourmet pasta.

- This restricts CP's ambition to only the domestic market.
- This restricts CP to pasta related products only and does not address other gourmet food niche opportunities currently prevailing in the market.

The company states it is focused on the establishment of a satisfying work environment where everyone is recognised as being equally responsible for the company's success. The evidence is that the direct opposite is the case with little evidence of solid team leadership skills.

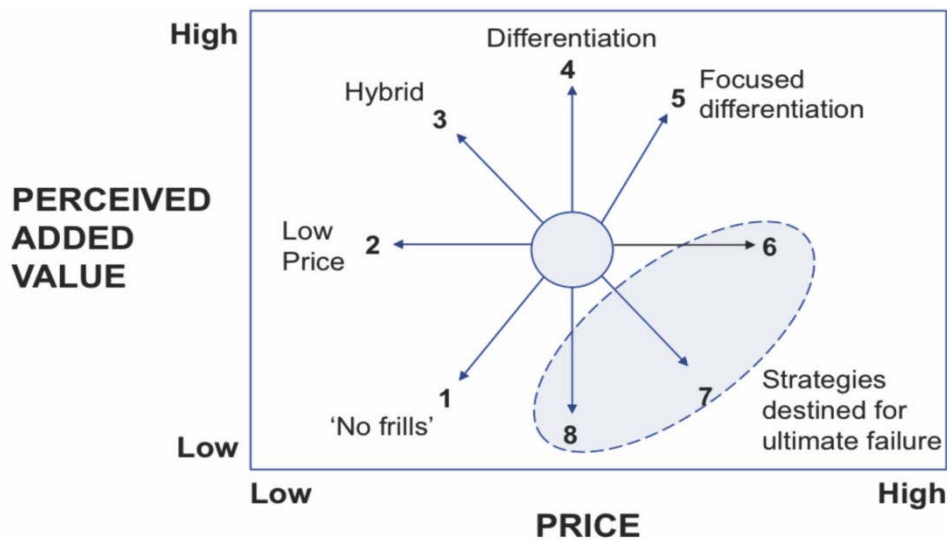
3.0 BASES OF A COMPETITIVE STRATEGY

There are three main types of strategic decision CP has to take

- 1) Generic strategy decisions (What basis?)
- 2) Alternative directions (Decisions covering alternative growth options/directions)
- 3) Alternative methods (How?)

3.1 COMPETITIVE STRATEGY OPTIONS

Bowman's Strategy Clock



Customers have a tremendous amount of choice today. CP's task is to find a competitive edge and meet customer needs better than the competition and gain competitive advantage over them. The above figure represents Bowman's eight different strategies that are identified by varying levels of price and value.

Position 1: Low price/Low value.

Firms that compete in this position because their products lack differentiated value. To be successful adopting this strategy is through cost effectively selling volume, and by continually attracting new customers. Products tend to be inferior but the prices are attractive enough to attract consumers, at least some of the time.

Position 2: Low price

Companies adopting this strategy are the low cost leaders. Prices are down to the bare minimum and the very low margins are balanced with very high volume.

Position 3: Hybrid

This strategy offers products at a low cost, but provides a higher perceived value than those of other low cost competitors. Volume is also important here too but firms build competitiveness on offering fair prices for reasonable quality. This combination can attract loyal customers.

Position 4: Differentiation

Adopting this strategy means offering customers high perceived-value. To be able to afford to do this they either increase their price and sustain themselves through higher margins, or they keep their prices low and seek greater market share. Branding is important with differentiation strategies as it allows a company to become synonymous with quality as well as a particular price point.

Position 5: Focused differentiation

This strategy provides high perceived product benefits, typically justifying a good price premium, usually to a selected market segment (or niche).

Position 6, 7 & 8: Strategies destined for ultimate failure

Conclusion

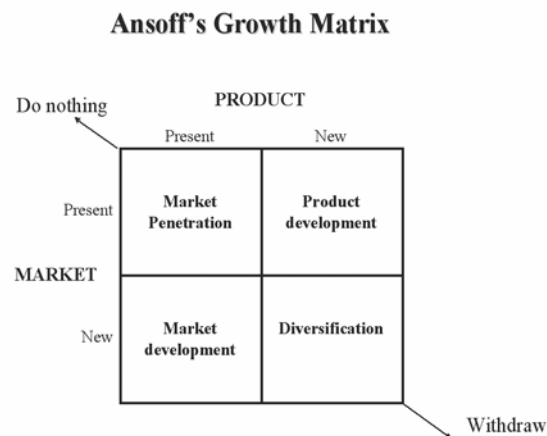
CP is a speciality premium food manufacturing operation focusing on refrigerated/chilled pasta and pasta sauces. Positions 1, 2 and 3 on the strategic clock are not appropriate for CP, it doesn't have the scale economies; it doesn't have the cultural fit; it doesn't have the necessary capacity; and there is no opportunity to build a sustainable competitive advantage.

