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# Answers

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1 (a) Introduction

Balogun and Hope Hailey have identified a number of contextual features which need to be taken into account when designing and implementing change programmes. I have been asked to review the strategic change situation at FMC, with reference to TCA's suggested strategic change proposal where appropriate, in the context of five of these contextual features:

- Time
- Readiness
- Capability
- Preservation
- Scope and nature of change

**Time** refers to the urgency of strategic change. In some situations, change has to be implemented very quickly in an attempt to ensure the survival of the organisation. Urgent change is often associated with financial problems, where the organisation needs to secure funding quickly to guarantee its short-term survival.

At FMC, revenue has declined in absolute terms by over 11% since 2013 and profitability has dropped by almost 30% in the same period. Retained earnings have also fallen, but so has long-term borrowings.

The calculation of selected financial ratios (see Table 1) actually provides little evidence to support TCA's claim that 'urgent change is required at FMC to address the financial performance of the company'.

	2007	2009	2011	2013	2014	2015	2016
<b>Profitability</b>							
ROCE	24.51%	28.85%	31.55%	26.83%	24.88%	22.84%	20.74%
Net profit margin	5.05%	6.00%	6.31%	5.24%	5.10%	4.74%	4.19%
<b>Liquidity</b>							
Current ratio	2.34	2.26	2.07	2.18	2.19	2.18	2.13
Acid test ratio	1.16	1.09	0.94	0.98	1.00	0.98	0.94
<b>Financial gearing</b>							
Gearing ratio	7.8%	7.7%	5.8%	5.9%	5.5%	4.6%	4.3%

**Table 1: Profitability, liquidity and gearing ratios for FMC for selected years 2007–2016**

The return on capital employed (ROCE) and the net profit have declined since 2011 and both figures are below the 2016 industry average. However, although profitability is a concern, the company does still remain profitable. It still has retained earnings available for investment and although liquidity has been falling, both the current ratio and the acid test ratio are above the 2016 industry average. The current ratio is 2.13 (compared to an industry average of 2.10) and the acid test ratio is 0.94, compared to an industry average of 0.92. The company is also very lightly geared and its gearing ratio has become progressively lower over the last ten years. Compared to the industry average of 20%, it is carrying very little debt.

Although change is required to address falls in revenue and profitability, it appears that change could be implemented more leisurely than TCA suggest.

**Readiness** concerns the readiness of the workforce for change. In certain circumstances a workforce recognises the need for change and so welcomes subsequent change initiatives. However, this does not appear to be the case at FMC. It seems that the workforce perceives the current problems as temporary. Many of them have seen the company recover from similar situations in the past. For example, ten years ago, the company experienced profitability problems and was relatively highly geared, but it gradually improved its financial position through better quality control and a review of the model range. It is likely that the workforce will not welcome the changes proposed by TCA, particularly as these changes threaten a way of working which the workforce values and is comfortable with. My assessment is that the workforce is not ready for the degree of change suggested by TCA and is likely to oppose such radical strategic change.

**Capability** refers to the capability of the company to successfully implement any proposed strategic change. High capability is associated with previous successful strategic change initiatives. There is some evidence of successful change ten years ago, but two of the directors associated with the change and the subsequent improved performance of the company have now left. Except for the chief executive officer (CEO), the current management team is relatively inexperienced and so its capability is likely to be low. Thus, left to its own devices, it seems unlikely that FMC has sufficient internal capability to implement a strategic change as radical as the one proposed by TCA. However, in contrast, TCA does appear to have significant capabilities in strategic change and this is a significant strength which it would bring to a project designed to implement the changed business model.

**Preservation** concerns organisational resources and characteristics which need to be maintained through the change. The proposed strategic change must not destroy these key characteristics. FMC has to believe that the dealer network is not one of those key characteristics, as it will be destroyed by the proposed change. At FMC, it is likely to be the manufacturing and marketing competencies which have to be preserved. In manufacturing the company must continue to fabricate high precision, high quality model kits. In fact, this competence becomes more important in the proposed business model as pre-sales and post-sales customer support, currently provided by the dealer network, will be lost. Similarly, the brand image and brand recognition must be preserved during the change period, making sure that it survives any negative publicity associated with the change in the business model.

