

## **STRATEGIC CASE STUDY PRACTICE EXAM ANSWERS**

### **Variant 2**

**The Practice Exam can be viewed at**

<http://www.pearsonvue.com/cima/practiceexams/>

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#### **Section 1**

##### **Mission Statement**

There are a number of downside risks to the publication of this information.

Firstly, there is a risk that Cast will create unrealistic expectations in the minds of customer. Purchasing decisions often involve choices and compromises and it may be difficult to ensure “delight” from every transaction. Customers’ reactions may be much more low-key than the word “delight” implies and so Cast is in danger of leaving them feeling disappointed.

Cast’s mission statement also incorporates factors that are not necessarily within the company’s control. The intention to offer the widest range of goods may leave the company open to comparison with other vendors. Cast will be seen to have made an unrealistic claim if it does not stock a particular line that has suddenly become popular. A competitor may view this claim as a challenge and strive to offer a wider range and publicise that fact.

Claiming that goods will be sold at the lowest price is also a potentially rash claim. There are search engines that can find vendors and compare their prices. If Cast’s prices are even slightly higher than the claim made in the mission statement has been invalidated.

Claiming the highest standard of service will also leave Cast open to criticism. Customers will take good service for granted, until there is a problem. For example, if a package is lost in the post or the customer claims that a mistake has been made then Cast may be accused of failing to meet this commitment. Cast may be forced to compensate customers simply to prevent poor feedback from appearing on its website.

To an extent the claims are mutually exclusive. Offering the highest standard of service while charging the lowest prices may be very difficult. Cast will have to ensure the highest standard of efficiency in order to provide a premium service without charging a premium price.

The mission statement may offer upside risks too. Customers may be reassured by the company’s claims to be interested in providing excellent service. Many customers will take the claims at face value and will not, for example, compare Cast’s prices. Presumably, Cast has demonstrated its ability to provide customers with a satisfactory service and words such as “delight” may be interpreted in a realistic manner on the basis of experience.

## **Relationships with manufacturers**

Cast's business model is that it retails leading brands that are familiar to and popular with customers. That creates a relationship that has both advantages and disadvantages to both parties.

The first difficulty faced by Cast is that of control. Major manufacturers advertise their products heavily and so customers will wish to buy those brands. Cast cannot afford to upset such a manufacturer because the manufacturer might decide not to do business with Cast while still supplying Cast's competitors.

Manufacturers are also increasingly likely to make sales via non-traditional outlets, such as their own websites. Direct sales are more attractive than sales via retailers such as Cast because the manufacturer can retain the retail margin. Thus, manufacturers may be keen to offer new products exclusively through their own websites or offer customers special offers that retailers may find difficult to match.

Cast aims to offer a wide range of products, which means that it is limited in terms of the prominence that it can give to any individual manufacturer on its website. Promoting one manufacturer could risk alienating another. Cast's competitors may decide to focus on specific manufacturers and could, therefore, extract some concessions that would enable them to win sales from Cast.

Cast will be held responsible for any delays or holdups caused by manufacturers. Customers order through Cast's website and will feel let down if the suppliers do not fulfil the commitment made by Cast. Cast can hardly offer the fact that it was merely acting as a link to the manufacturer's direct sales outlet as an excuse.

Manufacturers will monitor Cast's website for negative feedback. If Cast's customers are more likely than others to express negative views about their products then the manufacturers may hold Cast responsible. Ultimately, that could lead to Cast losing business if there is a well-publicised row with a manufacturer.

Those risks will be mitigated by the fact that Cast is a major retailer and so the manufacturers would not wish to lose the company as an outlet. Cast's place in this market means that the company can affect a manufacturer's market share if it does not sell that manufacturer's products. Cast can sell in large quantities, which helps with the overall efficiency of the supply chain. A manufacturer only has one company to deal with in order to manage that proportion of its sales volume.