Position 4 (differentiation strategy) is also not a good fit for CP on the basis that products are niche, require a relative premium price and are not mainstream.

Position 5, focus-differentiation, offers the best option for CP, in that it can provide sufficient product benefits to justify a price premium. This can be justified by the fact that increasingly the market for food is becoming segmented and it is generally agreed that future growth will be in the demand for specialist products in niche markets including ethnic, organic and vegetarian foods.

As a small specialist food processor CP should pursue the development of products that add value. This strategy would entail selling a narrow, specialised range of products aiming for the high-end, high-price market matched for example with a customer interest, and focus on safety, health, nutrition, convenience and provenance etc., where it can compete more effectively.

3.2 *Alternative Directions*



Ansoff's matrix offers a range of growth options for CP in that it provides a basis for an objective setting process and sets the foundation for directional policy for its future.

a) Do nothing

This involves the continuation of CP's existing strategy which is not a realistic option given the nature of change in the food industry at this time.

b) Market penetration:

It is essential in the difficult trading environment that CP moves as best as possible to consolidate its position in the market given the threatening nature of the trading environment and the intensifying competitive rivalry.

- Tighten the focus on existing customers, improving quality and undertaking activities that underpin customer value, such as being more indispensable in terms of services provided to retailers.
- Manage retail price-points carefully.
- Manage costs down in a meaningful way. Enhance productivity so as to maintain a competitive edge e.g. automation of production and other processes to decrease dependence on human resources and transfer activities to self-service facilities for customers where appropriate.
- Optimise logistical infrastructure and systems and energy saving measures through new technology and materials should be considered; new production methods and good-practice implementation.
- CP should continue to develop its products and its business model so as to increase value added to meet the growing demand for specialist niche products.
- Managing for value should be a key process. Resources should be allocated and reallocated where the best results can be achieved as measured by total shareholder return.

c) Product development:

Another strategic option for CP is to continue to develop new products. This will involve developing new products for its present market, significant new product development and not minor changes for an existing product of CP. There appears to be a real opportunity for CP to reposition itself away from just a pasta company to a provider of convenient gourmet food products and this might begin the process by testing say two new product lines outside its core pasta/sauce business. The gourmet food market segment is growing rapidly as time-starved consumers seek high quality quick-meal solutions. With CP's staff of senior chefs and flexible manufacturing facilities it is positioned well to bring new innovative products to these consumers.

This would help CP utilise excess production capacity and maintain the company's reputation as a product innovator while protecting overall market share. Such a strategy could also move CP into markets and towards customers that are currently not being catered for.

The strategy may require the development of new competences.

d) Market Development:

Following a market development strategy provides a real growth opportunity for CP. This would involve moving beyond its immediate customer base towards attracting new customers in selected international markets for its existing products. The successful exploitation of Ireland's strong reputation international image for food products through the good use of information and communication technologies, alongside expert assistance from Bord Bia, could provide CP with a significant step forward in its development. However, given the relatively short shelf life of chilled refrigerated food, it will be essential to have access to an efficient and effective logistics provider at an approachable cost. A useful first step would be to explore the opportunities provided in Northern Ireland and the UK mainland, because of their proximity and likely similarities in consumer tastes.

Given the consumers significant sensitivity to price today, CP should also explore the possibility of adopting different pricing policies to attract different customers or create new market segments.

Both opportunities may require new competencies.

e) Diversification:

Taking this approach the firm grows by diversifying into new businesses, developing new products for new markets. A high risk strategy, there is no obvious opportunity for CP at this time.

f) Withdrawal:

2.4 *Alternative Methods of Growth*

- a) Growth through acquisition in order to strengthen competitiveness, to achieve economies of scale and perhaps even outside the pasta business. There is much room for consolidation in the industry and it would be in the interest of CP to be on the lookout for a suitable acquisition that would bring a host of benefits such as increased value generation, increases in cost efficiency and an increase in market share.
- b) Be acquired to stay competitive if CP lacks the necessary financial resources or skills to make suitable acquisitions.

