INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.1: STRATEGY AND LEADERSHIP

MONDAY: 28 NOVEMBER 2016

INSTRUCTIONS:

1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has two sections; A & B.
3. Section A has one Compulsory Question while section B has three optional questions to choose any two.
4. In summary attempt three questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings.
7. All iCPAR Examination rules and regulations apply

SECTION (A)

Compulsory question

QUESTION ONE

Gift Mugisha is the Managing Director of Kigali Beauty Products Limited (KBPL). The Company was founded in early 2000, when Gift and his wife Genevive Mugisha returned from France where they had lived for over twenty years. Following the graduation of their twin sons at the Prestigious University of Paris, the couple decided to return home and set up a business.

Gift and Genevive had hardly settled in Rwanda when they learnt of a Kigali Consumables Ltd (KCL), a conglomerate that was disposing of its business unit that dealt in beauty products. KCL had decided to divest one of its business units with a view of focusing its energies in the growing real estate business in Rwanda. In a press statement issued following the board resolution on the divestiture, the company noted that the changing macro-environment in Rwanda was not favourable for fast moving consumer products. In addition, the firm had re-defined its strategic direction to focus on real estate.

The couple quickly mobilized their savings, topped up by additional funding from some relatives plus a bank loan and paid up in full for KBPL, which was hitherto a subsidiary of Kigali Consumables Limited. KBPL's main products are fast moving beauty items such as creams, gels, vaseline, and body oil all of which had been in production by the KCL conglomerate for over two decades. In addition, the company distributes beauty equipment such as nail cutters, combs, scissors, mirrors and beauty brushes. The equipment is mainly procured from China, Hong Kong and UAE and sold by KBPL as an agent.

Given his experience as a beauty sales man in Paris, Gift was convinced that he would successfully run KBPL. He would also rely on his massive European contacts to identify suppliers and establish relationships which would benefit KBPL. His plan was to add value onto the imported equipment by branding it in order to create customer loyalty and to increase the company's visibility in Rwanda. KBPL would also sign up sub-agency agreements with beauty parlours and other retail outlets in Rwanda for the distribution of the branded equipment. This, according to the plan would give KBPL significant advantage in terms of distribution and serve as a competition enabler.

Upon taking control of the company, Gift appointed his wife as the Deputy Managing Director, while he continued to hold the portfolio of Chairman, Managing Director and CFO all combined. The twins who had graduated a year earlier were also appointed to the company's Board as non-executive directors.

The first few months following the takeover were characterized by uncertainty on the part of the staff, with rumours doing rounds that most staff were to be fired. This ultimately was not the case as only about 10% of the staff lost their jobs, and these were generally senior managers. The argument from the new owners at the time was that there was need to reduce operational costs so as to operate more efficiently. At his first meeting, Gift tried unsuccessfully to convince the staff that the new measures were aiming at making the company more sustainable in the long run. Whereas most staff did not lose jobs when the new measures were implemented, they had to settle for a pay cut as new salary scales were introduced two months after the take-over. In addition, some staff benefits, such as over time and weekend allowances were scrapped. Unconvinced about these arguments, the staff staged a non-violent sit down strike. After two days, management relented and agreed to suspend the new salary structure with all staff reverting to their old pay. What looked like a victory, however, soon turned sour as the perceived leaders of the strike started being dismissed one by one over various employment related offences. Ironically, no disciplinary hearings were held for any of the dismissed staff. It is understood that at least two of the five persons dismissed have since filed cases in court, suing the company for wrongful dismissal.

Amidst these uncertainties, KBPL's operations have continued to struggle with the draft financial results as at June 30, 2016 posting losses for the third straight year. The locally manufactured beauty products have particularly been performing poorly, with some market reports accusing the company of using substandard raw materials that could be potentially hazardous to the public. This and other negative media coverage have affected the company's sales, as beauty parlours have shunned stocking the products. Matters were not helped by the company's failure to meet its loan obligations, with a leading commercial bank in Rwanda reportedly considering attaching the company's assets over loan default. Approximately 40% of the acquisition deal had been debt financed. With interest rates having been on an increasing trend in Rwanda for the past two years, KBPL has found it increasingly difficult to service its debt obligations, therefore leading to default on its loan repayments. Insider sources now claim that the lending Bank has issued a final demand notice preceding the termination of the security.

With these mounting challenges, Gift is considering further cost reduction measures, but he is equally concerned about the marketing aspects. Some junior staff suggested that the company should exit the beauty products since most of the products had been in production for a long time and were no longer appealing to the "trendy" Rwandese. In response, the MD argued that duration does not matter, for as long as appropriate marketing strategies could be devised.

