
CERTIFIED PUBLIC ACCOUNTANT ADVANCED LEVEL 1 EXAMINATIONS

A1.1: STRATEGY AND LEADERSHIP

MONDAY: 05 JUNE 2017

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(3) questions to choose any two(2).**
- 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)

This is a compulsory question

QUESTION ONE

In 1999, Rwanda Telecom Limited (RTL) launched commercial services in Rwanda as a pioneer mobile telecommunications company. RTL has since grown to be the leading mobile telecom operator in the country, with the company listed among the largest tax payers in Rwanda. The company adopted modern wireless technologies which proved to be convenient and fast in delivering services to customers. This among others enabled the company to quickly win over customers.

Despite inadequate infrastructure (electricity, roads etc.) RTL has grown in size and the company now covers the majority of both the urban and rural population in the country. With the passing of the amendment to the Insurance Act, allowing for the introduction of micro insurance, RTL has now diversified into insurance. The company introduced RTL insure, a micro insurance product that is targeted at the low income earners. Premiums for this fast growing product are as low as Frw 500. Although RTL's micro insurance product still has a low market share, this market segment has high growth rates and many other companies are offering similar products. Current challenges notwithstanding, the product offers room for revenue growth, for as long as competition can be kept at bay.

As of December 2016, RTL boasted of approximately 5 million subscribers, with the company at the forefront of global technological changes, delivering bold, new digital solutions to the masses. As at the same date, the company revenues were reported to have increased by 15.4%, supported by improved earnings from the voice communication segment and strong data revenue growth. The short message service (SMS) on the other hand registered a decline of 14.6% as customers opted for new data driven social media communication platforms. This development positively impacted the mobile data revenue which increased by 57.4%. Insider sources suggest that mobile data revenues were largely spurred by simplified data bundles offered to the customers, upgrade of the internet browsing speeds and regional data exhibitions. Poor performance in SMS may be considered a blessing in disguise as the company spends a lot of money on technology and software to run the standard SMS platforms. These require more space on the server, and consume more bandwidth in transmission, hence the costs.

Mobile money on the other hand registered an increase in customer numbers, but this was not followed by a proportionate increase in revenues. The customers rose by 51% while on average 500,000 transactions were conducted monthly in the year ended December 31, 2016. The 51% increase in subscribers was one of the most remarkable in the mobile financial services industry within the region. Just one year after being launched in 2013, the service had already registered more than one million customers. This product still remains one of the world's most successful digital finance solutions. Ironically, for the year ended 31 December, 2016, mobile money revenues rose by only 15%, partly due to pressure on transaction fees and low usage of the mobile money platform. That said, it's difficult to understand why the massive increase in subscribers could not be translated into transactions.

According to media analysts, RTL's strong performance in data driven products is consistent with the market dynamics in Rwanda. A recent study found that the majority of Rwandans prefer social media communication channels to the traditional modes of communication. Given that approximately 50% of the Rwandans are below the age of 40 with strong interest in technology, this presents an opportunity that RTL seems to have fully embraced. Commenting on the results, the CEO Mr. Munyaneza said,

"I am happy to note that the results announced earlier today show a steady performance for RTL. Our focus over the last year has been on Network Quality, the rollout of innovative Products and Services and improvement of Customer Experience. We shall continue monitoring the user needs so that we fulfil our customer expectations contract. That's our philosophy at RTL. With regard to market changes, there is a strong shift towards data services, but this is a natural progression in the market that is consistent with the country's demographics. Looking ahead, micro insurance and mobile money services are areas we need to tap into for revenue growth. Of course voice communication and calls will continue to be the foundation of our services, but we have to find ways of addressing the increasing competition."

RTL's stated goal of becoming a top emerging market cellular network provider will be tested in the coming months as more players threaten its dominance in Rwanda. While Mr. Munyaneza believes that with romped-up capacity on networks the business is in good shape to reach that goal, its interim results for the six months ending June 2017 show market share losses in the voice communication segment, sale of phone handsets and poor performance in micro insurance. It is unclear whether this reduction has any relationship with the Government directive on the registration of sim cards. Some politicians have been vocal in criticizing the Government directive, particularly the short period within which the registration is to be completed.