- c) Continue to specialise to remain independent, focusing on products where competitive advantage and differentiation from competitors can be achieved.

3.0 *Summary recommendations.*

- 1) Adopt a focus differentiation strategy.
- 2) Growth strategy: Adopt the ambitious growth strategy outlined, which involves a combination of consolidating and defending their existing position in the market and penetration further product development, addressing the opportunity to reposition the business away from just a pasta company to a provider of convenient gourmet food products and market development with a move into export markets. This will potentially help to resolve the plant utilisation problem.
- 3) Work environment: CP is committed to superior customer service and the establishment of a satisfying work environment. However, its work environment is not great at best and is likely to be impacting on the quality of customer service. John's leadership skills are at question here and he clearly needs to be up-skilled in this area. A combination of approaches would be appropriate to this situation. Hersey & Blanchard's 'telling style' of leadership for followers at low readiness levels is appropriate in this situation alongside a supportive leadership approach as defined by the path-goal theory to build confidence and morale and a range initiatives to help the team grow and improve their personal and their work lives.
- 4) Core competencies: Superior strategy implementation will enable CP to compete more successfully. However this will require building competencies the competition can't match. Conscious management attention needs to be given to building relevant skills - the new types of skilled staff as identified. Training should be of strategic importance in efforts to build CP's skills-based competence especially where technical know-how is changing or advancing rapidly.
- 5) The management of key account sales is of strategic importance to CP. Mary appears to have a weakness in this area and this needs the intervention of a well chosen key skills development programme
- 6) Labour productivity (gross value added per employee): Clearly this is an issue for the industry in Ireland and for CP. The company needs to continue to automate its plant and processes and bring in new technologies so as to pave the way for a more

effective form of production and the development of new products. A programme for low skilled workers will be required as productivity initiatives fall into place.

- 7) Proactive Innovation: Innovation is widely recognised as vital for success in the added value food sector. Tidd et al's four routes to explore when searching for good ideas are helpful i.e. product innovation; process innovation; positioning innovation; and paradigm innovation.
- 8) Technology assimilation: In the absence of sustained investment in technology advances, CP could very easily expose itself to serious external and indeed internal competition. CP's future very much lies in its ability to use technical know-how, in developing its capacity to adopt and exploit new technologies and while doing so, improve quality attributes to maintain and increase its share of the market.
- 9) Debtor cash flow management: Cash flow management is critical not just to business performance but to survival in today's difficult times. Accounting software can be very helpful but there is no substitute for shrewd management to boost cash flow and reduce liquidity risk. Never has it been more important to have a solid debtors and sales income management system in place, with the objective of obtaining payment from customers as fast as possible, improving cash flow and minimising the risk of bad debts and not being paid at all.
- 10) CP would benefit from working with Rwanda Development Board (RDB) and with the Ministry of Agriculture and Animal Resources. The government is working towards growth' for agri-food and in short encourages cooperation, not competition between players in the industry, innovation leading to differentiation, and brands built around customer feedback, and all under an umbrella strategy that everyone can agree on.

In essence CP should work on developing its social capital.

SOLUTION 2

Purpose of the question:

To test:

- Knowledge and understanding of Porter's value chain concept and ability to apply it to a specific firm (Creative Pasta).
- Ability to identify the factors that are important in determining Creative Pasta's ability to survive and prosper.

Comment

Take care to show understanding of the value chain concept. Whilst it is easier to deal with the primary activities of Creative Pasta, it is all too easy to fail to place the secondary activities of the company in their appropriate positions. Address the important two questions, a) what do customers want? and b) what does CP need to do to survive competition?.