Look he argued *"introduction of new products when we have failed to sell what has been in existence for decades is illogical. What we needed is critical analysis of the product life cycles and to devise appropriate responses."*

Asked by Genevive about how this would work, Gift was unable to articulate his thoughts. In response, the wife said *"We need to be more focused. We cannot continue being everywhere and nowhere in particular. Yes, we inherited a company that had its own challenges, but we have the ability to put things right. We should first ask ourselves, where do we see the company in the next few years? What is it that makes us distinct from the rest and what do we stand for? Yes, we are here to serve the Rwandan market, but who do we see as our main customers? It may not be realistic to go after everybody in the market. We should consider formal assessment of the market, and then decide on which segments we should focus on. Answers to these questions will help us resuscitate KBPL."*

The comments from the wife triggered some deep reflection from Gift, who immediately decided that henceforth, Genevive was to be in charge of the cost rationalization aspects, general administration and stores management. He also resolved to dedicate more time to marketing aspects which he thinks will shape the company's future in the next few years as noted by his wife. Of late, he spends most of his time in the selling role and in customer care which he rates as a major contributor to the company's success and the major source of strength for KBPL. He believes that the marketing and sales function is the only department that should have more than 20 staff since these are the people that generate revenues. Challenges aside, Gift is proud that much of the business is built on his personal relationship with the key clients. There is a considerable amount of customer loyalty which is mainly attributable to Gift's personal business network, especially in Kigali.

With most of the products purchased from abroad, Gift and his wife often use their personal bank accounts to purchase stock, and later on obtain refunds from the company. However, given that the CFO also doubles as the Managing Director, these re-imbursements have not been well documented or accounted for. The matter was raised by external auditors in the management letter last year, but Gift responded that he and his wife were the shareholders and key managers who got to know when every shilling was being spent. Therefore, any benefit to them from the company was in order. External auditors also raised issues such as the need for a competent and empowered Board of Directors and the recruitment of professionals to man key departments. However, these were dismissed on the grounds that this would introduce unnecessary costs yet the company was on a cost rationalization strategy. The auditors were also shocked to learn that the staff canteen supplies are supplied by the Deputy Managing Director at prices that seemed to be above the market averages.

Gift has strong links with his Chinese and UAE based suppliers, who he has deliberately kept at a small number. Most of them are people he got to know while still working in Paris. This has provided the company with reliable and good quality beauty equipment, for which KBPL has exclusive distribution rights for some brands. For example, it has the sole rights to distribute a UAE made hair-dryer which is the most popular in Rwanda as well as Chinese "Barbie" combs.

What is puzzling management is that despite the perceived good relationships and customer loyalty regarding the beauty equipment, the same has not been replicated for the locally manufactured beauty products. Management notes that the Rwandan economy has been in a slump for the past two years, but research has shown that beauty products have inelastic demand. Therefore, there must be some other reasons to explain the poor performance. With slowdown in sales being registered, KBPL has also seen an increase in stock holding costs with some beauty products feared to be nearing expiry.

There are a few other international distributors in the same business, but these do not sell to the general public. They instead focus on whole sale trade. These firms have seen an increase in their volume of business and this seems to be affecting KBPL. They have particularly targeted the trendy Rwandans with their products marketed with the tagline "youthful beauty" as opposed to KBPL's own products that have been in production for over two decades.

Concerned by the current trend of affairs at his company, Gift is now seeking specialist advice. Although he is not known for his humility, he is now seeking professional management consultancy to the surprise of most observers, including his staff. He has even recruited a professional and relinquished the position of CFO. He has asked you to suggest some options for the board's consideration.

REQUIRED:

Assuming the role of the Accountant at KBPL;

(a) Prepare a report for the Managing Director, evaluating the current position of KPBL and highlighting any strategic issues which you feel should be brought to his attention. **(20 Marks)**

(b) With reference to the Cadbury Report, assess the extent to which corporate governance could assist KPBL in addressing the challenges being faced. **(15 Marks)**

(c) Discuss how the force field analysis could be used by Gift in dealing with change at KBPL. **(15 Marks)**

(Total 50 Marks)

SECTION B

Attempt two questions from this section

QUESTION TWO

(a) Evaluate the strategic options which could enable the Managing Director to restore the company to its growth path. **(15 Marks)**

(b) Explain how the concept of the product life cycle might guide marketing efforts at KBPL **(10 Marks)**

(Total 25 Marks)

QUESTION THREE

Write a memo advising the Managing Director on the following:

(a) The rationale for a mission in a company like KBPL and propose a mission statement for consideration by management. **(15 Marks)**

(b) How management by objectives would be implemented at KBPL. **(10 Marks)**

(Total 25 Marks)

QUESTION FOUR

Advise the Managing Director on the following:

(a) The distinction between market segmentation, market targeting and market positioning. **(9 Marks)**

(b) The possible considerations for KBPL, should they decide to segment their market. **(16 Marks)**

(Total 25 Marks)

End of question paper