**Scope and nature of change.** The proposal from TCA suggests that 'revolutionary change, in terms of the Balogun and Hope Hailey model, is required at FMC'. Revolutionary change is *transformational* in scope and *big bang* in its nature. Generally, big bang change is required when an organisation is facing a crisis and needs to change direction very quickly. As already identified, in the consideration of time, it seems unlikely that such rapid change is really required at FMC. Incremental change, building on the skills, routines and beliefs of those in the organisation is likely to be more effective. The transformational scope of change is concerned with paradigm change, a fundamental change in strategic direction. Transformational change cannot usually be accommodated within the current culture of the organisation, it requires fundamental changes in assumptions and beliefs. There is evidence to support TCA's view that their proposal is transformational change for FMC because it will require fundamental changes in the relationship of the company with its customers. However, it might be argued that evolution is more desirable than revolution, incrementally implementing the proposed change and assessing whether the change was successful and adequately addressed the strategic position of FMC.

- (b) The POPIT model suggests that four aspects of a business change have to be considered: people, organisation, processes and information technology. Change which selectively focuses on just one or two of these aspects is likely to be unsuccessful.

#### **Information technology**

TCA's proposal appears to focus on technology change, stressing the need to develop a fully-functional e-commerce website allowing order placement, order tracking and payment. It claims that 'strategic change will be technology-led' and that 'TCA has considerable experience in technology-led change'. However, the POPIT model suggests that related changes will be required, in people, processes and organisation, for the proposed business change to be successful.

#### **People**

In the current process, FMC sales and marketing staff mainly interact with the dealer network. Generally, there are a large number of interactions with relatively few customers. These customers, the dealers, work closely with the FMC sales and marketing team and personal friendships have developed between dealers and FMC staff. Furthermore, the technical knowledge of these customers (the dealers) is relatively high. In the proposed business model, it is likely that FMC staff will have to deal with many customers, but the number of interactions with each customer will be relatively small and the technical knowledge of customers will be very varied. Some are likely to have no technical knowledge at all. Thus, staff in sales and marketing, and possibly production, will need to be retrained to deal with a different type of customer.

#### **Organisation**

The balance of staff within the organisation structure may have to be reviewed. Currently, customer support and service is provided by a relatively small number of people (nine) in sales and marketing who only have to look after a small number of customers (10 to 15 dealers each). It seems highly likely that more customer support and service staff will be required in the proposed business model. The potential scale of this support can be estimated. In 2016, revenue totalled \$4,650,000. At an average price of \$500, this equates to 9,300 model kits sold. It is estimated that each customer buys, on average, two FMC models per year. Thus there will be approximately 4,650 end customers requiring sales support. Sales and marketing will have to be re-organised to reflect this. There might also be a concern about staffing levels in production in the context of the possibility that production staff will be increasingly diverted from their production duties to answering technical queries from customers.

There will be no requirement for field staff to visit the dealer network to present and promote the product range. Display advertising material for shops will no longer be required. The focus now will be on ensuring that the e-commerce site is an effective marketing medium. For example, making sure that the website appears high upon search engine listings, and exploiting different ways of getting the message across, for example, showing videos of the models in construction. The member of the sales team responsible for the production of brochures and display advertising may no longer be required. However, extra staff may need to be hired to supplement the one employee currently maintaining the website.

The workload will also change in the finance team. There will be more invoices to process, but there should be fewer payments to chase as payment on order is expected. The team will now be dealing with a large number of small transactions rather than a small number of large ones.

It seems very likely that the dedicated logistics team within production, with its six vehicles and twelve staff, will no longer be required. Conventional postal and courier services are much more effective ways of distributing single orders to a large number of individuals. Thus the proposed change may bring about staff redundancies and provide an opportunity to raise capital through the sale of vehicle assets.

#### **Processes**

Much of the customer purchasing process will take place through the proposed e-commerce website. However, processes will have to be put in place to update this website, to remedy mistakes made by customers when using the website (for example, inadvertently ordering the same product twice) and to ensure that the order tracking information is correct and up-to-date. There will also have to be changes made to the delivery process (as deliveries will be made to individuals rather than dealers) and returns. Again, returns will now be from individuals, rather than dealers. Thus, effective processes are required to support the e-commerce operation and, returning to the people theme, staff will need to be trained in these processes.

