STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - APRIL 2018

NOTES:

Section A: Answer Question 1.

Section B: Answer **two** Questions **only**. Should you provide answers to all of Section B, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first two answers to hand will be marked.

Time Allowed
3.5 hours plus **20 minutes** to read the paper.

Examination Format
This is an open book examination. Hard copy material may be consulted during this examination, subject to the limitations advised on the Institute's website.

Reading Time
During the reading time you may write notes on the examination paper but you may not commence writing in your answer booklet.

Marks
Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Answers
Start your answer to each question on a new page.

You are reminded to pay particular attention to your communication skills, and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples, where appropriate.

Answer Booklets
List on the cover of each answer booklet, in the space provided, the number of each question attempted. Additional instructions are shown on the front cover of each answer booklet.

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

STRATEGY & LEADERSHIP

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SECTION A - ANSWER QUESTION 1

1. Case Study

Lowney Farrell Ltd. (LFL) was founded by Jim Lowney and Peter Farrell in the 1970s. They built the business over the next twenty years and by the 1990s LFL was one of the top five advertising agencies in Ireland. Both Jim and Peter have retired from the business, and for the past twelve years. Paula Mulligan has been the managing director. Paula has spent her entire career in LFL and is synonymous with the firm. On her appointment as MD, Paula negotiated to acquire a ten per cent share in the business.

Since it was established, LFL has been located in 'Blackwater House', near St Stephen's Green, in Dublin City centre. The building is owned by the original founders of LFL through a separate company, L&F Property Ltd. In addition to Paula's abilities and drive, a major factor contributing to LFL's survival during the recent economic crisis was L&F Property Ltd.'s decision to reduce and defer LFL's lease payments. Another of Paula's achievements during that period was her success in keeping LFL independent. Most of the other large Irish advertising agencies were either acquired by multinational agencies or forced to lock themselves into a partnership arrangement with one.

However, as the economy recovered so too has LFL's financial performance. In 2017, LFL achieved record revenues of €28m and a profit of €0.6m.

LFL is a full-service agency. A client may use its complete range of advertising solutions, or only those relevant to it at that point in time. The company provides the following services:

Campaign Planning and Creativity
Driven by its creative director, Jake Bryam, this is the creative heart of the agency. The role of the 'No Horizons' team, as they are called in the firm, is to conceive and design the concepts, copy, artwork and themes that capture the brief provided by the client. These are then turned into an advertisement campaign over various media. The agency does not produce advertisements in-house and instead uses two external production companies. It has worked with both of these firms for over 10 years, and they always provide an excellent service.

Media Buying
Managed by Marie Walsh, the media buying department is LFL's largest revenue source. The agency buys advertising space (TV, radio, local newspapers, billboards, etc) on behalf of clients, either for campaigns developed in-house by LFL or by other Irish or multinational agencies. LFL has developed the network of contacts and negotiating expertise to provide clients with access to premium advertisement placements but without the related price premium. In 2017, LFL's media buying department's revenue was €15.4m, which gives the firm considerable purchasing power.

Sponsorship
LFL provides services to both sponsors and rights holders. The sponsorship department is managed by Joan Reilly and provides sponsors with advice and market analysis, and will negotiate the sponsorship contract. LFL also develops and prices sponsorship packages for rights holders to maximise their commercial revenues.

Digital Solutions
Managed by Rory McEntee, this is the agency's newest service, and is its fastest growing and most promising. The digital solutions department provides a complete digital solution for client firms, including Search Engine Optimisation, Display Ads, Pay Per Click, and Social Media. LFL has developed a wide range of relationships with 'social media influencers' that facilitate the company's impact in this space, and it has been awarded Google's prestigious 'Premier Partner Badge'.

In addition to the employees who work specifically in each department, the company has usually four to six staff who are not assigned to any one department, but instead 'float' and are deployed to whatever department needs them at any given time. Paula believes this provides additional flexibility and cost savings to the firm. Supplementing its own employees, the agency also makes significant use of both interns and freelance staff, as necessary.

LFL's list of clients includes large Irish firms (including some semi-state), international firms, charities, sporting organisations, as well as government agencies and departments. In the past, it has tended not to pitch for a client account or project of less that €100,000. As such a long-established firm, the company has a very recognisable brand and presence in the market. To maintain its brand recognition, LFL uses in-house expertise to manage an innovative web and social media presence for itself and to develop communications for industry magazines. LFL has won many industry awards over the years, although it has not won an award for the past five years. In addition, Paula and the other senior management staff ensure that they participate regularly in advertising, marketing and business events around Dublin, while Paula herself is a frequent guest on several national and local radio programmes.

While brand recognition and marketing are important, a successful 'pitch' is how new business is won. There are several stages in this process. Initially, an agency pushes to be included on a prospective client's long list. If it can arrange this, the agency is then invited to an initial 'chemistry meeting' with the client. Again, if this is successful the agency is put on a short list of four or five agencies invited to 'pitch' for the business. LFL is generally successful in being included on a prospective client's long list and therefore being invited to the 'chemistry meeting'. Paula is concerned, however, that chemistry meeting invitations, and even being short listed are not converting into new business. She is not sure why, but for the past few years LFL has been finding it more difficult to translate opportunities into new clients.

The agency uses a standard industry 'role based-rate' system to establish client fees. The role based-rate involves identifying the different roles necessary to complete the client assignment and estimating the number of hours each person-role will spend on it. LFL uses benchmarking and industry average charge out rates to establish its fees, which are reviewed bi-annually. Paula is adamant that LFL will not price at a discount to other leading competitors. Recently, and reluctantly, the agency has introduced performance incentive pricing, where LFL receive 85% of the agreed fee up-front and the remaining 15% only becomes payable if agreed objectives are reached. If the contract involves only media-buying, LFL will use the more straightforward method of charging a commission, again benchmarked against its main competitors.

LFL employs around 40 people, not including freelance staff and interns. Advertising is ultimately a people and relationship-based business, and Paula spends a lot of time encouraging a positive, open culture in the firm and teamwork among departments. She believes staff engagement is critical to get the best from highly qualified professionals. In parallel, the agency is also careful to remunerate staff very competitively, both in terms of base salaries and bonuses. To achieve this, and similar to its pricing strategy, LFL reviews industry salary surveys and benchmarks against its main rivals. Unfortunately, with the exception of the departmental managers, who are all LFL veterans, staff turnover is high, and above average for the sector. Additional information on the company is shown in Table 1 on Page 3.

There is no doubt that the business has improved significantly since the end of the economic crisis, but Paula is acutely aware that LFL has not regained the market share or the industry status it previously enjoyed. The industry dynamic has changed, and the firm is being squeezed: on the one hand by competitors that are now subsidiaries of multinational advertising firms, and on the other hand by newer advertising agencies that have decided to concentrate on a single service, for example, media buying or digital services.

Table 1: Lowney Farrell Ltd.

Managing Director: Paula Mulligan

Departments	Campaign Planning and Creativity	Media Buying	Sponsorship	Digital Solutions	Administration • Secretariat • Human Resources • Accounts
Departmental Manager	Jake Bryam	Marie Walsh	Joan Reilly	Rory McEntee	Paula Mulligan
Job Title	Creative Director	Chief Media Buyer	Head of Sponsorship	Digital Solutions Manager	Managing Director
Non-Management Employess	6	4	2	12	6
Revenue Generated	€4.6m	€15.4m	€1.8m	€6.2m	N/A
Floating Employees*	4-6				N/A

*Not including Freelance Staff and Interns

REQUIREMENT:
Prepare a report for Lowney Farrell Ltd. in which you:

(a) Critically analyse the strategic position of Lowney Farrell Ltd., drawing on your assessment of the key drivers of change prevailing in the environment, and applying the relevant theories and models;

(b) Assess the key issues facing Lowney Farrell Ltd. and evaluate the business's options in dealing with such issues; and

(c) Recommend a strategy to ensure the best way forward for Lowney Farrell Ltd.

(Note: The scenario presented above is not intended to be comprehensive. You will be expected to make whatever additional logical assumptions about Lowney Farrell Ltd. 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).

(Total: 50 Marks)

SECTION B - ANSWER TWO QUESTIONS ONLY.

