

CGMA AUGUST 2018 EXAM ANSWERS

Variant 5

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SECTION 1

Part 1

Impact of newspaper closures on FNG's Corporate Social Responsibilities

FNG takes its CSR commitments very seriously, therefore it is important to consider how the closure of the 10 weekly newspapers could impact on these obligations.

As a business, we are aware of our responsibilities to a wide range of stakeholders, including readers, the wider community of Borland, suppliers, employees, shareholders and the environment. Our business ethics could be called into question, as it may be seen as being unethical to remove access to newspapers for some customers who do not have digital access, such as elderly or geographically remote users with poor digital infrastructure.

We would need to ensure that we communicated this decision effectively to our employees, particularly those likely to face redundancy as a result of the closure of these 10 newspaper titles. Our CSR statement focuses on retaining and engaging the best people through a highly supportive culture that drives business performance. This could be challenged as, clearly from your notes, we will be making redundancies. Where possible, we must attempt to retain the best employees and help others who require assistance in finding alternative employment.

Our CSR statement also refers to our products being trusted providers of information in the communities we serve and providing the content our audiences want across a variety of media. This will be also be challenged as, through this proposed strategy, we will be reducing the variety of our media by now only presenting our news digitally for these 10 newspaper titles. Also, we may be eliminating the provision of news access from certain communities, which goes against our CSR statement.

We aim to serve local communities by meeting their needs for local news, information and advertising services, with the aim of maximising access to all. This strategy does not maximise access to all. Those without suitable technological access, including those customers without computers, mobile technology, those in rural areas, the elderly etc., will be disadvantaged by this strategy (as evidenced in your notes - 20% of customers of the titles do not have access to digital technology). It is evident that network coverage is not 100% available and demographics also suggest that not all

readers will have access to online facilities. Therefore, we will not be achieving our obligations of maximising access to all of our readers.

One potential positive aspect of this strategy is that we aim to minimise any impact our operations have upon the environment. We will be reducing print output, therefore there will likely be significantly less paper wastage. Also, fewer deliveries of physical papers will be required, resulting in less fuel usage and emissions.

Part 2

Strategic risks of ceasing production of FNG's 10 weekly newspapers

Possibly the largest risk we face is reputational risk. In our case, reputation is largely based on the issue of corporate trust, as discussed in the section above. We have built our mission and our corporate social responsibility statement around a strong ethos of trust and maximising access to news stories within the heart of the local communities which we serve. By seemingly moving away from the ethos upon which we have built our business reputation, this is likely to be highly damaging. However, we would need to analyse this much more closely to evaluate the reaction of our advertisers and the overall demographic of our readership. We may indeed be able to highlight our increased focus on the delivery of news within the preferred media (that is, online) of the majority of our newsreaders, which may in fact encourage advertisers to increase their digital advertising spend.

However, we must consider the impact that this decision may have on our reputation and standing in the industry. This is the first time in our history that we have undertaken such closures of printed newspaper titles and this may signal to the rest of the industry that we are in serious decline. It may in fact make us vulnerable to a hostile takeover bid from one of the larger media organisations in Borland or indeed, from abroad.

The reputational risk impact may also extend to an increase in staff turnover and a loss of key staff, including journalists, who may feel that the business has hit a crisis point and may fear for the long-term future of the organisation. We may lose a significant amount of talent which cannot be replaced.

Following on from the potential risk to our reputation and the bad publicity that may arise from this decision, there is a risk that there will be limited take-up of the free subscription access to the online news websites. That is, customers do not buy-in to digital access only. Readers may decide to instead read alternative daily newspapers that are on offer in their regions or find alternative online news websites. We cannot merely assume that readers of the physical newspaper will automatically move over to online readership. This could be for many reasons: lack of access to technology, lack of awareness or understanding of the technology or a lack of commitment to continue using our news services, due to alternatives being available. It would be naive of us to assume that customers would just automatically switch from physical to digital news content, even if it were offered for free.

Additionally, it is possible that competitors will set up additional newspapers to fill the gap left by the ones we no longer print and that readers switch to them instead. Although it is estimated that 80% of readers will be able to access the digital versions, we don't know how many of them would actually prefer to continue reading a print version and therefore, buy the competitors' newspapers instead of reading ours. This could impact on the advertising income from the digital sites.

There is also the risk of reducing critical mass for our advertisers who place adverts in our other publications. By eliminating these 10 weekly publications, this is likely to reduce circulation by a potential 150,000 customers per week (based on an average circulation figure of say 15,000 per weekly newspaper) and, in fact, may impact on readership by up to 450,000 readers (using a multiple of 3 to calculate readership against circulation) per week. Some of our advertisers may deem this loss to be so significant that they withdraw all of their adverts from our other printed newspapers. This could have a significant impact on our revenues, which would not be sustainable in our current position.

SECTION 2

Part 1

Financial and strategic implications for key stakeholders if FNG ceases print production of 10 weekly newspaper titles in favour of digital access only

Shareholders

In terms of the financial implications, shareholders will seek to optimise their returns both in terms of dividends received and the capital value of their shares. If this change successfully reduces costs at a greater rate than it reduces revenue, then profit will increase and the amount available for dividend distributions may increase.