- (c) This final part of the report looks at potential barriers to customers embracing the proposed way of purchasing. I will first focus on what customers will lose if FMC abandons its dealer network.

The physical element of the marketing mix appears to be very important to FMC's customers. One of the reasons for visiting a model dealer is to physically see and handle the kit prior to purchase and perhaps to inspect a finished version of the kit. Completed kits of some models are provided to dealers specifically for this purpose. This is not possible in the proposed business model. It is feasible to provide some elements of a physical experience in the e-commerce site. For example: by showing photographs of the model from all angles and by including videos of the model under construction or operation. However, it will not be possible to replicate the physical element of the current buying process completely and so FMC needs to be aware of this. If physical evidence is an important part of the buying decision, then customers may no longer purchase if the proposed business model is adopted.

It is also clear that many of FMC's current customers have emotional ties to the model shops where they purchase from. Most of these shops are run by fellow enthusiasts, facilitating a great degree of interaction between sellers (dealers) and buyers (customers). The shops appear to culturally provide a social function, where isolated modellers can get together with like-minded people. FMC's major competitor is not abandoning the dealer model and there must be a concern that customers will increasingly buy kits produced by this competitor as a matter of principle. FMC's axing of its dealer network could be seen as an attack on fellow enthusiasts and there is a possibility that FMC will alienate its customers by this approach.

In practice, many modellers encounter problems when constructing their models. The dealer provides front-line post-purchase support, giving advice or providing the physical space where advice can be given by fellow modellers. They may also offer practical help, troubleshooting problems and dealing with FMC, if these problems cannot be resolved. FMC will have to provide a similar after-sales service to maintain customer satisfaction. Again, potential customers may not find this particularly satisfactory. In the current business model they can have any issue resolved quickly by someone who they know and trust and with whom they can discuss the problem and any possible solution. Furthermore, they know that any problems which cannot be addressed immediately will be subsequently resolved by the dealer dealing directly with staff at FMC. Potential customers might consider that dealing with FMC directly is not worth the bother and so not purchase from them.

In switching to purchasing over the internet, FMC has to be sure that the current customer base:

- Have access to the internet. Even if an internet service is available, it cannot be assumed that FMC's customers have actually subscribed to such a service. TCA states that broadband coverage in the country is now 90%. However, this does not mean that 90% of the country has actually subscribed to this broadband service.
- Have a credit or a debit card. This will be required for purchases over the internet.
- Are willing to purchase goods over the internet. Many users are concerned about fraud and security and so may be unwilling to make purchases over the internet.
- Are willing to make high value payments over the internet. Even if customers are willing to make online purchases, the high value of each purchase (\$500) might be a deterrent.

Further research is needed here. The sales and marketing manager's assertion that old men will not use the internet to buy model kits is stereotypical and unsupported by any data provided in the scenario. In fact, the phenomenon of the 'silver surfer' is acknowledged in most countries. The production director's concern that many older users were reluctant to make online purchases due to fears about fraud and security is better founded. This does not mean that the proposed change in the business model should be rejected outright. However, it does suggest that customers should have the facility to make off-line purchases, based on the information they have found on the website. For example, they should have the option to phone FMC to place and pay for a kit over the phone. This has further implications for the processes and people supporting the proposed change.

Finally, it must be acknowledged that the dealer network itself might be a barrier to potential customers who are unable to physically get to a model shop. Changing the channel might bring in many new customers which compensates for the loss of some existing ones.

- 2 (a)** There are many subsidiaries within NCBT's diversified business, but this answer will focus on the three in the scenario: Swiftdale Farms, CCB Insurance and Pait Technology.

#### **Swiftdale Farms**

Swiftdale Farms appears to have performed well until 2010, when it started to decline. This decline appears to have continued, although we only have the last three years data. The market has fallen 6.91% over the three years (3.64% in 2014–15 and 3.4% in 2015–16). Not only has the market declined, but Swiftdale's share of it is also falling, from 18.55% in 2014 to 17.58% in 2016. This is as a result of a decline in turnover of 11.76% over the three years. Swiftdale's decline appears to be gathering pace as it had a much greater fall in turnover (7.22%) in 2016 than in 2015 (4.9%).