The law may also make it difficult for manufacturers to exclude Cast. For example, granting discounts on a selective basis without any commercial justification, such as order sizes, can be viewed as anti-competitive. Also, retailers often use the "grey" market to acquire products that manufacturers do not wish them to sell. Cast can use such legal and market anomalies to ensure that it stocks the products that it wishes to sell.

## Section 2

### Using a database

Two main strategies will be discussed. The first is the manner in which further useful data might be gathered and the second is in the uses to which such data might be put.

Cast should track customers' browsing habits. The best way to do so would be to track individual customers using cookies, so that people visiting the site might be tracked both in terms of the frequency with which they visit and their behaviour when they do.

Cast should ask customers to register when they make their first purchase. That would almost certainly be necessary in order to organise the transaction, so customers will be happy to do so. Cast should ask customers to keep their profiles up to date and to provide additional information such as identities used on social networking sites. That will make it easier to track customers as they move from site to site on the internet.

Cast should encourage suppliers to collect similar data and to consider collaborating with Cast. That may not be practical because of privacy issues or because suppliers may also share data with Cast's competitors.

Cast can then use that data in a variety of ways.

All patterns of sales should be studied. For example, how many items are sold in a typical transaction? What products are sold together? Cast may then be able to increase sales by making suggestions at the time of sale. For example, if customers who buy lipstick often buy eye shadow then the checkout page may suggest eye shadow whenever a customer buys lipstick. The success rates of such suggestions can be compared so that their effectiveness can be gauged and they can be improved over time.

Customers' buying habits can also be retained so that suggestions are offered whenever a customer logs into the site. Those suggestions can be based on recent purchases or on links to complementary products.

Tracking customers in and out of the site can also be used to determine what triggers a purchase. For example, some customers may simply browse the site with little intention of buying and may visit more than once for every sale. Cast can track the pages that were reviewed immediately before a purchase to investigate the factors that might trigger a sale, such as reading a positive review left by another customer. In that case, the company will know where to focus marketing resources. If reviews can be shown to increase sales then customers may be rewarded with discounts if they review their purchases regularly.

The customers are tracked into the site from an external site such as a social media site then Cast can check whether they have been influenced by information from outside. Many companies have a significant presence on social media sites and gathering details of how they may affect customers' buying decisions could be a useful means of evaluating their effectiveness.

### Risks and Rewards

The most immediate risk is that there will be a substantial investment. Cast would have to invest heavily on both hardware and software in order to gather and process the huge quantity of data that would be required. There is no guarantee that the anticipated sales would be forthcoming. It may be that suggestions and links will do very little to influence customers' buying decisions.

Customers may resent the intrusion. One risk is that the investment will have to be written off if legislation tightens up the use of this technology. In many countries it is necessary to flag the fact that a cookie is to be placed on a customer's computer. Some customers will refuse to grant that as a matter of principle.

The software may lead to illogical suggestions that may confuse and even annoy customers. For example, a customer who buys a hairdryer may be confused by the offer of further hairdryers on a subsequent visit because that is likely to be an infrequent purchase. Similarly, customers may not necessarily realise that there is a statistical link between products that appear to be unrelated and so

may not understand why they are being offered, say, a hair product whenever they place an order for, say, hand cream.

Customers may find the whole idea of being tracked rather sinister. For example, if returning customers are shown the same range of products that were viewed during their most recent purchases then it will be clear that they are being tracked and their behaviour recorded. That may be viewed as an invasion of privacy. Customers may feel alienated and may gravitate towards competitors' websites.

Privacy and security are topical concerns because of problems such as identity theft. Cast is likely to have some very personal information, such as credit card details, and so customers cannot feel threatened when they visit the site.

The potential benefits extend beyond the immediate increases in sales. A better understanding of customer behaviour may enable Cast to develop stronger ties to its suppliers. For example, Cast may gather data that indicates that customers tend to check the prices of similar products before making a purchase. Suppliers may be prepared to offer Cast a discount in order to assist the company to compete on price.