2. Demy Property Management Ltd. is a long-established and successful business in Dublin, owned and managed by Declan Murphy. The firm has 17 full-time employees and provides a wide range of property management services directly to landlords. In addition, the firm is also used by real estate agents as an outsourced service provider. Demy Property Management Ltd.'s services include:

- Rent collection, tenant management and communication;
- Planned and reactive maintenance; and
- Health and safety compliance services.

Declan is now semi-retired and his daughter Chloe has effectively become the managing director, although Declan remains 'the boss'. They have decided that there is now a real opportunity to expand the business outside Dublin for the first time. In particular, they consider Cork, Galway and Limerick to be potentially suitable locations. While supporting the expansion plan, Declan thinks that the firm should move slowly. He wants Demy Property Management Ltd. to use an organic growth strategy to establish a branch in the target city. In contrast, Chloe wants to be more aggressive, and use an acquisition of an existing property management firm to enter the new market quickly. Chloe argues that the firm must 'grab the opportunity while it is there'. Unfortunately, neither Declan nor Chloe has any experience of either growth strategy, and they have turned to you, their accountant, to provide analysis and advice.

REQUIREMENT:

Prepare a report for Demy Property Management Ltd. that critically evaluates both alternative growth strategies which the firm is considering: organic and acquisition. The report should also recommend and justify the growth strategy which Demy Property Management Ltd. should pursue in the circumstances.

(Total: 25 Marks)

3. Colm Grey has recently been appointed managing director of Zomaruh Ltd., a manufacturer of generic medicines and vitamin tablets, aimed predominantly at the Irish market. The firm was founded in 1998 and employs 120 people, a reduction of 90 people since 2008. The work in Zomaruh Ltd. is both technical and precise. It requires significant training, and many staff have third-level qualifications, particularly those in the Research & Development (R&D) and Quality Assurance (QA) laboratories. The majority of the production-line workers have considerable experience: on average, they have been with the firm for ten or more years.

The firm has been in steady decline for the past several years. Revenues have been falling and operational performance metrics deteriorating. There is no single reason for this, however, the business made considerable cutbacks during the economic recession and has not really recovered. In particular, morale is relatively poor. It has not helped either that Colm's predecessor employed a very bureaucratic management approach, arguing that, because of what Zomaruh Ltd. manufactured, everything had to be 'always by the book'.

Although Colm has over twenty years' experience in the pharmaceutical sector, this is his first appointment as managing director. He is confident, however, that his strong people skills will enable him to be successful.

REQUIREMENT:

Prepare a report for Colm in which you critically assess the leadership approaches that he should consider as managing director of Zomaruh Ltd., and recommend the leadership style(s) that he should adopt for best results.

(Total: 25 Marks)

4. RoCom Ltd. is located just outside Maynooth, near Dublin. The company manufactures complex electrical systems and components used in the construction of robots. The firm exports all of its output: approximately 20% to the UK and 80% to mainland Europe. The robots are generally designed for use in warehousing or on production lines. RoCom Ltd.'s single largest client firms are in Austria, Germany and The Netherlands.

The company employs 45 people in Research & Development (R&D) and around 300 staff in manufacturing and logistics. It works closely with local universities and client firms to maintain technological leadership. However, in addition to its technology, the firm's key competitive weapon has been its ability to fit seamlessly into client firm's supply chains. Over the years, RoCom Ltd. has built a reputation for excellent reliability and flexibility of delivery.

The CEO of RoCom Ltd., Cathal Lacey, is very concerned about the potential for the UK's exit from the EU - 'Brexit' - to undermine the firm's business; not just in the UK but also in Europe. RoCom Ltd. uses the UK as a 'land bridge' to deliver to European clients. Mr Lacey has done some preliminary research, and he estimates that re-routing deliveries using ferries to France rather than through the UK will add an extra 18-24 hours to delivery times, on average. Perhaps, more problematically, it will lead to additional uncertainty in the timing of deliveries. While he is aware that the final nature of Brexit remains unclear, he wants RoCom Ltd. to be as prepared as possible, irrespective of the final agreement between the UK and the EU. Cathal has identified and named what he believes to be the three most likely scenarios.

1. **'Softly, Softly'**
   The UK leaves the EU in name only and continues with the same customs and regulatory regime as part of an indefinite 'transition arrangement'.

2. **'The Fudge'**
   The UK fully leaves the EU but maintains significant alignments with EU customs policy and other regulations. There would be a need for some additional paperwork and inspections would be required at both ends of the UK 'land bridge', thereby adding an average four hours to delivery times.

3. **'The Hardliner'**
   The UK leaves the EU and both sides retaliate by using tariffs and requiring dramatically increased documentation and customs inspections.

REQUIREMENT:
Prepare a report for RoCom Ltd. that addresses the following issues:

(a) The potential impact on RoCom Ltd. of each of the three scenarios presented above. (13 Marks)

(b) The contingency plans which RoCom Ltd. should consider to ensure its continuing competitiveness on mainland Europe.

(12 Marks)

(Total: 25 Marks)

***(Note: You should discuss only the implications and contingencies for RoCom Ltd.'s European business. You* are not required to consider the consequences for RoCom Ltd.'s UK business.)**

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - APRIL 2018

CPA Consultants
Dublin
Ireland
23 April 2018

To: Ms Paula Mulligan
Lowney Farrell Ltd.
Blackwater House
Dublin
Ireland

Re Strategic Review of Lowney Farrell Ltd.

Dear Paula

Thank you for inviting CPA Consultants to evaluate and report on the Strategic Direction and Options open to Lowney Farrell Ltd. at this time. The enclosed report has three parts:

(a) Analysis of the strategic position of the business.
(b) Assessment of the key issues facing the business and evaluation of the business's strategic options.
(c) Strategic proposals to develop Lowney Farrell Ltd. going forward.

I am available to discuss the report and to provide any additional information or explanations if you should require them.

Yours sincerely,
A. Student
CPA Consultants

(a) Strategic Analysis of Lowney Farrell Ltd.

A number of strategic analysis frameworks are used below in order to better understand the strategic position of Lowney Farrell Ltd.:

- PESTEL
- Five Forces Model
- Resource analysis
- Value Chain
- SWOT

The General Environment (PESTEL)

1. Political and Legal Factors

In general, there is little direct impact by politics on the advertising agency sector. The sector itself is not highly regulated, apart from normal business regulations. The sector is in fact regulated by the Advertising Standards Authority for Ireland, an independent self-regulatory body set up and financed by the advertising industry itself. Indirectly, the Government through its management of the economy and how this impacts on the general performance of the economy does influence the sector. In particular, the implications of the Brexit process and the consequences of this for Ireland's economy and for business sentiment will likely impact on the sector.

One area where politics does have a direct impact on the sector it through its decisions to restrict the activities of other industries that use advertising. There were previously significant restrictions placed on the advertising of tobacco products and presently the Public Health (Alcohol) Bill is being discussed. Among its various measures are proposals to limit the amount and timing of advertising for alcoholic products. This will directly impact on the advertising agency sector by reducing opportunities for clients and therefore their advertising spend.

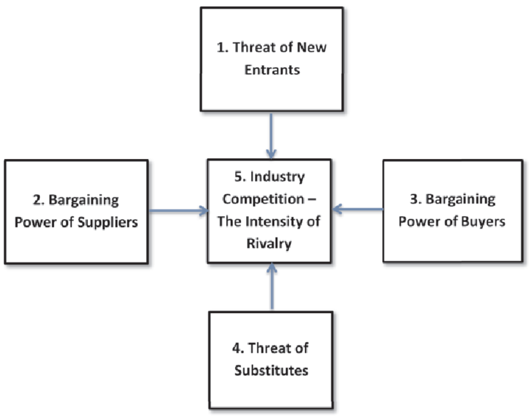
It should be noted that the Government, Government agencies and even the individual political parties are clients of firms in the sector. These relationships are arms' length and in the normal course of business and do not influence the regulatory regime of the sector. However, Government departments and agencies do spend approximately €200m per annum on advertising and information campaigns and are therefore probably the sector's largest client.