Despite that, Swiftdale still appears to have a relatively high market share (18.55%), given the nearest competitor's share of 15.4%, and so, with market decline and high market share, it may be considered a cash cow on the BCG matrix. If Swiftdale's market share continues its decline, it may become a dog, as the nearest competitor may overtake it.

Cash cows normally provide high profits to a company, as there is little required expenditure on marketing or product development. However, Swiftdale's gross profit margin is the lowest of the three NCBT companies mentioned: 11.76% (2014), 7.22% (2015) and 4.44% (2016). The decline is rapid, with the absolute gross profit falling 66.67% over the three years. Therefore, it may be time to divest this subsidiary before it starts to make a loss, particularly if NCBT's parenting style is that of portfolio manager (as discussed in part b).

NCBT has, in the past, provided financial resources to Swiftdale, but it does not appear to have complementary competencies, being in a high growth technology industry. Therefore, it probably has limited ability to add value. Given the decline of Swiftdale's home market, there would also seem to be little opportunity to add value. This would make it an alien business in Ashridge's matrix at this time, even if it was previously situated elsewhere on the matrix.

This conclusion also supports the suggestion to divest the business, as it is unlikely that any value will be gained with its retention. NCBT would be better focusing its attention on subsidiaries which can bring in further value.

#### **CCB Insurance**

CCB Insurance is a fairly recent addition to the portfolio, which grew rapidly on acquisition and appears to have successfully maintained a growth in turnover and market share since acquisition. Turnover grew by 20% in 2015 and by 10.71% in 2016, giving a rapid growth of 32.86% over the three years. In doing so, its market share increased from 8.64% to 10.45% over the same time period, showing that CCB Insurance is growing at a faster rate than the market. However, the market itself continues to grow with market turnover increasing by 9.88% over the past three years.

As the growth of the economy in which CCB Insurance operates is 2%, this may be considered a relatively high growth industry. Its market share of 10.45%, although good, is not as high as the market leader, with 12%. Therefore, this could be considered a problem child on the BCG matrix. However, if CCB Insurance continues with its rapid growth, it could well become the market leader and thus move into the star position on the BCG matrix.

When considering the Ashridge matrix, there is clearly an opportunity to add value; the market is growing and CCB is in need of some assistance to help it continue to capitalise on the growth. Its profit margin is falling (from 28.57% in 2014 to 23.66% in 2016) and there could be an opportunity to improve this. NCBT may not have knowledge of the market itself, and therefore lack competencies in the industry, but it does have experience of rapid growth and also has access to resources which could be made available. This would make CCB a heartland business, or possibly edge of heartland.

Both the position in the BCG and Ashridge matrices suggest that NCBT should invest in this business to help add value. As the market share is only 1.55% below the market leader, a good strategy in this situation would be for NCBT to invest in CCB to try to grow its market share further and become a star company in the BCG matrix. CCB has said they are struggling to keep up with growth, so the provision of finance for new premises and staff recruitment would be of benefit. It could be that NCBT may be able to recognise appropriately skilled staff from NCBT's financial services business, who could be temporarily or permanently relocated to the insurance provider.

#### **Pait Technology**

This is a new acquisition but appears to be reaping benefits for NCBT. Its turnover grew 16% in the first year after acquisition and grew a further 18.97% from 2015–16. It has a higher GPP than the other subsidiaries mentioned in this scenario, and has maintained the same level at around 40% in each of the past three years. Indeed, although smaller than the other two subsidiaries in turnover, it provides an absolute gross profit higher than both of them combined in 2016.

The market is also growing rapidly, a growth of 21.21% over the three years. Pait Technology is growing faster than the market, with its share having grown from 15.15% to 17.25% over the same period. This supports the claim that the existing managers are knowledgeable about the customers and the market. The next highest competitor has a market share of 8%, less than half of Pait's.

On the BCG matrix, this would be a star company. The matrix suggests the need to build further to maintain its star position and be a dominant market leader when the market eventually slows down.

