

CGMA STRATEGIC CASE STUDY FEBRUARY 2019 EXAM
ANSWERS

Variant 4

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CIMA will not accept challenges to these answers on the basis of academic judgement.

SECTION 1

Strategic fit within current portfolio and competencies

The proposed health and fitness management programme would certainly have strategic fit, as it would be a positive response to recent competitive environmental trends. Other rivals, such as Funfitt, are already operating health and fitness management programmes for organisations and it would seem to fit with our existing product portfolio of providing fitness and activity trackers to assist in encouraging active and healthy lifestyles. It will address the opportunity in the market, whereby there is a growing trend towards health and fitness, as society and governments identify the benefits of healthier lifestyles.

It will also help to provide some balance to our product portfolio. Currently all of our revenue is generated from device sales and we are vulnerable to trends in the market for fitness devices (as we have witnessed with the popularity of smartwatches). A move towards operating health and fitness management programmes may help to reduce some of our over-reliance on the need to constantly research and develop new product ideas.

We would, however, need to evaluate whether the proposed programme is likely to be acceptable to key stakeholders. Some of our staff, particularly research and designers, may see this as a threat to their roles, if we were to move away from designing and innovating in the fitness and activity tracker market. However, our shareholders may see this as an opportunity to rejuvenate Vita's profit and, thus, shareholder returns, as it is likely to require minimum capital investment and could be a very profitable proposition, particularly if the programme was extended to large businesses. We may also need to consider the impact on customers of our fitness and activity devices, as they may be concerned that our product portfolio will no longer be supported and we may lose them to rivals.

One of the key features of the proposed programme is that it would require us to provide a data management service to monitor and feedback regular data to the programme participants and the Farland Department of Education (FDoE). This should not be a significant issue for us, as we currently collect and report on significant amounts of user data and provide all of our customer with their own fitness data statistics through our fitness control hub. Therefore, we already have core

competencies in basic data management activities in terms of the technology to manage and report the data and the skilled staff to design the required data management system.

However, we need to be aware that the requirements of the FDoE are likely to be different from our existing device users. The data management and analytics aspect of the programme is likely to be the main focus of the programme and we will need to assess the data requirements carefully. What will be quite different for our staff will be working alongside a public sector partner, where the culture of the organisation is likely to be somewhat different.

Differences in strategic objectives

One aspect where our strategic objectives will be the same is that both organisations are focused on improving the health and fitness of society. However, as a public sector institution, the FDoE will obviously have different strategic objectives to ourselves, and its focus will be on the overall effectiveness of the health management programme in terms of the measurable improvements to fitness and activity levels of the children, whereas for us, our primary objective will be to ensure that this initiative is profitable for shareholders. So, Vita should be considering the outcomes of the health programme in terms of its impact on this strategic objective. There may be times when these two underlying objectives will be in conflict.

The FDoE is also likely to have a range of other programme objectives including reduced government spending (eliminating long-term expenditure of scarce public funds by creating a healthy population) and better long-term healthcare management (scarce funds relocated to other areas of healthcare). It could also be a valuable way for them of leveraging our own expertise in the health and fitness management industry, which they do not possess. From our perspective, we may have alternative objectives for improvement in our profile in the wider health and fitness market and the potential to enhance our product portfolio.

Obviously, the FDoE will need to establish an overall measure of the outcomes of the programme, in terms of improvement to the health and fitness of the children. The challenge will be for Vita to provide a mechanism to measure such an outcome, which will be very difficult to achieve or measure with any certainty.

It will also be very difficult to establish the direct impact of our fitness and activity trackers on the health and fitness of the participants, as it could and will be influenced by many other external factors. However, our performance in terms of the outcomes, as chosen by the FDoE, could impact on our overall reputation. Obviously, the government will be aiming to minimise costs which will have a detrimental effect on us, as this will mean less revenue for us.

We also would want to know how the FDoE will measure the overall success of the programme. It is likely that any certain outcomes can only be found in the long term, at a time considerably beyond the timeframe of the programme. Therefore, our own expectations of the outcomes in terms of timeframe may not be aligned with the FDoE. It is likely that our own timeframes of success will need to be much shorter.

There will be significant challenges to managing the achievement of strategic objectives for both organisations and will involve careful review of the allocation of financial risks and rewards, decision-making mechanisms and responsibilities, and an applicable contractual framework. Appropriate monitoring and managing of quality and performance are particularly important, but also will be particularly challenging. Monitoring and evaluation mechanisms, performance indicators, targets and outputs, as well as any performance bonuses, will need to be considered upfront. It may also

be worthwhile to consider the setting up an advisory board, and/or project management office, for the duration of the initiative.