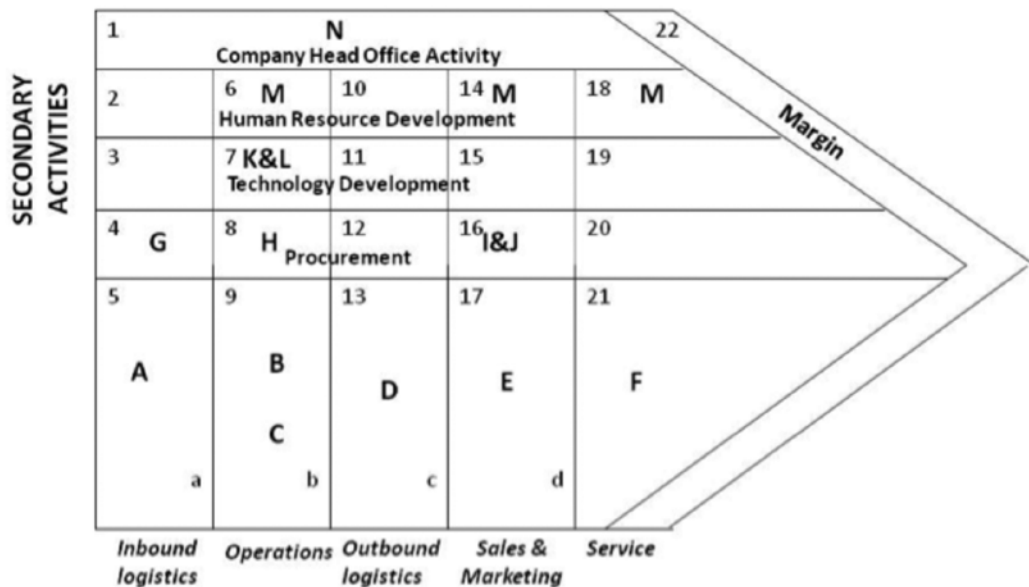
The primary activities of Creative Pasta include:

Primary Activities	Description
Inbound logistics	A The receiving and warehousing of various ingredients, material and packaging and their distribution to the processing plant as needed.
Operations	B The chefs look after the creation, preparation and presentation of the various products. C The chefs exercise strict standards of quality production, presentation and hygiene in the processing plant kitchens
Outbound logistics	D The physical distribution and storage of finished products
Sales & marketing	E The sales and marketing staff focus on creating profitable business growth, new product development and work closely with customers to understand their emerging needs, whilst liaising internally to ensure the delivery of innovative solutions in line with customer requirements.
Service	F Support of customers after products have been sold to them

Secondary activities of Creative Pasta include:

Secondary Activities	Description
Procurement	G The sourcing and purchasing of wheaten flour, olive oil, packaging and various other ingredients etc.
	H Processing equipment
	I Website design, development/ management and hosting
	J Printed promotional material
Technology Development	K The food technologist manages and further develops the manufacturing processes and recipes and works on existing and newly discovered ingredients to invent new recipes and concepts
	L Developing 'technology' and systems for food production
	M Staff training
HRM	M Staff training
Head office activity company	N The making of strategic decisions, acquisition of capital and organisation of the company

Creative Pasta Value Chain



In the environment where CP operates, competitive rivalry is high, so it has to be very clear about the critical activities it has to undertake if it is to distinguish itself successfully in the market place and create a competitive advantage.

The key success factors are the key areas where things must go right for Creative Pasta if it is to be successful.

- 1) Quality: A commitment to producing products to the highest possible quality standards, the implementation of which begins at supply source and ends at point of sale and includes investment in research, traceability and marketing, making CP well placed to provide quality food products. Consumers are placing a high premium on quality and provenance.
- 2) Being informed/ Research: The ability to identify and anticipate what customers want and satisfy them profitably is central to CP's growth trajectory. For example some companies have responded to recent changes in consumer demand for healthier foods by lowering salt content and using more whole grains.
- 3) Innovation: There are many drivers impacting how consumers today make choices about the foods they are prepared to spend money on. To be successful, CP needs to respond to these drivers by developing new and innovative products. Whereas yesterday's food market was driven by taste and safety, today's consumer is driven by taste, safety, health and well being.

CP has been an innovative company right from the outset and possesses a number of important competencies that makes it well placed to make a significant contribution to perceived customer benefits.