Looking at the Ashridge matrix, NCBT has the knowledge required to be able to add value to this company. However, their opportunity to add value may be low as the company is already performing well and has a good brand name. Thus, Pait Technology may be considered a ballast company. The matrix suggests to leave these alone to run themselves, as interference may actually reduce value.

Thus I would suggest that NCBT leaves Pait Technology to be run autonomously and be open to the provision of resources, if required in the future, to help build the business further.

- (b) NCBT is a diversified business with many subsidiaries. Companies which diversify in this way usually have a planned corporate rationale for doing so, such that all acquisitions fit the strategic development of the parent company. Johnson, Scholes and Whittington identified three such corporate rationales: portfolio managers, synergy managers and parental developers.

#### **Portfolio managers**

These parent companies look for undervalued companies to add to their portfolio. The parent, usually, is a widely diversified, conglomerate company. Different subsidiaries may be in completely unrelated industries. The parent tends to allow the acquisitions to remain autonomous, given the lack of synergies between the companies, but sets financial targets to ensure that performance is improved and value added.

#### **Synergy managers**

Parent companies acting as synergy managers look for economies of scope or synergies between the different companies within the group. They will recognise where resources and competencies can be shared between the subsidiaries and, as such, there are often connections between the subsidiary companies, e.g. they may be at different stages of the same supply chain.

Although NCBT appears to have a few companies related to each other (e.g. farming and fertilisers), there is no indication from the scenario that it currently encourages these to work together or share resources. Therefore it is unlikely that it is a synergy

manager. However, should the advice be taken regarding CCB Insurance (moving staff between companies), then it may start to adopt some of the principles of synergy management.

**Parental developers**

Parental developers seek out subsidiaries which it can use its own competencies to improve and add value. For example, NCBT could use its knowledge of being in a growing consumer electronics market, or of operating in the same country, to assist Pait Technology.

However, it is suggested that Pait Technology, itself, possesses the knowledge required to grow further and therefore the opportunity may not exist for NCBT to act as a parental developer.

**NCBT's corporate rationale**

NCBT appears to have all the characteristics of a portfolio manager. Its diversified businesses include insurance, farming, clothing manufacture and consumer electronics, which are not closely related business and unlikely to share many synergies. It has in the past set financial targets for Swiftdale Farms, and withdrawn support when those targets were not met. It has also allowed the subsidiaries to run fairly autonomously, leaving the management teams in place.

It is also implied that many of the subsidiaries were considered undervalued on acquisition; Swiftdale Farms was acquired 'for a low price', CCB Insurance was a new listing and share prices grew rapidly after acquisition, and Pait Technology is in a growth market, suggesting there may be further value to be added.

Therefore it could be argued that NCBT is a portfolio manager.

- 3 (a) The Deal Group could assess the priority of the three processes on Harmon's process-strategy matrix. The matrix has two axes. The vertical axis is concerned with process complexity. Low process complexity refers to simple or routine procedures with few inputs, whilst highly complex processes can be considered to need a high level of skill, be non-routine and use a variety of different inputs.

The horizontal axis considers the strategic importance of these processes. Low importance processes are concerned with things which must be done but which add little value to products or services. However, the high value processes are very important to success and are often considered to be the core processes. From these two axes, Harmon categorises four quadrants and makes suggestions about how processes should be tackled in each quadrant, as summarised in Figure 1.

		Strategic importance	
		Low	High
Process complexity	High	Complex and dynamic processes but not part of core competences  OUTSOURCE	Complex, dynamic processes, generating competitive advantage  PROCESS IMPROVEMENT FOCUSING ON PEOPLE AND THEIR INTERACTIONS
	Low	Simple commodity like processes  AUTOMATE or OUTSOURCE	Simple but important processes  AUTOMATE

**Figure 1 – Harmon's process/strategy matrix**

Each of the three processes can be evaluated in turn using the matrix, as follows:

**Publication of the *Daily Finance* newspaper**

This appears to be of high strategic importance to the group, as well as of high complexity. The scenario states that this is one of the key brands within the Deal Group, with good brand recognition. It may be considered a core business, and therefore of high strategic importance to the group. The matrix would suggest that this process remains in-house.

The process of publishing this paper cannot be defined as simple; it requires knowledgeable staff with good communication skills to attract the readers. The sources are many and varied, and the tasks are unlikely to be repetitive.