2. **Economic Factors**
It is difficult to establish a direct causal link between a particular advertising campaign and a firm's revenue, and therefore marketing and advertising budgets are always among the first to be reduced when firms need to cut costs. The sector is heavily influenced by the general economic climate and economic growth rates. When there is strong, positive business sentiment, firms tend to invest more in advertising, as they perceive a likely higher return on the advertising spend. The Irish economy is performing robustly. The ESRI expect that the outturn for 2017 will be around 5.0 per cent and it expects growth of 4.2 per cent in 2018. In parallel, the ESRI also report that Irish consumer sentiment is at a seventeen year high. There are difficulties facing the economy, notably Brexit, but there is also concern in relation to potentially overheating rental markets and a shortage of skilled workers in certain sectors. Overall however, the economy should provide a boost to the advertising agency sector over 2018.

3. **Social and Cultural**
Ireland has a relatively young and growing population: the CSO forecast that the population of the Republic will grow to approximately 5m-5.3m by 2026. In the context of the advertising agency sector the growing proportion of young people is a key issue. As will also be identified below when discussing technology, the types of media and the nature of the content consumed can be very different depending on the age group involved. Older age groups still mostly rely on traditional media (TV, radio, newspapers, etc.), for entertainment and information. However, younger age groups are more likely to use online and social media to inform and entertain. The age profile of the target audience will therefore influence strongly the media channel and nature of the advertising message.

4. **Technology**
As identified above, technology is effectively revolutionising the advertising sector. The traditional advertising channels (TV, radio, newspapers, etc.) remain important and particularly so for older age groups. However, almost every advertising campaign, but especially any advertising campaign that has a younger target audience, needs a strong online and social media element. In fact, there is a shift where the emphasis is more likely to be on the online and social media element rather than on traditional channels. The IAPI estimated that in 2016, the spend on new advertising channels was €450m compared to €950m for traditional channels: online and social media based advertising now represents over one-third of total advertising spend. It is essential that advertising agencies have an expertise in online and social media, and on the various platforms: microblogging, social networking, photo sharing and video sharing. To reach the intended target audience, advertising agencies need capabilities in activities such as SEO, influencer marketing, display advertising, analytics, etc., while some now also provide website development services.

Competitive Environment (Porter's Five Forces Model)



Porter's Five Forces Model provides an insight into the nature and dynamics of competition in the advertising agency sector.

1. **The Intensity of Rivalry**
The advertising agency sector has recovered rapidly from the economic crisis and the spend on advertising will exceed €1.4bn in 2018. However, there are a large number of competitors in the sector. For example, the IAPI have 58 members, almost all of which are located in Dublin. There is also a range of agency types in Ireland: full service agencies like LFL, media agencies and digital specialists. While advertising spend is growing, the sector

is fragmented and very competitive. It is difficult for an agency to retain clients as there are few switching costs, and clients constantly move, always looking for the next imaginative campaign. In fact, many clients now only contract for a single campaign and re-invite pitches when a new campaign is planned. Similarly, it is difficult for advertising agencies to differentiate, as they are all in a sense selling the same thing: creativity and imagination. Firms can achieve some differentiation in areas such as specialist media buying knowledge or volume, or in areas such as digital campaign execution. Overall however, the sector is very competitive and dynamic.

2. The Threat of New Entry

The future potential of a sector and the extent of entry barriers into that sector will determine the likelihood of new entrants entering the market. There are few significant barriers to entry in the advertising agency sector, and the market is growing rapidly. It is difficult for incumbents to differentiate effectively, as generally creativity and imagination are the critical success factors, and all competitors claim to have these. Similarly, client loyalty is low as clients like to move agencies to always have access to the most creative ideas. Again creativity is valued as much as experience, so a young, dynamic agency can relatively easily capture market share. Lastly, the capital and regulatory requirements to enter the sector are relatively low. Overall, there is a significant opportunity for new competitors to enter the market, despite the level of existing competition.

3. The Bargaining Power of Buyers

If a particular buyer, or buyer group has significant bargaining power, they will use it to ensure that they receive the best possible service but at a reasonable cost. Apart from developing advertising in-house, there are no real alternatives to using advertising agencies. However, clients, especially larger clients, have considerable influence in the sector. As previously mentioned there are few real switching costs in the sector and little client loyalty: clients are more frequently contracting for a single campaign or at most a twelve-month retainer. Again, as has been mentioned, advertising agencies struggle to clearly differentiate themselves and there are lots of competing advertising agencies, so potential clients have several alternatives. Overall therefore, buyers seem to enjoy a relatively powerful negotiating position in the sector, as fundamentally it is easy to move to a rival agency.

4. The Threat of Substitutes

A substitute for a particular service is an alternative sector that provides for the same need. If a service is to be perceived as a genuine substitute, it must be comparable, similarly priced and as readily available. The service provided by advertising agencies is quite specific: creativity and imaginative advertising copy. The obvious substitute for its service is for a client to do the work in-house, with perhaps actual production being provided by a media production firm. It is unlikely that many firms have the creative capacity to develop effective advertising in-house on an on-going basis. Firms are more likely to engage specialist agencies to do this work unless there is a cash flow or cost issue. The threat from substitutes to the advertising agency sector is therefore relatively low.

5. The Bargaining Power of Suppliers

There are a range of relevant supplier sectors or groups for the advertising agency sector, however there is none with a significant influence over the sector. Media channels, including TV, radio, newspapers, and online, are all important suppliers to the sector as these media are the most common means to distribute advertising. However, the relationship is reciprocal, these media also mostly rely on an advertising revenue stream to stay in business. A second supplier sector is production companies that produce the actual TV, radio, etc. advertisement. Again, these firms tend to be quite small and advertising agencies provide a lot of their work and income. Lastly, the sector requires people who are creative and technically qualified. There are many college graduates from art and design, multimedia, marketing courses, etc. who can fill roles in the sector, so there does not seem to be a shortage of talent. That said, experienced and successful advertising staff command relatively high salaries, for example, a Digital Marketing Manager may receive a salary package of around €100,000. Overall however, the influence of supplier sectors is relatively low.

In general, apart from suppliers and substitutes, the underlying determinants of intensity of competition in the advertising agency sector are relatively high, and firms will need to be effectively managed to be successful.

Resources and Competences

Resources may be assessed from a number of perspectives

1. Physical resources, human resources, financial resources, intangible resources
2. Strategic capabilities: threshold and unique resources and competencies

1. Physical Resources

Advertising agencies are a people driven business and physical resources do not play a significant role. LFL has a lease on a building in Dublin City Centre, which is owned separately by the main shareholders of LFL. In the past, this has allowed LFL some financial flexibility with lease payments.

2. **Human Resources**
There are around 40 people employed by LFL. Most staff work in a particular department, however staff are flexible and some staff are assigned based on work demands at that time. Ms Mulligan, the owner-manager, is probably the most important human resource of the business. LFL staff are professionals, with high levels of education and many with significant sectoral experience. This is especially the case for the departmental managers, who are veterans of the business. Unfortunately, there is a high rate of staff turnover, despite competitive remuneration packages.