Performance has been declining for a considerable amount of time at FNG and hence shareholders are likely to be keen for changes to rectify this situation. Dividend distributions have fallen very low in relative terms over the last few years and if shareholders perceive this to be the route to higher profit they will be positive about the change. They may be nervous, however, about the magnitude of the change.

In terms of strategic implications, there could be some discomfort amongst shareholders. Although they will be eager to hear of how the directors plan to improve performance, they may be nervous that this direction is inconsistent with the strategies pursued in the past and therefore could be very risky. Some shareholders may be uncomfortable with such a drastic strategic change following so many years of strategy following an evolutionary path. Some may even feel this betrays the origins of FNG as a newspaper. These issues could lead to disharmony and disagreement amongst shareholders, and if enough of them dislike the direction it could even lead to a vote of no confidence in the Board.

Employees

In terms of the financial implications, employees are likely to be negatively impacted by the proposed strategy to cease print production. Although it appears that some jobs will remain to support the websites and apps, this does seem to be a cost saving exercise, and it is highly probable that many jobs will be lost.

In terms of strategic implications, certainly at Print Sites One and Two, production roles could be in jeopardy unless there is contract print work available to fill the hole that is left when weekly titles are no longer printed. Even those employees that remain might feel unhappy about the changes that have taken place, missing their old work

colleagues if redundancies were made, and fearful of what the future may hold regards their own job security.

Advertisers

Advertisers will always seek to obtain the maximum response for the minimum cost. If, by ceasing print production, FNG hampers the ability of advertisers to reach their target audience, they will be detrimentally affected financially, and unhappy about the change.

Advertisers may need to adjust their marketing strategies if FNG ceases weekly print production. If they found the newspapers to be an effective way to reach their target audience, they will now need to find a new way to do that.

It could, alternatively, have a positive impact strategically. If FNG go on to offer better advertising solutions when they are no longer investing in the printed copy, and the changes allow advertisers to reach their target market more effectively and efficiently, then the overall impact of the change will be positive.

Newsprint suppliers

A large newspaper group such as FNG is likely to be a valuable customer to a newsprint supplier. Indications that FNG is scaling down its print operations will be alarming and if other customers follow the same strategies the newsprint suppliers will be negatively affected financially.

Their strategies may have to change to seek other potential customers for their products, and if the use of newsprint and other paper products is noted to follow an irreversible decline, they may need to consider strategies to cut costs and scale down their operations.

Part 2

Effective Change Management Process

From an internal stakeholder's perspective

Communication is key to managing a change of this magnitude well. Employees across the organisation will be concerned about what this change means for them and what it represents in terms of the overall direction of FNG. Employees will immediately be concerned about job security, and with good reason. Moving production of the weekly newspapers online will entail many redundancies. Those who remain will be equally nervous about whether they can remain in employment for the long-term.

Good communication ensures that employees know what is really happening and can deal with it as they see fit. Uncertainty should be removed where possible and transparent dialogue encouraged so that management can identify problems and work to resolve them. This will not be good news for many of those being made redundant, but if they are treated with honesty and respect they can at least plan for the future.

Participation will be a useful tool for those who remain in the organisation. Involving them in the change can reduce fears and provide management with useful information about what will and will not work well in the change process.

Strong leadership is also required at times of vast change. FNG leaders need to be able to convince internal stakeholders that this is the right decision for the business

and show that it will improve the fortunes of the organisation in the long term. A confident positive message from FNG leaders will be effective in allaying some fears.

Finally, FNG may wish to implement a reward programme for the staff who support and positively influence the change. This may be difficult to afford given the pressure on costs, so a cost benefit analysis would need to be undertaken to assess the commercial viability of such a suggestion.

From an external stakeholder's perspective

As with internal stakeholders, communication is a crucial part of effectively managing change with external stakeholders.

Advertisers, readers and suppliers will be wondering what these changes mean for them and will all be seeking some sort of reassurance that they won't be worse off in the future. FNG needs to consider each stakeholder and provide them with the most confident and positive message it can regarding the future of FNG and their role in it.

FNG may wish to seek the views of external stakeholders to ensure improvements are made and that the new online service meets their needs. Reader focus groups and discussions with advertisers may provide valuable information about how FNG can make exclusively online provision of news a success.

It is critical that FNG presents a confident voice to external stakeholders. It does not want a mass exodus as advertisers and readers perceive this move to be some sort of 'winding down' of FNG's operations.

Finally, as with internal stakeholders, FNG may wish to offer some sort of financial incentive to external stakeholders for moving online with them. As before, there could be problems with the affordability of such a suggestion, but FNG might want to consider introductory rates to advertisers who move online to give them the opportunity to prove to advertisers that this mechanism will work to obtain them a response.

SECTION 3

Part 1

Improving profit via the use of customer information and data analytics

FNG could make profitable use of the information they collect from their online news customers in a number of ways.