Given the importance of this newspaper to the group, and the recent decline in readership, it is crucial that the process is improved to turn the decline around. The matrix suggests process improvement focusing on people. It may be that the Deal Group recruits dedicated finance reporters to enhance the content or alternatively trains its reporting staff in editorial skills. It seems, however, that the way in which the reporters interact with the paper could be improved. If the paper were to introduce an online version, editorial staff could comment on articles provided by the reporters, even after the articles are published.

### **Subscriber management**

This is a relatively simple process; it is likely to be repetitive and straightforward to manage, with few inputs to the process. Given that it is an important revenue stream for the Deal Group, it should ensure that the process is streamlined and suits the needs of the subscribers. This should address the decline in subscribers, in conjunction with the actions taken with regards to the publication.

The matrix suggests process improvement through automation and this would be ideal in this situation. An automated customer relationship management system would ensure that all subscriber details were stored and available to all members of the client relationship team. In this way, any member of the team would be able to respond to a client query with full knowledge and deal promptly with any issues. There are many off-the-shelf customer relationship management systems available which are likely to meet the needs of the company and should ensure the process is fully streamlined.

### **Payroll**

Payroll is a quite straightforward process, but the payroll department appears to be making it more complex than it needs to be. Rules exist which mean that any activities within this process should be routine, even if they do not happen in the same way for every member of staff.

Although it is important that employees are paid the right amount, at the right time, the process of paying staff is not strategically important as it cannot provide competitive advantage for the company.

Therefore the matrix would suggest that this process be outsourced or automated. It may be that an appropriate off-the-shelf system does not exist which incorporates the various different payment rules. If this is the case, then the Deal Group should consider outsourcing to a payroll bureau, which will manage the process professionally and should also benefit from economies of scale. It may reduce the cost to the Deal Group and should remove any demotivation caused by the currently flawed process.

- (b)** The Deal Group has already decided to outsource its legal department, so it needs to be aware of the disadvantages and risks involved in doing so, in order that it can try to manage those risks.

Legal services are likely to be costly, given the level of expertise required. Outsourcing providers need to earn a profit margin on their services. Thus, the opportunity for overall cost savings will depend on how often, and for how long, this service is necessary.

It is likely that an annual fee would have to be paid, which may or may not, include all services.

There is a risk of increased costs in the future, if a single supplier is used, as it may be difficult for the Deal Group to switch to another provider at the end of the contract period.

There are numerous firms to select from and the risk is that the Deal Group fails to select the best provider for their needs. Legal firms offer a variety of services and often specialise in specific areas. If the company has not needed a specific legal service before, it may be that their selected provider cannot meet these needs.

Legal services are highly confidential, especially if the group is considering legal advice on articles not yet published. It may be concerned that the content of the articles be leaked in some way to competitors, especially if they share the same outsourcing company.

Given the expertise required, it will be difficult for the group to return this process in-house should the outsourcing provision not work out. There may also be problems in outsourcing the process, as it will require making legally trained employees redundant, who will have full knowledge of their rights and may make it difficult, or expensive, for the company.

Outsourcing can also lead to a loss of control over the quality of the provision. However, a legal firm with access to many staff should be capable of delivering a high-quality service, probably of a higher quality than a small legal department within an unrelated company.

In order to manage the cost risk, the Deal Group should ensure that it has a fully agreed service level agreement (SLA) which details everything included in the fees and the detailed charges for any additional services.

Similarly, a signed agreement can be used to ensure there is no risk to confidentiality.

The risk of a supplier being unable to meet their needs could be overcome by a decision to outsource to a variety of law firms rather than a single one. This would also overcome any supplier power in the future, if the contract was coming to an end.

- 4 (a) The strategic options can be defined by their position in the Ansoff Matrix.

#### **Existing product/existing market**

This is a *market penetration/consolidation* strategy whereby Tramor would try to increase its market share in the existing market. There are some strengths in favour of this strategy. Tramor currently has the highest market share and owns a number of product patents which prevents competitors from copying their products. This strategy would also avoid the weakness of limited product design capabilities, with a team nearing retirement.

An increase in demand may put pressures on the inflexible production system. However, there is scope for changing to a leaner approach, given the increased accessibility of these methods.