RTL's market share in the voice communications declined modestly to 43% from 44% as the environment gets more competitive and mobile penetration deepens. Three more players - Zenith, Globacom and MTel are fighting for a slice of Rwanda's lucrative market of mobile phone users, with just 31% of the market currently having active phone numbers.

Rwanda Telecom also sells internet communication devices for between Frw 180,000 and Frw 250,000 while their monthly charges vary between Frw 85,000 and Frw 130,000. Zenith Telecom charges the lowest monthly charge while RTL charges the high-end price because its service is provided across as the superior 3G network as opposed to 2G offered by most of its competitors.

Competitors like Zenith offer affordable prepaid options with the possibility of loading as little as Frw500 to access an internet page for less than five minutes. Asked to comment on these market developments, RTL's business development manager said...

"In order for us to sustain our edge over the competitors, we decided to complement our market offering for data with a voice option.. With our cards, a customer is able to make calls from the data cards to mobile phones of their friends or relatives. Our main worry right now is how to keep the leadership position given the increasing operational costs arising from a highly competitive sector; spike in fuel prices, depreciation of the currency and persistent power outages amid low call tariffs. This has reduced the revenue margins on some products substantially and the pressure is becoming unbearable!"

REQUIRED:

- (i) Develop a competitive advantage profile for Rwanda Telecom Limited. **(5 Marks)**
- (ii) With the help of the Growth-Share Matrix (BCG) as a guiding tool, evaluate the performance of Rwanda Telecom Limited's product portfolio. **(12 Marks)**
- (iii) Advise the management of Rwanda Telecom Limited on the strategies that can help the company to retain its market leadership position. **(15 Marks)**
- (iv) For any one strategy recommended above, craft an implementation plan for the company **(8 Marks)**
- (v) Advise the management of Rwanda Telecom Limited on the key prerequisites for effective implementation of the selected strategy. **(10 Marks)**

(Total 50 Marks)
Page 3 of 8

SECTION (B)

Attempt any two questions from this section

QUESTION TWO

May 2017 marked the twelfth anniversary of the liberalisation of the health services sector in Rwanda. The anniversary offered a chance to look back at what the country has achieved in the health services sector over the past decade. According to the Minister of Health, the liberalization and de-regulation of the sector offered a chance to private investors to play their part in the development of the country, while at the same time offering jobs to the citizens. What he does not mention however, is that since the liberalisation, only a few high class hospital facilities have set foot into Rwanda. Indeed, only five major private hospitals have joined the health services market since then. These hospitals focus on the affluent class in society, deploy high end technological processes in health diagnosis, scheduling appointments and dispensing of drugs.

On the lower end of the market are the numerous small health facilities, also known as clinics that most of the citizens frequent. These facilities offer affordable health care services at low cost, even though there are reports of poor quality service. The National Standards Bureau recently reported that some of these clinics import substandard drugs. They were therefore cautioned to stop the practice or they risk being closed by the Bureau. For the top notch hospitals, in an effort to ensure quality of service, most drugs are imported from renowned European suppliers such as Glaxo Smith Kline in the UK, therefore guaranteeing quality. Of course this is reflected in the high cost of services to the clients, most of whom are covered under medical insurance schemes.

Other than the above facilities, the country also has a number of herbal clinics which focus on health diagnosis using traditional herbs and medicines. With increasing cases of life style diseases in the country, a number of people are opting to use herbal therapy to deal with their health complications. This development has led to increased competition in health services with modern medicine practitioners competing not only against each other, but also against the herbal medicine practitioners.

Whereas in the past it was not common for clinics to advertise their products, this is a common occurrence in both print and electronic media these days. For the big hospitals, their marketing efforts have extended as far as involvement in corporate social responsibility.

Commenting on these changing trends, Peter Kayuzi, the executive director of one of the hospitals notes as follows; “Today’s business environment is quite dynamic, with plans sometimes running out of date even before they are fully implemented. This is true not only for the macro environment but also for the micro environment. Customer tastes and preferences keep changing, supplier requirements vary, while competitors enter and exit sectors at will. This therefore calls for continuous assessment of the business environment so as to ensure that the right strategies are implemented at all times.