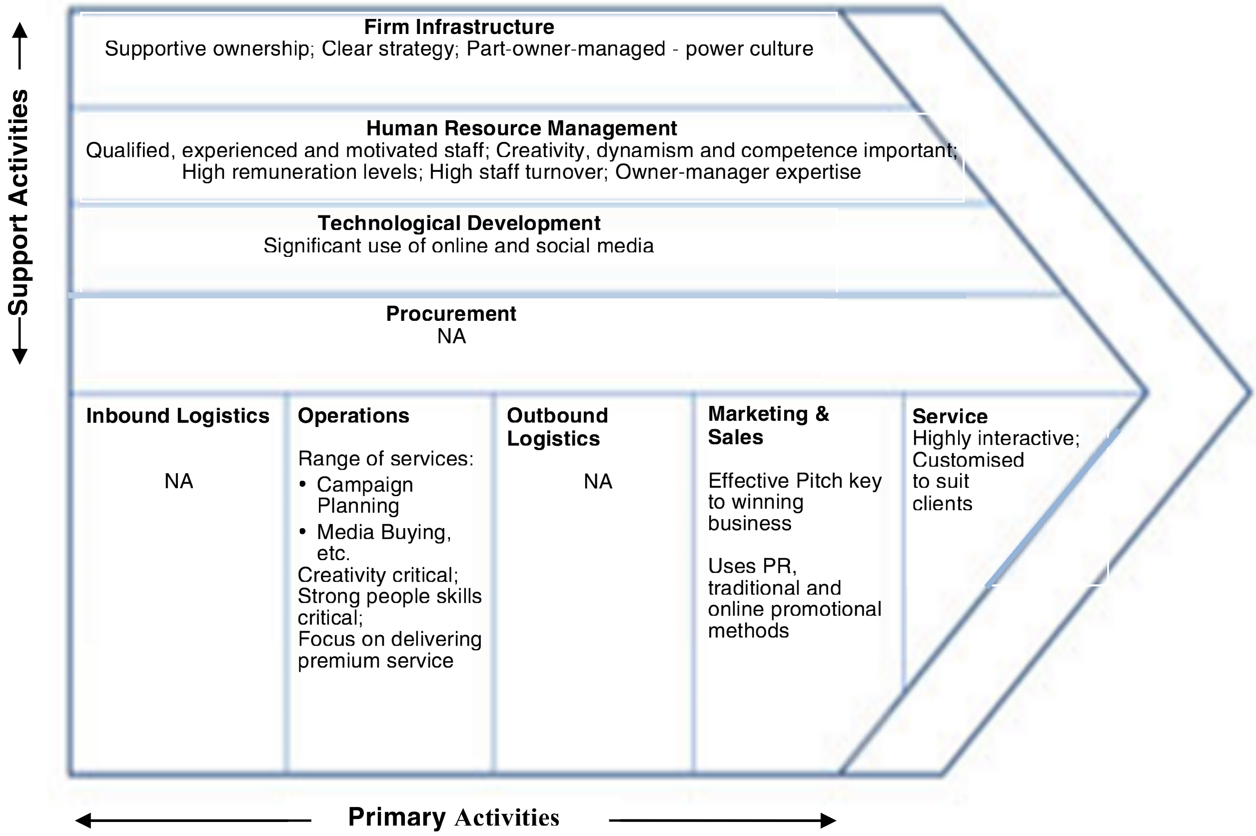
3. **Financial Resources**
LFL is profitable and has regained the revenue levels it was enjoying before the economic crisis. Although there is little information provided, LFL seems to have a relatively high cost base: profit as a percentage of revenue was only just over two per cent. LFL only survived the crisis due to its main shareholders foregoing payments due on LFL's building's lease: these owners separately own Blackwater House, which houses LFL's offices. It is unclear to what extent the retired owners are happy with current financial performance or would be prepared to invest further in the business, if necessary.

4. **Intangible Resources**
LFL has been in business for over 40 years, has a lot of experience and has a well-known brand and reputation. Related, Ms Mulligan is both respected and well-known and is synonymous with LFL. The firm has also developed close links with production houses and media outlets that facilitate the effective delivery of its services. LFL focuses on creativity and inspiration and it has a corporate culture that promotes these.

5. **Unique resources and competencies**
The resource based view of the firm suggests that firms should identify the resources and capabilities it possesses, particularly those that are superior to rivals, and base their competitive strategy around them. In that context, the relevant unique resources and competencies that LFL may leverage include:

- Ability to provide a wide range of services: a 'one stop shop'
- Capability and media links facilitating its Media Buying service
- Its digital service capabilities
- LFL's relationships with 'social media influencers'
- Possessing Google's Premier Partner Badge
- Firm's long history and reputation in the sector
- Ms Mulligan's connections, knowledge and experience

Value Chain of Lowney Farrell Ltd.



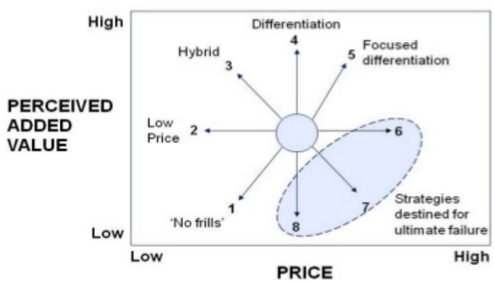
SWOT Analysis of Lowney Farrell Ltd.

A useful analytical summary and decision-making tool is a SWOT Analysis. However, the analyses need to be based on research and data, not just management opinion.

INTERNAL	**Strengths** • Currently profitable • Long established and widely recognised brand - LFL on many long lists invited to meet clients • Ms Mulligan, the manager and part owner - Her experience, knowledge, etc. • Media Buying and Digital Departments performing well • Good relationship with production companies that make the actual TV and radio advertisements • Support of the retired owners (who also own Blackwater House) • Staff seem flexible, especially the use of floating staff	**Weaknesses** • Less successful in turning pitches into new business • Diminished creative ability - Has not won an industry prize in five years • High staff turnover - Higher that sectoral average • Difficult to differentiate from rivals • Losing relative market position and status
EXTERNAL	**Opportunities** • High levels of economic growth in Ireland leading to positive consumer sentiment • In general, Irish firms' optimism leading to increased marketing spend • Develop new services - For example, event management or market research • Acquire a smaller, newer competitor to increase the energy and dynamism in LFL • Seek a partnership with a foreign multinational advertising agency - This would provide access to their client list and potentially to some of their resources • Refocus the firm, providing a limited range of advertising services - For example, Media Buying and Digital as these are currently LFL's most successful services • Technology advances that change how people interact with businesses	**Threats** • The fragmented and competitive nature of the sector • Increased competition, both from multinational agencies and local and more focused rivals. • Ongoing or increasing regulations, for example, the changes to regulations pertaining to the advertising of alcohol • The implications of Brexit for the Irish economy and its spill-over into consumer and business sentiment • Technology advances that change how people interact with businesses, perhaps reducing the need for the traditional advertising agency

(b) Issues and Challenges Lowney Farrell Ltd.

Bowman's Strategy Clock

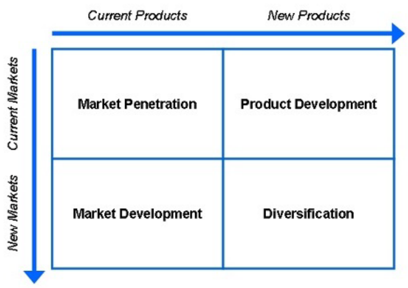


Bowman's 'Strategy Clock' identifies up to eight alternative competitive strategies that firm's may potentially utilise, although three of these, positions 6, 7 and 8 will eventually result in business failure over the longer term. The Strategy Clock contrasts price and perceived value combinations, as well as outlining the likelihood of success for each strategy.

LFL is utilising a 'differentiation competitive strategy': it provides a broad range of advertising and related services to clients. LFL's client base is similarly broad, including medium to large firms, Government departments and agencies, as well as NGOs. It does not tend to pitch for smaller value accounts, less than €100,000. Similar to its competitors, LFL identifies its competitively distinguishing feature as its ability to create innovative advertising content, rather than pricing at a material level below competitors to win business. LFL is essentially basing its competitive strategy on its core competence of creativity and delivering advertising content.

The competitive position that LFL has built over the past forty years makes sense, and in general has worked for the firm. The execution of the strategy is problematic at present however. LFL remains a leading competitor in the sector, although it has drifted out of the top five advertising agencies. Presently, two services that LFL provides are performing up to expectations; Media Buying and Digital. However, the Campaign Planning and Creativity Department does not seem to be performing effectively. This is a major concern, and may potentially undermine LFL's competitive position. This department is critical to the nature and effectiveness of LFL's differentiation strategy. If the firm can no longer develop creative content, the very basis of its competitiveness is undermined. Clients will not accept a pitch that does not have impact: even if offered fees below the sectoral average.

Ansoff's Matrix



Ansoff's matrix of generic growth strategies identifies the options or directions a firm may use to develop in terms of present and potential products and markets. Using a combination of existing products and potential new products, and existing markets and potential new markets, Ansoff identified four possible product-market growth options. Each of these alternatives present possibilities for a firm, depending on its resources and competences.