Tramor may consider its current products to be cash cows, as it has a high market share, in a shrinking market. Cash cows can be consolidated or grown, by taking over from smaller competitors aiming to leave the shrinking market. Therefore, there may be an opportunity for Tramor to succeed with this strategy.

However, Tramor already has high brand recognition, so an intensive advertising campaign may have limited effect. This strategy also ignores the threats of changing tastes, which could have a great influence on the future growth of the market and of Tramor itself.

#### **New product/existing market**

This is a *product development* strategy whereby Tramor would attempt to sell new products in the existing market. Clearly, Tramor has been good at developing products over the years, given it has a product range of over 300. It also earns some revenue from new products each year. However, this appears to be a current weakness, with a small product design team, who are nearing retirement and may be lacking in new product ideas. This would appear to be supported by the small amount of revenue earned from new products each year. Even if it was decided to replace the product design team, there is poor succession planning, so it may take time for a new team to become successful.

This strategy would also focus on the existing market which, as previously mentioned, is shrinking. Therefore, it may not prove sufficient to satisfy the shareholders' desire for growth.

One concern for companies following a product development strategy is to be wary of not competing with its own products. By designing products to compete with overseas imports, this may not be the case but it is possible that existing customers would replace one Tramor product with another.

#### **Existing product/new market**

This is a *market development* strategy which aims to sell the existing Tramor products to a new market. In this case, it would be a new geographical market, starting with the United Federation of Torra (UFT). There are clearly opportunities in this market as the Torrean tourists seem to see Tramor products as cult products, developing websites dedicated to them. Confectionery is also seen as a key Baylandian product and therefore is likely to have a good reputation overseas as well as in the home market. This may mean that the brand development overseas may be made easier for Tramor.

Tramor has strengths which would support this strategy. It has strong marketing capabilities, a wide product range and a management team with many years' experience of the existing products and processes. It also appears to be successful at supply chain management, which would be beneficial to an overseas expansion.

However, it does have one major weakness with regards to this strategy: the lack of experience of overseas expansion.

#### **New product/new market**

This is a *diversification* strategy, which would overcome the threats of the shrinking market and recognise the trend towards healthy eating and sugar-free foods. However, Tramor does not appear to have the strengths to capitalise on this strategy.

The product design team, as mentioned, are ageing. It could be assumed that they are also unfamiliar with this type of product. The manufacturing processes are inflexible and some investment would need to be made in lean manufacturing in order to adopt this strategy. This may take some time, and fail to satisfy shareholders in the short term.

There are some strengths which support this strategy, such as the marketing team, but this would be an entirely new market to them and their knowledge may not be as good in this market. The strategy does not make the most of other strengths, such as the existing distribution channel, instead requiring new relationships.

#### **Conclusion**

The TOWS matrix can be used to determine the most appropriate strategy given the findings of a SWOT analysis. The preferred approach is to find a strategy which combines strengths with opportunities.

Option A, the market penetration approach, seems to be in the strengths/threats segments which should use strengths to overcome threats. However, it is doubtful that the particular strengths in this strategy would overcome the threat of changing tastes and the declining market in Bayland.

Option B, the product development approach, seems to be in the weaknesses/threats segment which should be avoided at all costs, as these strategies are likely to fail.

Option D, the diversification approach, appears to fall in the weaknesses/opportunities segment. Whilst the external factors are in place for growth, Tramor does not seem to have the capabilities or resources needed to capitalise on them. There may be competitors to whom the opportunities also exist, who have greater capabilities in this area.

Option C, the market development approach, appears to mainly combine strengths with opportunities. This would be the strategy most likely to succeed. However, it must be carefully planned as there is one weakness still to overcome, the lack of overseas experience.

- (b) If Tramor is to adopt the market development approach, it needs to consider how to enter the market. There are a variety of methods, each of which will be analysed in turn.

*Organic growth* – this is achieved by developing internal capabilities and using retained profits and internal resources to grow.

Organic growth would help Tramor to develop a better understanding of the new market and have complete control over the growth and the way in which it is achieved. The experienced managers, whilst lacking knowledge of the new market, may enjoy the opportunity to deliver a new strategy themselves. However, whilst this method has its benefits, it has not always been the method of choice for Tramor, which has experience of past acquisitions.

