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**CERTIFIED PUBLIC ACCOUNTANT**  
**ADVANCED LEVEL 1 EXAMINATIONS**  
**A1.1: STRATEGY AND LEADERSHIP**

**DATE: MONDAY, 23 AUGUST 2021**

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**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.

## **SECTION A**

### **QUESTION ONE**

#### **Chili peppers in Rwoga State:**

Hot pepper (chili) dominates World spice trade, and sweet pepper has become a popular vegetable and cash crop in the tropics for small holder farmers in developing countries including Rwoga state. Chili Pepper is one of the important vegetable crops grown in Rwoga since it grows well in warm conditions and have a long growing season. In Rwoga State; five species are grown among them include frutescens, chinense, baccatum, pubescens and annuum both hot and sweet pepper (the most widely cultivated).

Different annual agriculture reports estimate that up to 50% of food is lost at postharvest stage in Rwoga state and the annual production of Rwoga state is estimated to about 2000 metric tonnes per year. Rwoga Chilli Pepper is expected to grow by 5% every year from 2020.

The chilli farmers report some challenges including frequent diseases of chili plantation, bad quality of seeds provided by importers, leading to complete replanting by some farmers and abandonment by others. The industry could change the lives of the farmers, the country economy and also attracts investments given the good soil characteristics of Rwoga Territory, but access to land remains a key challenge. On top of that, Rwoga farmers have an issue of accessing appropriate storage facilities.

#### **Creation of GAHP and its business expansion**

Gahama Horticulture Processing Ltd (GAHP) launched its business in Rwoga State on 23rd July 2007, with an objective to improve the quality of horticulture for export while improving the lives of farmers involved. This company was created by 3 entrepreneurs Gabiro Eric, Habimana Emmanuel and Malimba Damas where each of them contributed Frw 3,500,000 that totalled Frw 10,500,000 as capital. All members agreed to appoint Mr. Malimba Damas as the Chief Executive Officer (CEO) of GAHP.

The company started its business activities by focussing on purchasing of fresh horticulture products from farmers across the country and sell them with a small margin but their dream was to export their produces to other countries which was still difficult to realize. The major products initially focussed on were Vegetables (Tomatoes, beans, carrots, onions) & Fruits (Avocados, mangoes, pineapples, passion fruit, bananas, and strawberry).

In 2010, the CEO Damas had in mind an idea to find another product that can easily be exported since the current products are perishable. He hired a consultant to conduct a market analysis and design a new project with a purpose to grow GAHP ltd business. The analysis concluded that the Chilli products are very attractive to international markets and can be grown in Rwoga State easily.

In 2012, an integration of chili products project was developed by the technical team and proposed to be integrated as a new business under GAHP Ltd. The project was set to be completed in 4 years. A new project Coordinator Heinz KABA was hired and his key performance indicators towards GAHP products presence on international markets were developed and the progress were planned to be reviewed every quarter by the GAHP senior management.

The key challenges to start the project were the following:

- Investment for the project totalling Frw 1,050 million (details below) where only the company would afford 20% of it.

No	Investments needed	Amount in 'Frw Million'
1	Machinery and other process equipment	300
2.	Cold rooms	500
3	Drying facilities	100
4	Land and construction	50
5	Operation cost including remuneration	100
	<b>Total</b>	<b>1,050</b>

- Access to good quality of raw materials,
- Access to the international market,
- Production of quality products acceptable on international markets
- Recruitment of qualified and capable staff to start manufacturing facilities

The first step taken by Heinz, in the same year, was to organize meetings with chili farmers to have a collaboration framework. In this framework, GAHP would provide agriculture inputs (selected seeds & fertilizers), provide their technical assistance and purchase their production whereas farmers would supply their chili production to GAHP for value addition and sales. GAHP Ltd and 5 cooperatives of chilli farmers signed a framework agreement in eastern part of Rwanda State namely COMORWA, ISHYUKA, COCAMURWA, GAHABU and ZAMUKA.

In addition to the collaboration with farmers, key partners were mobilized by Mr. Heinz to support GAHP on quality compliance with international standards and training of staff involved in production. Those partners are Non-Government Organizations SWISAR & AGRO HUB supporting farmers through capacity building on standard farming practices to modernize their business among others modern farming, integration of mechanization and irrigation technologies in their activities. Different Commercial Banks also were approached but were not yet convinced about the success of GAHP new project; since it was too early to predict regarding the market reaction on new products.