Cast may be equipped to manage the effects of complicated events, such as the reviews of new products in magazines and on television. If Cast is aware that a product will be reviewed then it will have the ability to estimate the impact that may have on demand so that inventories are on hand to meet demand. With experience, it may become possible to track the effects of specific words and phrases or ideas expressed by the review.

## Section 3

### GRI disclosures

The GRI Sustainability Reporting Guidelines will require a variety of topics to be covered.

The economic dimension deals with Cast's impacts on the economic conditions of its stakeholders and on economic systems. This would not require a significant amount of additional disclosure because most of the relevant information is available from the annual report.

The environmental dimension would require detailed disclosure on issues relating to natural systems. This appears to be the basis of the criticisms that have been voiced against the company. Cast would have to indicate details of its consumption of factors such as materials and energy. The report would also impact issues arising from emissions and other externalities, including the use of water and the extent to which it is purified before returning it to the environment.

Cast would have to provide details of its environmental goals and its performance in terms of achieving those. These would relate to the issues identified as environmental. Cast would have to identify realistic goals and provide readers with performance.

Cast would have to provide a statement of its policy on environmental matters. This would spell out the company's commitment to safeguarding the environmental matters that it has identified.

The Guidelines require disclosure of the organisational aspects of Cast's social responsibility. For example, how senior are the managers who have primary responsibility for the management of environmental performance?

Cast would have to indicate how it monitors and corrects its performance in these areas. That would require consideration of Cast's supply chain and so it need not be restricted to the immediate impact of the company itself.

The Guidelines also provide for disclosures concerning the company's social responsibility, but that does not appear to be the subject of direct criticism by the environmentalists.

### Potential criticisms arising from disclosures

Unfortunately, our business model is potentially quite harmful to the environment. We retail goods that are quite damaging in themselves. Many cosmetic products are sold in small quantities that are heavily packaged, both for the sake of product quality and for presentational purposes. Thus, the products that we sell are heavily resource-intensive.

In the same vein, our distribution model is also potentially quite damaging. Internet searches and web browsing consume a surprising amount of electricity. Customers place orders for items that are often very small and that require significant packaging just to enable us to label deliveries and to ensure that goods arrive undamaged. Deliveries involve couriers or post, which requires the consumption of fuel. We could, however, argue that many customers would make special trips to buy the products that we deliver using efficient courier services.

Critics may also regard cosmetics as a rather frivolous use for scarce resources. That argument may be easy to refute in terms of customer demand and the pleasure that our products provide. However, we will always be just a little defensive on that score because we cannot claim that our products are vital to human life.

### Impact on share price

The impact of bad publicity from delayed deliveries is likely to be a short-lived matter. Any bad publicity is likely to trim a little off the share price, but market confidence will soon return after we address the matter. It is not in suppliers' interests to provide our customers with a poor service and so they are likely to improve their performance and the complaints should cease. This is not a strategic issue that would impact significantly on the company's market capitalisation. We should, however, take care over customer service because the press may be keen to publish stories about Cast in the period leading up to the flotation. Customer complaints about poor delivery could be considered newsworthy simply because we are the centre of attention in the financial press.

Big Data could have a significant impact on sales and so could be a strategic matter. Firstly, it has the capability to grant us a competitive advantage. The fact that we are already a major player in the market means that we have greater access to data than our competitors and so there is more potential for us to benefit. The only question is whether there will be a discernible market reaction to any announcement that we are using Big Data. The markets might take it for granted that we are doing so already and so they may view this as just another aspect of measuring our ability to generate revenues.

The environmentalists could create significant bad publicity if we are targeted as a key example of environmental irresponsibility. That would depress the share price, although it is to be hoped that we are not the most prominent target for these campaigners. It is unlikely that consumers will stop buying cosmetics and the fact that we do not require them to make special trips to shopping centres may make us appear to be a responsible source. Ethical investors may be unwilling to invest in a company that has been criticised in this way, but there should be plenty of other potential investors who are more open to investing in all business.