Initially, LFL should attempt to consolidate and hopefully further penetrate its current market. Although, it is performing adequately and is profitable, LFL has not recovered its market position or status since the economic crisis. There are a number of possible reasons for this including the increased presence of large multinational advertising agencies in the Irish market. However, the possible reason that would be of most concern is that LFL seems unable to produce the pitches and advertising campaign ideas that excite clients. The performance of what should be LFL's core competency has weakened. LFL needs to review and address this, because if it does not, it is likely that relative performance will continue to disappoint. In the context of this, LFL may need to reconsider its pricing policy, although this does not seem to be the critical factor from the point of view of clients.

Another alternative open to LFL is to re-position itself in the market and to target smaller clients that have lower advertising budgets. LFL currently targets larger firms and organisations, however if LFL continues to find itself being squeezed in that market, it may find it more profitable, and ultimately necessary, to target this different market segment. If it does re-target its efforts, it is likely that services such as sponsorship and PR would be less relevant.

LFL describes itself as a full service advertising agency. In addition to strengthening its current position however, LFL may decide to increase the advertising and or marketing services it provides to clients. A new service it may provide, and one that fits closely with its current offering, is event management. Event management involves organising all aspects of an event, for example, a party, a gala dinner, an awards show, on behalf of a client. This possibility would build on and support LFL's current PR and sponsorship services.

In the context of the above analysis, and the concern that Ms Mulligan has expressed about LFL's deteriorating relative market position, the following are the key issues facing the firm.

1. In contrast to its competitors, and to its previous success, LFL is finding it difficult to convert its opportunities to pitch into new business. It is likely that this is to an extent a reflection of increased competition, however, there is also the possibility that LFL is not creating pitches with the necessary impact. It is noteworthy that LFL has not won an industry prize in five years.
2. The level of staff turnover in LFL is worryingly high. The advertising agency sector in general suffers from high levels of staff turnover, however, LFL levels even exceed the sectoral average. This is a concern, especially in light of the competitive remuneration package provided by the firm.
3. In contrast to the point above, all of the departmental managers in LFL are 'veterans'. This is, of itself, not

an issue. However, in such a dynamic and creative sector, having new people with different ideas, including at management level, helps to maintain a level of imagination and dynamism.

4. LFL has remained ‘independent’, and is neither a subsidiary nor a tied local partner of any multinational advertising agency. While this is what the owners of the business wanted, it does put LFL at a disadvantage compared to rivals who are a subsidiary or a local partner of a multinational advertising agency. These competitors have access to resources and potential multinational clients from which LFL is excluded.

(c) Recommendations for Lowney Farrell Ltd.

The following are recommendations that Lowney Farrell Ltd. may use to address its current concerns and to develop into the future.

1. LFL should conduct research to better understand why it is less successful in turning pitches into new business. This is an urgent and critical concern. It is probably better to have an external market research firm complete this research.

2. Although it pre-empts the research suggested in recommendation one, LFL needs to review its creativity process. LFL’s other services, Media Buying and Digital especially, are performing well; however, Campaign Planning and Creativity develops pitches, and this seems to be the weak link in the business at the moment. LFL may need to consider the position of Creative Director, unless pitch success rates improve.

3. LFL should continue with its current differentiation strategy and full service offering. Although, not performing as well as it would like, LFL is still a profitable and respected firm.

4. Related, LFL’s fee structure seems competitive and it should continue to price at the current level. The major factor in winning a pitch tends to be creativity rather than pricing, and to price at a discount to competitors may suggest a lack of confidence in its work.

5. LFL is only one of a few Irish advertising agencies that are not foreign owned, or at least have an international partner. LFL should assess the benefits of linking with an international partner, while still maintaining independence. In the context of Brexit, there may be a UK based advertising agency very interested in such a relationship.

6. Staff turnover, or churn, is an issue for the entire advertising agency sector. However, LFL seems to have higher staff turnover than the sectoral average. As LFL describes itself as providing ‘competitive salaries and bonuses’, the firm needs to review why so many staff leave. The use of exit interviews, as well as using a HR consulting firm to contact previous staff members, should hopefully uncover the underlying concerns of staff, as it does not initially seem to be remuneration.

7. There are other services that LFL may in fact consider adding to its offering, for example, event management. In addition, and especially in the context of having to compete with firms that have the resources of international owners or partners, LFL should consider pitching for clients with an advertising budget of less than €100,000. It should be able to use its greater scale and full service offering to gain market share in this segment.

Indicative Marking Scheme for Question 1

		Marks
(a)	Application of PESTEL	
	• PESTEL implications should be related to the case scenario	
	• 6 elements x 2 marks; maximum of 10 marks	10
	Application of Five Forces Model	
	• Drivers identified by Porter must be used to reach a conclusion for each force	
	• 5 forces x 2 marks	10
	Analysis of Resources and Competences	
	• Explain main resources, should indicate relative importance to competitiveness	3
	• Explain main competences, should indicate relative importance to competitiveness	3
	• Use of Value Chain analysis	3
		9
	Preparation of a SWOT Analysis	
	• Should relate and link strengths to weaknesses, opportunities and threats	
	• Issues in the SWOT should be prioritised, not just listed	5
		34
(b)	Assessment of issues and options	
	• Must be logical and clearly relate to previous analysis	
	• Should refer to relevant models (Bowman or Porter, Ansoff...)	
	• Issues and options should be prioritised, not just listed	**8**
(c)	Strategy / Proposals	
	• Must be logical and clearly relate to previous analysis	
	• Recommendation(s) should be prioritised, not just listed and justified	**8**
	Total Marks	**50**

SOLUTION 2

To: Mr Declan Murphy and Ms Chloe Murphy Demy Property Management Ltd. Dublin Ireland	From: A Student CPA Consultants Dublin Ireland

Date 23 April 2018

Introduction

Demy Property Management Ltd. (DPML) has been in business for some time and is a very successful firm. It is part of the nature of firms, and the ambition of their owners, for the firm to develop and grow. DPML has grown over the years and now employs 17 people full-time. As a consequence of the buoyancy of the rental market, DPML sees an opportunity to make a step-change in its development and to expand outside of Dublin for the first time. There are essentially two growth strategy options open to DPML: organic market development and an acquisition. Both of these alternatives have benefits and associated difficulties. In a sense, the benefits of one strategy are frequently perceived as the difficulties of the other. A potentially complicating factor in the decision of which growth strategy to use is the lack of experience of the owners of DPML, particularly in terms of managing an acquisition.

This report will critically evaluate the two growth strategy options which DPML is considering, and then provide a recommendation based on this evaluation and on the circumstances facing DPML.

Organic Growth

Organic growth, and specifically in this case, new market development, will involve DPML initially completing market research to identify which location (Cork, Limerick, Galway…) provides the best business development opportunity. When the most suitable location is decided, the firm will then have to go through the 'mechanics' of establishing the business: leasing an office, recruiting staff, undertaking marketing to attract clients, etc. This form of growth strategy is by far the most common, particularly for smaller firms.

From the point of view of DPML, organic market development presents a number of issues, both positive and negative. An issue that would support the use of organic market development is that DPML has already grown to its current size using organic development. So although the firm has no specific experience of developing in a new market, it does have many years of experience developing organically.

Organic market development is also incremental and therefore easier to manage and control. DPML can 'dip their toe in the water' by establishing what would in effect be a pilot operation. For example, the firm could lease an office for, say, one year, recruit only a few employees and attempt to build a client base and brand recognition. Then depending on the performance of the business over the year, DPML could decide whether to continue with the market development. If the firm decides that there is continued potential, the firm could build on the achievements over the first year, by expanding and taking on more clients and more staff. This strategy also allows DPML to more slowly learn about the local market, build networks but without a significant up-front investment.

Related to the previous issue, organic market development would allow DPML to spread its investment and cash flow commitments over a longer period of time, compared to an acquisition. Due to the incremental nature of organic growth, DPML can accelerate or push back investment depending on circumstances. This makes organic growth more straightforward to manage from a financing and cash flow point of view. For the same reason of incrementalism, it is also perceived to have lower levels of business risk. However, this last point is open to debate in that new business failure rates are high. Of course, DPML is expanding rather than a start-up so the risk of failure is likely to be lower.

A last important benefit of organic market development, when specifically compared to acquisitions, is the impact of the acquisition process on ongoing operations. This issue will be dealt with in more detail later in the report, however at this point it is only necessary to state that organic growth avoids the organisational and operational problems of integrating what were previously two separate firms.