REQUIRED:

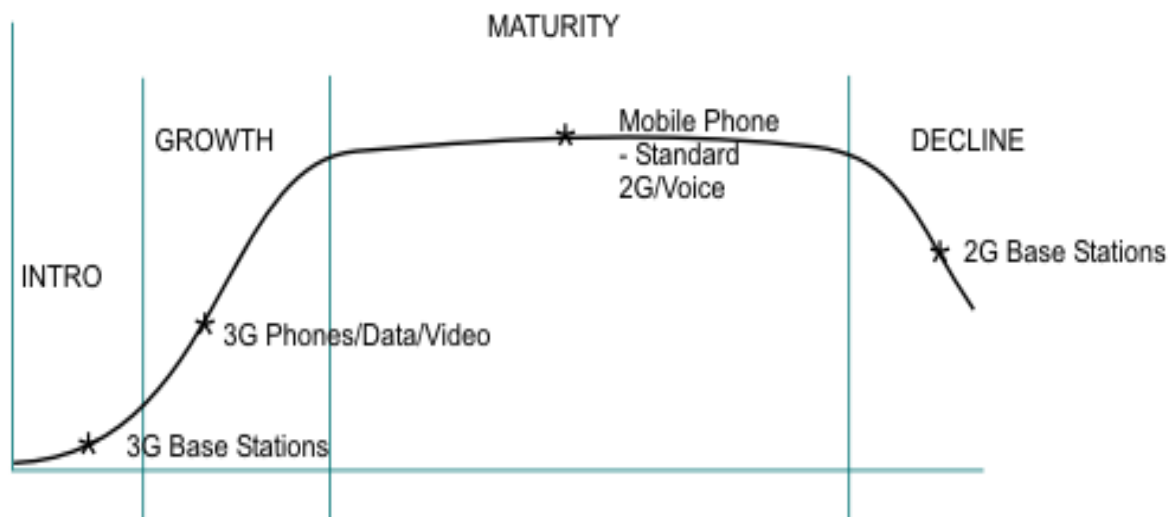
With the help of the five forces model, assess the level of competition in the health services sector.

(Total 25 Marks)

QUESTION THREE

Developments in the business environment such as regulatory changes, globalization and economic recessions have placed enormous pressures on companies to embrace change. This change is best illustrated in the telecommunications sector where technology has been enormously deployed for the betterment of customers' experiences during communication. Greencom Limited is one such telecom company that has leveraged technology as a competitive enabler in these changing times. However, according to Mr. Ngoga the executive director, these initiatives have come at a cost. *"Every time we try to introduce technological changes, tension and clashes between staff groups surface, while other staff simply sabotage the proposed initiatives. It is a delicate balance, trying to address the staff concerns while at the same time implementing change initiatives as a competition boost."* He lamented.

Following a directive from the executive director, Greencom Limited's business development department has conducted an assessment of the company's internal environment, with particular focus on the product portfolio. The team has plotted Greencom's products on the product life cycle as reflected in the diagram below;



REQUIRED:

Write a memo advising management at Greencom on the following;

- How to counter resistance to change (15 Marks)
- Strategies to consider for the various stages at which Greencom's products are in the Product Life Cycle. (10 Marks)

(Total 25 Marks)

QUESTION FOUR

Moviemax is a modern cinema business located in Kigali's upmarket shopping centre. The business is part of a global network of companies that specialize in cinema and theatre. With links to the major movie making centres such as Hollywood and Bollywood, Moviemax prides itself in offering excellent ambience for movie fans, while boasting of shows that focus on recent global releases in the movie world. Whereas the cinema has been in operation for the past two years, the business performance has generally been below par despite

significant commitment of resources to advertising and marketing. The company's Chief Executive Officer is of the view that this is just a temporary setback; otherwise the demographic characteristics of Rwanda are a perfect match with Moviemax's marketing strategy. Moviemax has therefore engaged you on a short term management advisory assignment, to advise them on what needs to be done to turn around the fortunes of the firm. Your preliminary discussions have revealed that Moviemax has never segmented its market, neither do they have a plan to conduct sales promotion, yet they claim to have a marketing strategy in place.

You have therefore decided that since this is a service firm, the starting point should be market segmentation and generation of a promotion plan.

REQUIRED:

Advise Moviemax management on how to improve their business basing on the following;

(a) How to apply the promotion mix in marketing. **(12 Marks)**

(b) The appropriate approach to market segmentation. **(13 Marks)**

(Total 25 Marks)

End of question paper

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