Firstly, it could track the reading patterns of the customer. This would allow FNG to build a profile of that customer showing their interests and preferences. That data is very useful. FNG do not use a paywall at present for any articles or content, but they may want to consider paywalls in the future if they know information will be particularly valuable to readers. For example, FNG may establish that a particular reader is interested in gardening. They may then want to contact that reader to offer them detailed gardening content or applications at a cost.

More likely, however, is that FNG would use data analytics to increase advertising revenue. It could only do this with the permission of the customer, but taking the previous example, it could sell the data relating to the customer who is interested in gardening to a local garden centre. The garden centre would then contact the customer with relevant offers and have a high chance of a positive response.

Another example is an individual selling a car. FNG could store the data about the car sale, and sell on the details of that seller to a car retailer under the assumption that if an individual is selling their car they are likely to also be in the market to buy one.

Alternatively FNG could manipulate the banner advertising customers see on their news websites to match their profiles, and areas of interest. This would again deliver a more effective route to advertisers target markets than standard newspaper advertising can offer.

The way in which data can be used is becoming increasingly sophisticated as internet tracking collects more and more information about individual profiles.

Part 2

Ethical considerations of using customer information

FNG would need to be careful that they didn't sell or use data irresponsibly, thereby damaging reputation and affecting revenue in the long-run.

Customer information is precious and, although many of us give permission for our information to be stored and used, it is easy to underestimate just how widely our data is going to be stored and used once we have provided it.

FNG must, at a very minimum, comply with all laws on data use and storage. If customers do not want their data used or stored, FNG must not use or store it.

If customers agree to use of their data, FNG must still be careful about the ways in which they use it and sell it.

FNG must ensure the third parties that it sells the customer information to are reputable and not going to harass customers with excessive or inappropriate marketing material. FNG has a responsibility to protect customers against this risk.

FNG must also make sure it doesn't use data in a thoughtless or insensitive way. Whereas it might be appropriate to contact a car seller with offers of new car deals, it would clearly not be appropriate to contact people who have recently placed a bereavement notice with offers related to that.

Part 3

Impact on shareholder wealth of implementing paid for news access

A recent article in the Borland Echo suggests that, as an organisation focused on delivering local news, we could be best placed to introduce a paywall system, as local newsreaders are most likely to be prepared to pay for local news access. However, in the short term, there will be an initial negative impact on shareholder wealth, due to the costs required to set up a paywall system. We currently do not have the technology or expertise to operate a paywall system. There will, therefore, be an initial cost to get the system operational.

In the longer term, there are two possible contrasting impacts, dependent on the perception of customers and advertisers to a paywall system. If our local news customers perceive paid for local news to be worthwhile (as they cannot access such news anywhere else), then revenues will either remain constant or could increase (dependent on the price we charge for digital news access). Ceasing print production of the 10 weekly newspapers will obviously result in the loss of circulation revenue associated with these sales. A paywall system could reduce some of this impact, but only if our news customers are convinced that paying for digital news access is

worthwhile, providing news that readers are willing to pay for. Research indicates that a significant proportion of weekly newsreaders do not have access to digital technology, therefore shareholder wealth is likely to reduce if we cannot replace circulation revenue with sufficient digital revenue due to poor technological access.

Print advertising revenue will be lost as a result of the closure of these 10 weekly titles and this will impact negatively on shareholder wealth. Digital advertising revenues may increase, if we can provide evidence to our advertisers of sufficient customer take up of paid for digital content, but it is unlikely that this will replace the revenues lost from print advertising. Importantly we must also consider the possibility that advertisers may withdraw from other newspapers if they consider that the 'critical mass' of its advertising audience will be lost as a result of implementing a paywall system which reduces the audience for its products. Loss of more print advertising revenue could have a significant impact on shareholder wealth.

Part 4

Impact of implementing a paywall system on risks identified in 2018 annual report

The first impact will be on the risk identified in our annual report of 'new revenue streams'. Clearly, a paywall system would be a new digital revenue stream for FNG, on top of our existing digital advertising revenue stream. If we were to implement a successful paywall system that was accepted by our newsreaders, this could go some way towards mitigating this risk of our other sources of digital revenue not growing at the rate needed to offset printed newspaper sales revenue decline. We continue to look for innovate revenue generating opportunities and this may be one such opportunity.

A paywall system may also impact on our risk of cost reduction, as implementation of the required technology will likely increase costs. However, in this case, we would be investing in a system which would in fact support our cost reduction activities in the long term, supporting our drive for increasing efficiencies through investment in increasing digital content delivery.

The risk of data security and litigation would become more significant if we were to implement a paywall system. Paywall systems will require us to collect and store sensitive information relating to our customers, such as bank details and a range of personal data. This will place more responsibility on us to ensure that our systems are secure and that our policies for data management are effectively regulated and managed. Any misuse/loss of customer data could result in high costs, potential litigation, penalties and damage to our reputation. Therefore, we would need to work closely with our third-party systems suppliers to manage data security effectively if we were to implement a paywall system.