The critical negative issue that DPML would have to accept if it decides to follow an organic market development strategy, is that it normally takes a significant amount of time before the business can be scaled up. DPML would need to recognise that it would be several years before it had developed a significant market position. This is potentially a major problem. The market opportunities seem to be very attractive at present, and DPML run the risk that by deciding to use the slower organic market development strategy, it will miss out on the opportunities that currently exist.

Acquisition

Organic development is by far the most common growth strategy. There are drawbacks to this approach, as identified above, and where the problems are significant a firm might choose alternatively to develop the business through an acquisition. An acquisition is where one firm buys a target firm in order to assume control of the target firm, its assets, markets, etc.

In a sense, it is logical that the most important drawback to organic growth is perhaps the most important benefit of an acquisition growth strategy: speed to market. Once a suitable target firm has been identified, the process to negotiate and acquire the firm may only take a matter of months. An acquisition would enable DPML to obtain the assets, revenues and client base of the target firm and give it a market share and brand recognition that may take several years to build organically. This would allow DPML to grow much more rapidly than is possible organically, and would enable it to benefit from the current opportunities in the sector.

While speed would be the key advantage of an acquisition for DPML, the longer term benefits to DPML of this strategy will depend on how effectively if can execute the acquisition process. There is a clear risk to DPML from this point of view in that neither Mr Murphy, nor Ms Murphy, have any experience of the process of acquisition. The firm is more likely therefore to make potentially serious misjudgements. To minimise this risk, DPML will need to obtain excellent accounting, financial and legal advice.

Particular issues that may arise during the acquisition process include the initial difficulty in finding a suitable target firm. A suitable firm in this case is one that is in a growth market, is performing at least adequately, and where the owners are willing to sell. Even if DPML finds a prefect target firm, if the owners are not interested in selling, DPML can do nothing about it: there is no such thing as a hostile takeover of a private firm! DPML have not decided where it wants to locate, and this widens the pool of potential target firms.

Related to the difficulty of finding a suitable target firm is the temptation to overpay for it once negotiations have started. It is possible that the acquiring firm, especially one with so little experience of the process as DPML will become too emotionally invested in the deal, and not walk away, even when the price and contract conditions have become excessive. There is the natural tendency to say, ‘we have put in so much effort, we can’t give up now!’ The history of M&As is littered with firms that have overpaid for a target firm. Building on this, it is not clear how DPML would intend to pay for an acquisition. Unlike organic development, an acquisition usually requires a once off payment. It is likely that as DPML is a private firm, that that payment will be in the form of cash. The brief does not indicate how DPML would intend to finance an acquisition. For example, if it is through debt, it would impose a further, significant, financing cost on the combined firm. This obviously increases the financial risk to DPML and effectively increases the acquisition consideration.

A last issue that would face DPML if it acquires another firm is how effectively it could manage the post-acquisition integration process. The post-acquisition integration process is widely accepted as the stage where acquiring firms confront the most problems. The post-acquisition integration process involves absorbing the acquired firm over time and integrating its people, systems and culture. This can create huge difficulties for the acquiring firm. In general, if the staff and culture of the acquired firm are resistant to the takeover then morale and motivation can suffer. This can lead to the performance of the acquired firm declining. While this is an issue in general, DPML may be able to avoid this scenario. There is unlikely to be a significant rationale for DPML to make dramatic cultural or operational changes to any firm that they may acquire. DPML have no experience in this area and both firms will be operating in separate geographic markets, so the need for closely integrated operations is probably limited.

Recommendation
Both organic market development and an acquisition of a suitable target firm are realistic options for DPML. Perhaps the key decision criteria that DPML must evaluate is which is more important: the speed to market of acquisitions or the lower risk and increased control afforded by organic market development.

As an initial step, DPML should try to identify a suitable target firm that is willing to be acquired. If such a target firm is identified, DPML should pursue the acquisition growth strategy, as the market opportunity to benefit from such a deal may be to an extent reliant on the current very positive conditions. A key issue in the context of this strategy is Mr and Ms Murphy’s lack of experience. It would be imperative that DPML obtain professional accounting, financial and legal advice through the entire acquisition process. In the absence of a suitable target firm, or where the acquisition consideration would be uneconomic, DPML should instead pursue the organic market development strategy.

Indicative Marking Scheme for Question 2

	Marks
Explain nature and importance of organic and M&A organisational growth strategies • Especially in the context of DPML, and • Declan and Chloe’s inexperience	2
Possible issues relating to organic growth: • Slower market entry • Incremental and easier to control • Seen as less risky, but new business failure rates are high • Spreads required investment over time • Minimises organisational disruption • Any other relevant issue	
4 issues x 2.5 marks; maximum 10 marks	10
Possible issues relating to M&A growth: • Faster means allowing firm to capture opportunities • May be more expensive due to acquisition premium • Requires a [significant] once off consideration which may be difficult to finance • Finding suitable target firm may be difficult • Post-acquisition integration can be difficult and time consuming • ‘Failure rates’ for acquisitions high • Any other relevant issue	
4 issues x 2.5 marks; maximum 10 marks	10
Recommendation	3
Total Marks	**25**

SOLUTION 3

To: Mr Colm Grey
Zomaruh Ltd.
Largetown
Ireland

From: A Student
CPA Consultants
Dublin
Ireland

Date: 23 April 2018

Introduction

There is much discussion about the process and nature of leadership, however it is clear that leadership is an integral part of the overall process of 'management'. There are numerous definitions of leadership, however in general, as defined by Richard Daft, 'leadership is the ability to influence people toward the attainment of organisational goals.' While any individual is capable of leadership, in the organisational context those people with managerial positions have the responsibility, and best opportunity, to effect leadership. This is especially the case for those managers who are part of the senior management team, and in particular, the Managing Director. This person has the most position power in the organisation and therefore the greatest ability to have impact and change the organisation.

Zomaruh Ltd. is in considerable difficulty, and has been for some time. The firm's revenues, profits and operational performance metrics have been declining. In response to the economic crisis and the worsening organisational position, there have been significant job-cuts over the past ten years. Unsurprisingly, this has led to employees having low morale and motivation. This is Mr Grey's first appointment as a managing director. Unfortunately, Zomaruh Ltd. is unlikely to be a straightforward introduction to the position. This is something of which Mr Grey should be aware: if his tenure does not go well, it may reduce his future career opportunities.

A critical element of what senior management bring to an organisation is their accumulated experience, inherent traits and competences. Mr Grey has over twenty years' experience in the sector and this will need to be leveraged effectively to improve Zomaruh Ltd.'s performance. Similarly, his technical abilities and knowledge should facilitate his understanding of what is necessary to turn around the firm. Mr Grey is also confident in his people skills and these will be critical. However, Mr Grey needs to recognise that people skills are only one component of effective leadership and he needs to not over-rely on these. For example, Kirkpatrick and Locke (1991) identify the following wider components of leadership:

1. Integrity
2. Self-confidence
3. Emotional Maturity
4. Drive, energy and ambition
5. Leadership motivation and comfortable using power

There are a number of leadership theories that may be useful in informing Mr Grey's approach and leadership style. This report will focus on:

1. Managerial, visionary and strategic leadership
2. Transactional and transformational leadership

Managerial, Visionary and Strategic leadership

Rowe (2001) discusses three leadership styles or approaches that members of the top management team may utilise. There are managerial leadership, visionary leadership and strategic leadership. 'Managerial leaders' focus on the operational and day-to-day aspects of a business and they tend to have an excellent technical and systems understanding. However, they tend to lack vision and creative energy and to see themselves as implementers of policies and budgets rather than as innovators. Importantly also, managerial leaders tend to be less comfortable dealing with staff as people and find it more difficult to build relationships. It is likely that the previous managing director employed such a style. He is described as very bureaucratic, arguing that everything had to be 'always by the book'. Given the nature of what Zomaruh Ltd. manufactures there is merit in this. However, it is also limiting. Indicative of the nature of managerial leadership, the previous managing director seems to have lacked the innovation and vision to arrest the decline in Zomaruh Ltd.'s performance, which has impacted so fundamentally on staff morale.