SECTION 2

Business risks of undertaking the Fit-4-Life programme

The first risk is reputational risk. This is likely to be a high-profile programme in Farland and in our own country, potentially, and likely to receive a significant amount of publicity. Should the programme not achieve any significant benefits for the participants, or should schools or parents call into question any of our information provided or the overall outcomes of the programme, this may call into question the benefits of fitness trackers in the wider marketplace and may impact on the popularity of our current devices.

Obviously, the upside risk to this is that the programme may be a huge success and other governments, including our own, may want to engage our services in similar programmes. In addition, other public sector departments, or private businesses, may wish to engage our services to offer a similar service. Health and fitness management programmes may become a lucrative strategic direction for us. We are not the first in this area but we may carve out a niche for ourselves in the public sector or we may develop the skills and expertise to challenge the other incumbents in this area of the market.

There does appear to be some potential financial risks from the details provided by the FDoE in the datasheet. The FDoE has stated that all payments will be made in F\$. In the short term this may not be a significant problem, certainly in this initial phase of the programme, but it is something that we must monitor closely. Our CEO is concerned with the economic volatility of Farland, so we must ensure that any currency risk is managed effectively, probably through some form of hedging mechanism. This will need to be considered in more detail when we get closer to signing an agreement. However, this may become more of a risk if this programme is to run in the longer term. We also have a cash exposure risk, even if the programme is successfully delivered, as we will need to fund the full production and delivery costs of the trackers up front, not receiving 75% of the cash until the programme is complete.

Economic volatility could change the policy decisions of the government at any time and they may pull out of this proposal at any point, leaving us with a high level of commitment for little or no return. Leading on from this, there is also likely to be some degree of political risk. The forthcoming election may result in a political change of policy relatively quickly which may put the proposal at risk. A new government may change its mind on a long-term commitment to this programme, leaving us with a high level of commitment with little return.

Also, from the current details, I think we must safeguard ourselves against potential risk that a contract drawn up between us and the FDoE is inadequate. Neither ourselves nor the government department have undertaken a proposal like this before and, therefore, it may be difficult to assess in advance the necessary contract terms which will safeguard us against unfair terms and conditions or possible withdrawal or compensation claims by the government. We may need to seek legal advice on this before committing to a contract for this proposal.

There is also a data risk. The data management system will be reporting data to a number of external parties including schools, parents and the government. There may be a risk of data security breaches which may occur in transfer or management of this

data. Therefore, we must investigate this further to ensure data is adequately secured and protected both within our own systems and the systems used by the FDoE. Again, this could cause serious reputation risk if data, particularly about children's health, is breached.

Performance indicators

If health management programmes are to become of strategic importance to us in the future it will be important to monitor and measure how we perform in this area of our business.

Financial Perspective

A useful performance indicator would be to monitor our return on investment. We would be investing a significant amount of money and time in software development for the Fit-4-Life programme and would also need to do so in any potential future health and fitness management programmes, as each is likely to require unique software (tailored control hubs/apps and websites) and reporting requirements. We must monitor the returns we earn from this level of investment and, possibly, set a target return on investment level that we must achieve. We will need to measure the profit levels earned from any health and fitness management programme we undertake. We will need to set out a detailed budget for each programme and measure our costs against budget to determine profit levels to ensure all health and management programmes we undertake are financially viable.

Customer Perspective

Customer satisfaction will be a key indicator for the long-term success of any health management programme. For this programme, we could use customer satisfaction surveys for the different customers including headteachers, parents and pupils. For example, students, may simply need a rating built into the device software to ask them, on a regular basis, to rate how easy the device is to use and understand. For other programmes, we could request users to rate the usefulness of the programme data periodically, comparing them over time or against target rates of customer satisfaction. The number of customer complaints could also be measured. However, customer satisfaction is likely to be very difficult to measure, as the customer needs for each programme will be different and perspectives on success are likely to be highly subjective in health management programmes.

Internal Business Process Perspective

We need to assess our internal activities and whether they are carried out effectively. We could measure the time it takes us to design and develop individual programme software systems (such as the individually tailored control hub features and the supporting apps and websites), to assist in monitoring our efficiency in delivering the basic software to run each health programme. We could also monitor the number of queries from customers relating to data accuracy or number of data processing errors recorded. A further measure could be the cycle time to produce the weekly reporting of the activity statistics to each user group throughout each programme. We could also measure systems downtime or the number of technical rectifications needed for each programme.

Learning and Growth Perspective

This perspective focuses on the development of the human resources of our business. We could monitor the number of training hours required to get staff up to speed on

delivering health and fitness management programmes. We could also measure staff satisfaction by surveying staff who work on the health and fitness management programmes delivery, to assess their levels of commitment and engagement with this aspect of our business operations. We may also want to monitor expenditure on staff training or number of days training carried out in health management programmes and systems delivery.

Note: Only four measures are required.