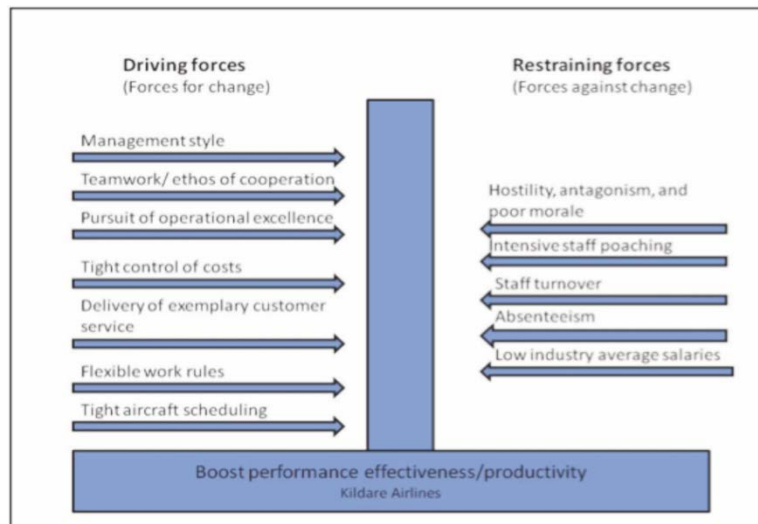
Competition is a major determinant of innovation. It has never been as intense as it is today in a global marketplace where many businesses face weakening demand, cost pressures, pressure on pricing and numerous other drivers of change. Competition encourages the adoption of innovation. CP seeks to make progress in its competitiveness so as to prosper and grow in the marketplace. Innovation can help it to stay fresh and perhaps even to reinvent itself if required as conditions in the marketplace change. Innovation could potentially kick starts the real possibility of new markets, enabling CP to reach new customers with current products and services and to offer existing customers attractive and sometimes exciting new products and services. This is why innovation is such an important strategic issue for the company.

- 4) Value: For CP this entails making products and providing services that customers find consistently attractive. In today's economy, value creation is based typically on product and process innovation and on understanding unique customer needs with ever-increasing speed and precision. To deliver value to for example a supermarket chain, CP must consider its "total market offering." This includes not only CP's product benefits but also CP's reputation, its personnel, and technological characteristics, as compared to competitors' market offerings and prices. CP's value proposition can thus be defined as the relationship of CP's total market offerings to those of its competitors. This involves setting superior product and customer service standards, establishing the highest possible levels, without eroding profit targets.

Persuading the target market and trade channels of the value of CP's products and services – allowing the company to justify higher prices and bring in new business. In the best of times it can be difficult for CP to bring in sales, but today the difficulties are much greater as the amount of pressure bearing down on buyers to rein in costs has made them seem little interested in anything but price. Under such pressure customers may only look at price and not listen to the sales pitch or indeed believe in the superior value of what's on offer. CP's total offering may actually provide superior value, but if CP doesn't claim and demonstrate the benefits and savings involved, then the buyer may overlook the totality of the value proposition.

These factors are perhaps best exemplified in boxes 9, 17 and 7 in Creative Pasta's value chain above. The company have many of the core competencies critical to achieving an advantage in these areas.

SOLUTION 3: SPECIMEN ANSWER



Operating on the edge of failure and in crisis mode, probably accounts for Kivu Airlines dictatorial ‘produce or perish’ authoritarian style of management. However, the company’s situation has improved and it is important to recognise, particularly as a new manager, that people often have legitimate and rational reasons for resisting change and it is important not to enforce change through a wall of resistance. A force-field analysis will help to evaluate and confirm the forces for productivity and those resisting it in the company.

The driving forces for boosting performance effectiveness and productivity in the airline and the attending restraining forces are outlined above. With the adoption of a more egalitarian management style and by minimising or perhaps the removal of many of the forces restraining performance, the driving forces should be strong enough to attain the desired goal. This may be achieved by taking time out from the usual day-to-day operations to engage in problem solving, training and development.

Kotter and Schlesinger outline four reasons that certain people resist change: parochial self-interest; misunderstanding (communication problems; inadequate information); low tolerance to change (certain people are very keen on security and stability in their work); and different assessments of the situation (some employees may disagree on the reasons for the change and on the advantages and disadvantages of the change process)

In the short term, output may be lowered further. However, as a commitment to new more positive attitudes emerges, then they may become new driving forces, and along with the elimination of the hostility and the apathy, will tend to move the balance towards improved performance effectiveness.

Communication and education, participation and negotiation should be tried to melt resistance. Up-front this will help employees see the logic in the change effort and will reduce unfounded and incorrect concerns and rumours concerning the effects of change in the airline.

Participation and involvement would be helpful if the new CEO at KA is not completely happy with the changes being implemented and feels he doesn't have all the information required to decide the adequacy of the initiatives in place. Also with employees involved in the change effort they are more likely to buy into change rather than resist it. However, some level of employee involvement would be appropriate given the history.

Facilitation and Support: If some are resisting change due to adjustment problems, the CEO could arrange to head-off resistance by being supportive of employees during this difficult time, helping employees deal with fear and anxiety during a transition period. This approach is likely to involve the provision of special training, counselling, or even time off work.