In complete contrast to this, the 'visionary leader' is empathic, intuitive and can more easily connect with people. They understand the role of people and organisational culture in the long-term viability of the business, not just policy and systems. The 'visionary leader' is also proactive and creative, recognising the motivating power of a strong vision for the future. This dynamism and innovation is certainly lacking in Zomaruh Ltd., and realistically, if the firm is to recover from its decline, these will play a critical role. However, there are a number of critical weaknesses to visionary leadership. The problem, according to Rowe, is that this style of leader takes too many risks, and focuses on the future to the exclusion of the present. While Zomaruh Ltd. needs to invent a future, it also needs to effectively manage its operations, systems, policies, etc. now, especially in the context of the regulated nature of its products.

According to Rowe, the ‘strategic leader’ is able to reconcile the gap between the managerial and visionary leader. The strategic leader is able to balance the managerial leader’s shorter term operational focus, with the longer term visionary leader’s strategic focus on people and innovation. The strategic leader is able to connect with the people around them but simultaneously has strong performance expectations. Mr Grey has the experience and operational knowledge necessary to appreciate the technical requirements of the work. He also has the people skills to engage and motivate staff. However, in addition to these attributes, Mr Grey needs to be able to identify and articulate an alternative and positive vision and future for Zomaruh Ltd. Ultimately, if Mr Grey can synergise his operational knowledge, his people skills and a vision of the future, he may be able to turn Zomaruh Ltd. around.

Transactional and Transformational Leadership

A second category of leadership theories that may provide some guidance into how Mr Grey might most effectively manage, and lead Zomaruh Ltd. is transactional and transformational leadership. ‘Transactional leadership’ resembles Rowe’s managerial leadership. The transactional leader tends to focus on structure and seeks to clarify the role and task requirements of staff, or perhaps more accurately, ‘subordinates’. The transactional leader uses social exchanges, or transactions, to motivate staff by exchanging organisational rewards for performance. The transactional leader generally does not manage strategically but instead is solely concerned with maintaining current operational activity. This approach seems to describe the style of the previous managing director, when everything had to be ‘always by the book’. As mentioned above, the previous managing director’s leadership style has likely been one of the causes of Zomaruh Ltd.’s decline, as it ignores, even prevents, the recognition that a strategic review of how the firm is operating is necessary.

An alternative to the transactional leadership style is an approach called transformational leadership, or sometimes charismatic leadership. A ‘transformational leader’ is again similar to the strategic leadership style discussed above. A transformational leader seeks to inspire followers to deliver beyond their normal levels of performance. They utilise organisational vision, shared values, and ideas to build positive relationships and a performance culture. A transformational leader encourages followers to believe in their own potential. Research suggests that the transformational leadership style is superior to the transactional leadership style and importantly transformational leadership skills can be learned and are not based on an individual’s inherent personality. In the same way that Mr Grey may be able to benefit from employing the strategic leadership style, Mr Grey may equally find the transformational leadership style effective: and for the same reasons. Mr Grey needs to break Zomaruh Ltd. out of its negative spiral of declining performance and poor morale. Building on his sectoral experience and people skills, Mr Grey should attempt to create enthusiasm and positivity among staff. Over time, this should change the current dynamic and create a high performance culture, that in turn, should impact operational metrics and ultimately revenue performance.

Conclusion

The nature of leadership is complex, and there is no one accepted, grand unifying theory of leadership. What is accepted however, is the key role that leadership has in the performance of an organisation. Mr Grey is facing significant challenges as managing director, and in particular the spiral of declining operational and financial performance and the linked issue of poor morale. Mr Grey’s experience, operational knowledge and people skills suggest that he is capable of turning around the situation in Zomaruh Ltd. He should carefully review the leadership theories discussed in this report, and in particular, the strategic leadership and transformational leadership theories.

Perhaps the main takeaway that Mr Grey should take from the strategic leadership and transformational leadership theories is the critical role of developing a positive vision for Zomaruh Ltd. Mr Grey needs to emphasise to staff that the firm has survived the crisis, and that ‘things will get a lot better’. Related, Mr Grey needs to encourage a more positive staff attitude and culture in the firm and re-engage staff in their work: his excellent people skills are key to this. He should also highlight how he intends to manage very differently from his predecessor, albeit doing so in a respectful manner and without disparaging him. This should, hopefully, lead to staff becoming more motivated and dynamic, and over time, to improved performance.

Indicative Marking Scheme for Question 3

		Marks
Explain the importance of effective leadership		
• Relate explanation to context of Zomaruh Ltd.		
• Refer to leadership and 'people skills'		4
Discuss two theories of leadership in depth. Possible theories:		
• Strategic, visionary and managerial leadership		
• Transformational and transactional leadership		
• Situational theory		
• Path goal theory…		
Explain the main elements of the leadership theory	3	
Discuss insight from theory relating it to Mr Grey and Zomaruh Ltd.	6	
Marks for each theory	9	
Discuss two theories; maximum 18 marks		18
Recommendation		3
Total Marks		**25**

SOLUTION 4

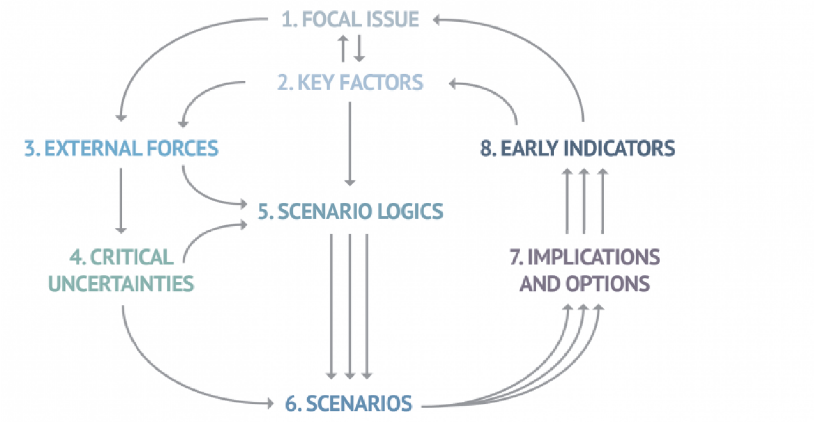
To:	Mr Cathal Lacey RoCom Ltd. Maynooth Ireland	From:	A Student CPA Consultants Dublin Ireland

Date: 23 April 2018

Introduction

Scenario planning is a structured way for organisations to think about the future. Instead of having a single plan in place, scenario planning allows managers to explore and prepare for multiple alternative futures. It enables managers to evaluate the outcomes a firm might expect under a variety of strategies and circumstances. Scenario planning avoids the dangers of one-dimensional, linear thinking by identifying and testing various 'what-if' scenarios. It provides a framework for managers to brainstorm together to challenge their assumptions and test future plans and forecasts. The model below, from Oglivy (2015) outlines the typical stages in scenario planning.

Stages in Scenario Planning



Source: Oglivy, 2015

RoCom Ltd. has decided to use scenario planning to better prepare for the consequences of Brexit for the business. Mr Lacey and the rest of the management team have already discussed the key factors, uncertainties and scenario logics to arrive at three plausible Brexit scenarios. A key concern from the point of view of RoCom Ltd. is that not only is the UK a substantial market of itself, the firm also uses it as a land bridge to deliver to its European based customers. Unfortunately, using the most obvious alternative transport route, the ferry to France, adds significant additional time and uncertainty to the firm's deliveries. It is difficult to evaluate precisely the implications of any major future event, however the following provide the most likely consequences for the three scenarios outlined.

Scenario Implications

'Softly, Softly'

In this scenario, the UK takes a very pragmatic interpretation of the referendum result and leaves the EU, but continues with the same customs and regulatory regime as an indefinite 'transition arrangement'. In general, from the point of view of business this would be a positive outcome as it would minimise disruption and would not create any additional trade or other barriers. It is unlikely that this scenario will be realised, as politically it is unacceptable to powerful interests in the UK Government. The probability of this scenario would be in the region of 10 per cent. This scenario would also be the most welcome from RoCom Ltd.'s perspective. It would effectively allow RoCom Ltd. to service its European markets as it currently doing: using the UK as a land bridge. In effect, this Brexit outcome would likely result in no operational implications for RoCom Ltd. and instead represent 'business as usual'. However, there is still a risk associated with this outcome. RoCom Ltd.'s main customers are on mainland Europe and they may decide that while this outcome creates no immediate problem, it may cause difficulties going forward. RoCom Ltd. needs to be prepared to reassure their current European client base that this outcome would not create a delivery reliability problem. If RoCom Ltd. ignores this, its European customers may seek a geographically closer supplier as a precaution against future problems.