Indeed, the lack of knowledge of the proposed market, as well as the lack of experience in overseas expansion, is likely to hinder this growth and either make it too slow to satisfy the shareholders, or to lead to its failure. Therefore, this method is unlikely to be the most appropriate.

*Merger* – If Tramor were to merge, they would develop a new legal entity with another company, in this case presumably in UFT. This seems a rather extreme step for Tramor to take, as it would mean sharing all profits with the other party. Tramor already has a good brand name with very high recognition. This would presumably be lost if a merger was to take place, unless it was incorporated into the new name. The merger would affect all Tramor's operations, not just the new venture into UFT.

A merger would have most of the benefits of acquisition and with less risk, so may be considered. However, it does not seem to be the most appropriate method in this case.

*Acquisition* – An acquisition would occur if Tramor were to take over ownership of another company. If they could find a suitable company in UFT, this would give them a rapid entry into the market and overcome any issues with the lack of knowledge of this market and the culture of the consumers. Tramor may choose to acquire either a manufacturer in UFT, thus providing access to production capabilities as well as the distribution channel. Alternatively, it may choose to acquire further down the supply chain, e.g. a confectionery retailer to ensure access to the consumer.

The speed of entry would allow Tramor to take advantage of the current desire for its products in UFT as well as satisfy the shareholders who are getting restless. Tramor also has experience in acquisition and so should be able to use this experience to help ensure success.

However, this would be the most expensive route into the new market and Tramor would bear all the risk of failure as there would be no partner to share it with.

*Strategic alliance* – This could be a good alternative to mergers or acquisitions, gaining access to knowledge, whilst sharing the risk, but also the rewards of this strategy. Although there are different approaches to strategic alliances, the basic principle is that two, or more, organisations work together and share knowledge and resources to deliver a specified strategy. Different alliances can include joint ventures, franchising and licensing, as well as informal alliances.

An alliance with a distributor in UFT would allow Tramor to continue to produce in Bayland, whilst gaining access to distribution channels and therefore the end consumer in the new market. This may not be quite sufficient, as Tramor's production capabilities are rather inflexible and may not be able to cope with increased demand.

Using licensing would allow manufacturers in UFT to produce and sell Tramor products. This could be a very good way to access the market, but may take time for the manufacturers to be capable of production (unless using flexible manufacturing processes) and would lead to some loss of control over the quality of the final product. This would also reduce the potential income from this venture for Tramor; it may increase sales volume, but Tramor would only receive the licence fee and any agreed profit share.

It may be that Tramor enters a series of alliances to ensure it makes the most of the full potential of the new market. For example, it may be beneficial to enter into an alliance with the company owning the website which lists purchase locations of Tramor products. The website could be developed into an essential marketing tool for the strategy. Additionally, there could be an alliance with a manufacturing company. However, this could lead to a loss of secret recipes, handed down over the years.

## **Conclusion**

Whilst mergers, acquisitions and organic growth all have their benefits, it would seem that strategic alliances offer one of the faster entries into the market. Tramor could carefully select organisations which will give it the fastest and safest route into the market.

- 1** (a) Up to 1 mark for each relevant point up to a maximum of 20 marks.
- (b) Up to 1 mark for each relevant point up to a maximum of 14 marks.
- (c) Up to 1 mark for each relevant point up to a maximum of 12 marks.
- Up to 1 professional mark for
- Structure
  - Tone
  - Coherence
  - Clarity
- 2** (a) Up to 1 mark for each appropriate point, up to a maximum of 6 marks per company. Up to a maximum of 18 marks in total.
- (b) Up to 2 marks per corporate rationale. Up to 3 marks for conclusion. Up to a maximum of 7 marks.
- 3** (a) Up to 1 mark for each general point, up to a maximum of 3 marks. Up to 5 marks per process area. Up to a maximum of 15 marks in total.
- (b) Up to 1 mark for each appropriate point, up to a maximum of 10 marks.
- 4** (a) Up to 1 mark for each appropriate point, up to a maximum of 15 marks.
- (b) Up to 1 mark for each appropriate point, up to a maximum of 10 marks.