Heinz approached Rwoga Government agency that promotes Small and Medium Enterprises (SMEs) and this agency agreed to support GAHP under Government facilities like other SMEs created by young entrepreneurs where they were facilitated to access seed capital of 1 million USD and were linked to potential buyers from Europe, Asia, and US through different forums and investors' events in Rwoga.

GAHP Ltd hired 10 staff who participate in the production and in a period of only 5 months, the company availed the first new chili products: fresh packed products, preserved and value-added products. Value added products are chili powder, crushed chili and chili oil. The local market responded positively since the first two years only the company was realizing on average sales of around Frw 200 million per month, in that second year Rwoga Standards Agency assessed their production chain and certified 5 of their products. The third year, 5 of the buyers in Asia, Europe and US started ordering products and in the same period the company's sales increased from Frw 2 billion to Frw 4 billion.

The success of products from GAHP made the management of GAHP happy and they promoted Heinz as the deputy CEO but the company still has obstacles to be handled to enjoy sustainably their business growth. The good performance of GAHP Ltd attracted other regional competitors who are building on quality of GAHP and supply poor quality of chili on international market faking the packages of their products to look similar to those of GAHP products.

Some GAHP senior managers are proposing different strategies: the first one was either to change the packaging and use the most sophisticated ones but were expensive and difficult to get in the country. The second option was to integrate the value chain including transportation up to the destination and creation of retailer stores in the countries of the destination but this also was costlier than the first choice. GAHP business model is built on cost saving and outsourcing rather than doing everything on its own.

**Required:**

With reference to the case above of GAHP Ltd, please answer the following questions:

- a) **Analyze the challenges GAHP is trying to solve with the new project and provide the project objectives?** (10 Marks)
- b) **Conduct stakeholders' analysis and the role of each in the GAHP Ltd business** (15 Marks)
- c) **Identify the project implementation challenges and how they can be mitigated.** (10 Marks)
- d) **Suggest project monitoring and evaluation procedures.** (10 Marks)
- e) **Describe how the project strategy is aligned with the overall strategy of the organization.** (5 Marks)

**(Total:50 Marks)**

## **SECTION B**

### **QUESTION TWO**

Urusaro ltd is a new company that wants to start its manufacturing activities on Rwandan market with new wine products. Urusaro Wine products are made from beetroots, banana, white and black grapes fermented.

The first products produced have been rated 3<sup>rd</sup> among the others during the wine tasting event officially launched on February 10<sup>th</sup>, 2020 in Kigali with over 14 different wines from Rwanda, France, Chile and Italy. These were tabled for clients including different dignitaries and CEOs from different companies.

The competitors of Urusaro Ltd are mostly importers of wines from South Africa, France, Italy and Spain. The recent trend observed proved that cases related to smuggling of illegal, fiercely strong alcohol brewed from bananas and other illicit beer are increasing even though they are banned by the Government.

The management of Urusaro Ltd saw a good opportunity in this industry since the Government is focussing on the health of people, standards quality compliance of all human consumed products in Rwanda. In addition to that; the Government is supporting the initiative of “Made in Rwanda promotion”, which aims to recapture parts of the Rwandan market from imports while improving the competitiveness of Rwandan exports globally. The country is supporting private businesses and the manufacturing sector by reducing operational costs, and helping small businesses, like Urusaro Ltd, get finance from the government or commercial banks.

During the preliminary market research, it was found that 80% of people interviewed who drink alcohol, prefer good quality wines compared to other alcoholic drinks since they are safer than other products on the market. Again, in total number of respondents; *50% were willing to buy* Urusaro products since they are locally made compared to other beers and liquors from abroad which their safety is difficult to predict.

In the country, the sales of alcohol generate a revenue of Frw 100 billion per year which is worth the investment of Urusaro Ltd and it is expected to grow by 7% every year due to the growing sector of tourism and hospitality bringing tourists from all the corners of the world who are among the big consumers of the wines.

Urusaro ltd wants to increase its share on the wines’ market. The company is expecting to develop a good marketing plan for the launch of its new products on the Rwandan market and organise well its marketing activities to achieve its business objectives.

**Required:**

**Prepare Urusaro ltd marketing plan that can be used to increase the market share in the wine segment**

(25 Marks)

**(Total: 25 Marks)**

### QUESTION THREE

Kaya Ltd is a South Korean company specialized in electronic equipment. The company manufactures Microcontrollers, Transformers and Batteries. Kaya Ltd was created in 1980 and has continuously expanded its business from a small company to a bigger multinational company with 10 subsidiaries in 10 countries of Asia and also uses over 52,000 employees. In 1980 Kaya Ltd started its activities focusing on the production of batteries and in 1990, it introduced the production of transformers. As the company engineers were continuously innovating in 2000 a radical change was observed where the company started a new production chain of microcontrollers.