SECTION 3

Driving and restraining forces

A significant driving force to move into delivery of health management programmes is the trend in the wider market place of other competitor organisations who have introduced health management programmes. It may be that we have no choice but to consider this as a strategic direction, if we are not to lose further ground in the marketplace. Adding to this is the evident slow-down in the growth of retail sales of our fitness trackers over the last couple of years. If this trend continues, then we must look to other opportunities in the fitness and activity market to ensure our survival. This either means developing new products to attract customers, or offering alternative health related services, such as this.

Also, Guy Lynch certainly appears to believe that this is a significant opportunity for us and that we have the capabilities to do it. We already collect significant data about our individual customers which we do not use strategically, apart from feeding back the data to individuals. We need the skills and systems to collect the data and, following this recent health management programme for the FDoE, we now have the experience to develop these further.

A restraining force would appear to be Rhea Turner's scepticism about moving in this strategic direction. As a founder of the business, her opinions will be critically important in this decision. However, her stewardship role as a director of the business, on behalf of the shareholders, should override any personal emotions she may have in this decision.

A further restraining force would be the availability of resources to undertake such a change in direction. This will require significant investment in data analytical tools and systems and staff training in the manipulation and understanding of big data. The benefits would have to outweigh the significant costs.

Reaction of our shareholders

It is important that we satisfy the needs of our shareholders with our chosen dividend policy. For the last two years, since listing, our policy has been a zero-dividend policy, whereby all our surplus earnings have been reinvested back into the business. We have also communicated to our shareholders that our policy will continue for the foreseeable future as we continue to invest in the business, via the health management programmes.

It is likely that most of our shareholders will be accepting of our position, based on the fact that we only listed in 2017 and many shareholders who invested then would have been fully aware of our position at that point and were therefore aware of our zero-dividend approach.

Some shareholders may point to our positive cash position, and the high level of reserves that we are currently holding, and question our zero-dividend policy, even at a time of growth and re-investment. However, it is important that we do not present the wrong signals with our dividend policy.

Since listing, we have not paid a dividend and, therefore, as our revenue growth is clearly slowing and as we look to new areas of growth for our business, to issue a dividend at this time may seem an inappropriate action and may signal to the market an over confidence of our performance at a time when re-investment is needed. Most shareholders are unlikely to be expecting a dividend at this point in time and, therefore, shareholders are likely to be supportive of the longer-term ambitions of the business opportunities we are trying to exploit.

Big Data analytics as a strategic resource

Currently, the fitness data we collect is used by individuals to monitor and track their own fitness goals, but we do not use this information for our own strategic purposes.

By operating health and fitness management programmes, we would be collecting similar data about client organisation's employees. We could use this information for our own strategic purposes, as it could help us to identify trends and correlations in the data we collect, in order to identify and focus on those areas of our fitness activity tracking that are most beneficial to users. For example, we may identify a correlation between job activity and a specific health-related issue, such as poor sleep patterns. This could help us to target customers with specific exercises or community advice, thus improving our customer relationship management.

Big Data analytics of our customer data could have a significant strategic value for us. Firstly, it could allow us to segment our customer base to identify high-value customers, which is essential for fine-tuning our sales and marketing efforts. Data from the apps and the website, where users access our services, and our user social and community networks, could be invaluable to us in identifying patterns of behaviour, preferences, and user retention.

Contextual information such as location of our users, time of day of activity, type of activity undertaken, age ranges and demographic information, could provide valuable correlations. Real-time analytics of community feeds and social network feedback can be analysed with same-day feedback. Also, Big Data analysis can be employed to test longer-term tactics and strategies. For example, advertising expenditure or new product development.

Big Data can help Vita better understand and develop our product strategy from a reactive one, in which improvements are made to existing products based on customer feedback or competitor's enhancements, to a proactive one, whereby we lead the developments.

Risks of collecting and managing big data

The first risk is the availability of skills we have to use Big Data analysis systems. We may have developed some level of competence and experience from the Fit-4-Life programme, but to change strategic direction will require significant investment in resources and skills, if we are to achieve this change successfully. This will require significant resources and investment, both in technology and staff, which may take our focus on continued research and development in our core products, making us vulnerable to losing ground to competitors.

The security of the data we collect about our customers and clients is a significant risk. We must ensure that we invest significant resources in managing the security of this data, as any breach or inappropriate use could have significant repercussions on our business.

There is also a risk of valuable time being wasted on analysing data which may in fact have no strategic value, whilst losing focus on our core products and services. We may waste valuable time and resources analysing data which is of no use in our long-term goals.

It will be extremely expensive in terms of finances and time. Will we be able to raise the necessary finance? Shareholders may lose patience, as stated above, if we continue to take a zero-dividend policy for re-investment in the business. This will require effective communication and persuasion of our shareholders. Similarly, customers will need to be convinced that we will use their information safely and store it securely. There have been significant high-profile cases recently of customer data being used inappropriately and we must reassure our customers that any data we collect and analyse is for their benefit.