'The Fudge'

In this scenario, the UK more closely follows the underlying message of the referendum result and leaves the EU, including the Customs Union and the Single Market. However, the UK Government again takes a pragmatic approach while following the spirit of the referendum. Although outside of the EU, the UK would maintain significant alignments with EU customs and regulations. The Brexit agreement would be amicable, and both the EU and the UK would continue to maximise cooperation. There would be a need for additional paperwork and customs inspections but both sides would find ways to minimise these. This is the most likely of the three scenarios, and the probability of this scenario would be in the region of 60 per cent. Although obviously not as attractive as the previous scenario, this does still represent 'a win' for business. Again, RoCom Ltd. would probably find this outcome acceptable. It would allow RoCom Ltd. to continue to use the UK as a land bridge and delivery times and reliability would in general be still assured, although the firm would need to factor in an average of four additional hours in transit. This additional time should not make a material impact on its ability to operate as it is currently doing. That being the case, the scenario shares the same risk as discussed above: RoCom Ltd.'s European customers may seek a geographically closer supplier as a precaution against future problems. As mentioned, this is a risk that RoCom Ltd. would need to work with clients to avoid.

'The Hardliner'
This is obviously a worst case scenario. In this scenario, the UK and the EU fail to agree exit terms and both sides end up in a retaliatory spiral using tariffs, increased documentary requirements and customs inspections. This outcome is not in the interests of either the EU or the UK. However, the negotiations have not gone well to date, so this scenario may evolve in a sense, by accident, where neither party wants to make concessions and be seen to 'lose'. Despite its mutually negative consequences, the probability of this scenario would likely be in the region of 30 per cent, based on negotiations to date. From the point of view of RoCom Ltd., this outcome would effectively prevent the firm using the UK as a land bridge as the delays, paperwork and uncertainties would make it too expensive and unreliable. This scenario would seriously damage RoCom Ltd.'s ability to compete in Europe from an Irish base. The other main alternative transport route using the car ferry to France and then trucking across France is possible but takes much longer and is more unreliable than the current UK route. It is very likely that this scenario would result in RoCom Ltd.'s European customers seeking an alternative component supplier.

Contingency Plans
A contingency plan is a course of action designed to help an organisation respond effectively to a significant future event that may or may not happen. A contingency plan is sometimes referred to as 'Plan B', as it is frequently used when things go wrong: when 'Plan A' does not work. Contingency planning is an essential element of business continuity, risk management and disaster recovery. In the context of the possible implications to the firm of the Brexit process, discussed above, RoCom Ltd. need to consider alternative ways to supply its European customers. There are a number of options available to RoCom Ltd. to mitigate the risk of Brexit to the firm and to ensure business continuity.

1. **Establish warehousing and distribution in Europe**
   RoCom Ltd. should investigate the possibility of leasing a warehouse in Europe and organising distribution to European customers from there, rather than directly from Ireland. Key to RoCom Ltd.'s success is its ability to deliver reliably and flexibly, and the firm can maintain this ability if it can minimise the uncertainty relating to delivery lead-times. RoCom Ltd. would continue to research and manufacture in Ireland but would then ship to its European distribution centre. The firm would need to ensure to carry sufficient inventory in the European distribution centre to cover any unforeseen delays that may arise between the manufacturing plant in Ireland and the distribution centre so as to not have any disruption to of supply to its European client firms. This plan has the benefit of minimising the disruption to RoCom Ltd.'s current activities, although it does involve additional costs, in particular the cost of the warehouse and additional inventory carrying costs.

2. **Maintain R&D in Ireland, but outsource manufacturing to a European firm**
   RoCom Ltd. should investigate the option of outsourcing its manufacturing activities to a firm in Europe. This would eliminate the need to transport its components from Ireland and therefore mitigate the impact of Brexit on its European business. In this contingency, RoCom Ltd. would retain its R&D in Ireland, where it cooperates closely with local universities. The firm would also continue to manage distribution and logistics in Europe, as these are also critical to its success. This option again has the benefit of minimising the risk of supply disruption as a result of Brexit, however, it does present several difficulties. Many of these difficulties mostly revolve around the process of outsourcing manufacturing. RoCom Ltd. will need to find a suitable firm with the ability to manufacture at the necessary level of quality and reliability. By definition, this option requires RoCom Ltd. to give up full control of the manufacturing process and there is an inherent risk that the outsourced manufacturer will lack the ability or motivation to provide the same level of service provided by RoCom Ltd.'s 'internal manufacturer'. This option also involves a significant exit cost for RoCom Ltd.: the cost of closing the Irish facility, redundancy payments etc. It is not clear from the brief, but sometimes the interaction between R&D and manufacturing is key to innovation. To the extent that this is the case for RoCom Ltd., outsourcing manufacturing may reduce the innovative capacity of the firm.

3. **Relocate full operations to Europe**
   Finally, RoCom Ltd. should investigate the option of relocating to Europe. This is obviously the most drastic and disruptive option. Similar to the previous option, relocation would eliminate the need to transport components from Ireland and therefore mitigate the impact of Brexit on RoCom Ltd.'s European business. This option recognises that Ireland may not be a suitable operating location for RoCom Ltd.: it exports 100% of its output and 80% to firms in mainland Europe. A rationale underpinning this option therefore is that by moving closer to its customers, RoCom Ltd. can avoid the impact of Brexit, and potentially provide an enhanced service to its customers due to its

geographic proximity. This option obviously involves massive implications for the firm. It is unlikely that many staff would choose to relocate, and RoCom Ltd. would have to re-establish both its manufacturing and more importantly, its R&D. This is not an option that could be implemented quickly, so if RoCom Ltd. were to decide to relocate, the firm would need to quickly start planning, determine a suitable relocation destination, etc. This option is clearly the most costly of the alternatives: it will involve incurring significant exit costs in Ireland as well as funding the new investment in Europe.

Conclusion
The process and implications of Brexit have implications that spread well beyond the UK itself. The final shape of Brexit and the UK's future relationship with the EU27, including Ireland, is still very unclear. Scenario planning is a very useful strategic tool is this situation, as it managers to explore and evaluate for multiple alternative futures. The three scenarios identified by RoCom Ltd. are plausible given what is currently known about the Brexit negotiations, and going through this exercise will enable RoCom Ltd. to test future plans and forecasts. Based on the analysis and on the expectations on management, the most effective contingency plan seems to be to invest in a warehousing and distribution facility in Europe. It is the least disruptive and costly of the alternatives, and is the one that can be implemented in the least amount of time. If RoCom Ltd. did this, it should reasonably insulate the firm from the practical and competitive implications of Brexit.

Indicative Marking Scheme for Question 4

			Mark
(a)	Explain the nature of scenario planning		
	• Relate explanation to RoCom Ltd. and Brexit		4
	Explain the potential impact of each scenario:		
	'Softly, Softly'		
	• Potentially 'business as usual'		
	• Increased business risk		
	• European customers may seek geographically closer supplier	3	
	'The Fudge'		
	• Increases paperwork, delivery times and costs		
	• Impacts delivery reliability (and flexibility)		
	• European customers more likely to seek geographically closer supplier	3	
	'The Hardliner'		
	• Effectively eliminates using UK as 'land bridge'		
	• Ferry to France not suitable		
	• European customers will need to seek geographically closer supplier		
	• Completely undermines current business model	3	9
			13
(b)	Possible contingency plans for RoCom Ltd.		
	• Establish warehousing and distribution in Europe, fed from Irish operations		
	• Relocate manufacturing to Europe (and potentially R&D)		
	• Maintain R&D in Ireland, but outsource manufacturing to European firm		
	• Diversify into components / customers that are not as sensitive to delivery delays		
	• Any other logical contingency		
	3 contingencies x 4 marks; 12 marks maximum		12
Total Marks			**25**