Kaya management realized that the sales revenues & related margins are declining especially on its traditional products where in total batteries are generating 20 million USD/year with a loss of 5%, transformers generate 30 million USD/year with 5% of margin whereas microcontrollers generate 50 million USD/year with a margin of 20%.

In 2020, Covid -19 pandemic ravaged the world affecting trade across the globe where Kaya Business was also affected considerably and its sales reduced up to 70% owing to measures that were adopted by the Government to halt further spread of the virus including lockdowns. Kaya Ltd was on the first position among the companies exporting worldwide before Covid-19 pandemic but currently it is no longer among the best 10.

The Chief Strategy Officer (CSO) of Kaya Ltd organized a meeting to get a buy in of the management on the new product to be developed that can serve as a game changer. He informed the management that it is the right time to review the Kaya Ltd business strategy. Among the changes proposed included outsourcing another company from Philippines to supply microchips instead of wasting resources on its production to complete microcontrollers themselves. He proposed a new product to be developed looking at how the world needs them unconditionally to treat Covid-19 patients i.e. ventilator machines with a sophisticated technology.

The CSO informed the management that he has assessed their internal capacity to produce them and found them very easy to produce given the technology available in Kaya Ltd. On top of that he has contacted many wholesalers in many countries in Africa, Europe and Asia; all of them committed to send their first orders whenever the new ventilators are out. The final prototype has been finalized by Kaya engineers. Ventilators are expected to increase the volume of sales up to 5 billion USD/year and the profit margin is expected to reach 50% as per preliminary costing.

#### **Required:**

- a) **Examine Kaya Business products as per Growth Share Matrix and evaluate why it was necessary to review its strategy?** (10 Marks)
- b) **Explain why it is difficult for Kaya Ltd to survive despite good strategy maintained over the years if nothing is done?** (10 Marks)
- c) **Discuss how the strategy evaluation may lead to innovation basing on Kaya Ltd situation.** (5 Marks)

**(Total:25 Marks)**

## QUESTION FOUR

Scarpe Di Giuseppe (SDG) is an Italian family company specialized in shoe making and was created 150 years ago. Giuseppe family has been managing this company and passing the business from generation to generation.

Every type of the Giuseppe's shoes represents Italian traditional craftsmanship not only because they are handmade but also because of SDG's attention to details from the raw materials selection, to raw leather preparation and finally to shoe making.

SDG started its production from wood sandals and currently reached to a level of producing men leather shoes (boats, Oxford, monk strap, derby, slip-on) and men accessories including belts, bags and wallets.

Status of the SDG products:

No	Product	1900	1990	2000	2019	2020
1	woods sandals sales (million USD)	10	20	20	20	19.9
2	Oxford, monk strap and derby sales (million USD)	-	30	38	50	55
3	Slip-on and boots sales (million USD)	-	-	-	-	35
4	Men leather accessories sales (million USD)	-	-	-	-	40

*Here below is a quick description of their products and how different markets react on them:*

- SDG woods sandals production started in 19<sup>th</sup> century and are sold mainly in Italy since they are preferred by Italians as they are used mostly during cultural events. This type of shoes has not yet been changed to maintain pure traditional quality.
- Oxford, monk strap and derby men shoes production in 1990, their designs have been maintained to reflect Italian originality. These types of shoes are being progressively adopted by Europeans but may need innovative strategies to reach all the countries worldwide due to their uniqueness.
- Slip-on and boots are real innovation from SDG. Since 2020, after showcasing these new state-of-art handmade products, many participants from different countries appreciated these types of men shoes and expected them to beat the odds and over compete other products on the market. Boots leather quality is judged to be unparalleled and on top of this customers highlighted that they are durable, more comfortable and do possess a versatile design whereas slip-on shoes are classy and adapted to parties and other high VIP business events.
- The CEO of SDG, Adolpho Giuseppe also decided to diversify their business, such that in case of failure of one product, SDG would be able to get some return from other types of business where he introduced men's accessories such as bags, belts and wallets.

**Required:**

- From the Scarpe Di Giuseppe company case:

- a) Use Ansoff model to analyze the existing strategies for each product and related market risks? (15 Marks)
  - b) Propose possible strategies to increase sales on each category cited in the case above (10 Marks)
- (Total : 25 Marks)**

**End of question paper**