Negotiation and Agreement: Where an individual or a group of employees may lose out because of the change and where they have considerable power to resist, the CEO and his management team can combat resistance by offering incentives to employees not to resist change. This approach would be appropriate where those resisting change are in a position of power

Only when absolutely necessary should coercion be used, especially given recent history in KA. It would appear that the management style of the former leader was brought on by a crisis of survival in the airline and the need for quick solutions. As an outcome to the exercise it may be also necessary to consider intervening variables such as the career path of employees being made more interesting and if profitability levels allow, provide an increase in salaries. It would also be important to consider not only short-term goals but also long-term goals.

Approach	When to use	Advantages	Drawbacks
Communication, education	<ul style="list-style-type: none"> • Users need accurate information and analysis to understand change. 	Once convinced people will often assist with the implementation of the change	Can be very time-consuming if lots of people are involved
Participation	<ul style="list-style-type: none"> • Users need to feel involved. • Design requires information from others. • Users have power to resist 	No other approach is said to work as well with adjustment problems	Can be time-consuming, expensive and still fail
Negotiation	<ul style="list-style-type: none"> • Group has power over implementation • Group will lose out in the change 	<p>Sometimes it is a relatively easy way to avoid major resistance</p> <p>Can be a relatively quick and inexpensive solution to resistance problems</p>	Can be too expensive in many cases if it alerts others to negotiate for compliance
Coercion	<ul style="list-style-type: none"> • A crisis exists • Initiators clearly have power. • Other implementation techniques have failed. 		Can lead to future problems if people feel manipulated as is the case in KA

SOLUTION 4: SPECIMEN ANSWER

- a) AC operates in an environment where there is a need to move quickly in response to rapid change. In such a dynamic environment, it is essential that the company recognises the importance of investing in their employees and to understand that to succeed they have to place a major emphasis on developing and retaining their people. Those companies that appreciate the financial impact of their employees often refer to them as human capital.

Human capital is the economic value of the knowledge, experience, skills and capabilities of employees. Critical for AdvanceComs in its fast changing world of consumer internet infrastructure technologies is how to create value. AC's value derives from its knowledge, know-how, intellectual assets, competencies – all imbedded in its people. This is the human capital, the individual capabilities, knowledge and experience of AC's employees and managers. It is the knowledge that is relevant to the task in hand, as well as the capacity to add to their reservoir of knowledge, skills and experience through learning. This can be achieved by the attraction, retention and leveraging of human capital in a way that will guard against obsolescence in the company, creating and developing products and services of value over time. In recent times AC's attempt to outrun obsolescence in its very own in-house developed operating system failed. In this industry there is a real need to constantly keep product ranges up to date, bearing in mind that the average life cycle of many can be as short as two to three years. For AC, the hiring, training, motivation, compensation and retention of talented employees are essential.

More than ever, a committed, engaged work force generates value for the company and loyalty among customers, which explains much of the fierce competition for top talent likely in many industries. To build human capital, AC requires a clear and compelling strategy that will:

- Find the best talent,
- Enhance their skills and knowledge with training programmes and opportunities for personal and professional development,
- Provide compensation and benefits that enhance the sharing of knowledge and
- Rewards people appropriately for their contributions.

- b) Social capital refers to the quality of interactions among teams and whether they share a common perspective.

To build social capital, AC should strive to build relationships based on honesty, trust and respect where people cooperate smoothly to achieve shared goals and outcomes. AC has a definite need to find alternative markets i.e. smart-phones. One of the ways it can do this is by building the necessary social capital critical to the sharing and leveraging of knowledge, in essence diversifying the ownership of vital knowledge around the business and emphasising teamwork. This is about how the stock of talent is combined and leveraged in AC. Competitive advantages are likely to be harder for competitors to copy if they are based on “unique bundles” of resources. So if AC is effectively working as a team and sharing knowledge and learning from each other, not only will they be more likely to add value to the firm, but they will also be less likely to leave the organisation because of their loyalties and social ties developed over time.

AC’s ecosystem includes all employees, outsourced labour, customers, suppliers, shareholders, etc, and includes their powerful new strategic partner Rockland Systems. This is their social capital and the energy that powers the business and is essential to its competitive advantage. With a high level of social capital they will be better informed, more creative, more efficient, and better problem solvers. Their people will save time because they know where to get the information they need and will not duplicate efforts. With the right networks both internal and external to the company, they will foster cooperation and collaboration, in essence working smarter and in that way creating competitive advantage that will be difficult to imitate.