

CGMA STRATEGIC CASE STUDY AUGUST 2019 EXAM
ANSWERS

Variant 2

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SECTION 1

Suitability, acceptability and feasibility of strategy

Suitability considers whether the proposed strategy has a good fit with the overall strategy of the organisation.

So far Zoom has pursued a strategy of rapid growth underpinned by a vision to 'see a world where transportation and technology bring people together'.

Growing the driverless car element of the organisation is suitable because driverless car demand is growing and if Zoom would like to continue to grow this does appear to be an aspect of this industry that will persist and become more popular in the future. It is worth noting, however, that growth in the driverless car element of the business could come at the expense of rides taken in the normal Zoom fleet, hence could simply cannibalise revenue from another element of the business. If driverless cars as a concept don't stimulate additional demand, and it is hard to see in the short term why they would, this may be a strategy that allows Zoom to keep up with industry changes and prevents a decline in business but doesn't provide a route to growth.

The driverless car initiative is certainly suitable in its support of the vision of a world where transport and technology bring people together. Zoom already does this with the network of software it uses to provide easy, convenient transportation options. Driverless cars further extend the use of technology and, in the future, it is conceivable that these cars will be completely driverless and organised in a seamless system of transportation that creates a whole new way of travelling.

Feasibility looks at whether the proposed strategy can practically happen, questioning whether the organisation has the skills, experience, money and other resources for successful implementation.

Zoom may face difficulties raising the funds for this project. They have received large amounts of venture capital investment and not yet made a profit to reassure investors that their investment will soon deliver good returns. That said, in this industry, at a global level, many transport network companies continue to raise large amounts of money from venture capital even after many years of billion-dollar losses and organisation valuations are extremely high as investors believe that high profit levels are imminent. Hence, if activity in the industry is anything to go by, raising funds may

not be such an obstacle, and Zoom does have a reasonable cash balance to draw on, although this is threatened by the ongoing losses.

In terms of having the skills and experience to run a driverless car fleet this could also be a challenge. The organisation is skilled in arranging the logistical movements of a fleet of freelance drivers who drive their own cars and does not have experience in managing a fleet of cars itself. There will be requirements associated with car maintenance, management and development that Zoom will need to learn and it may be wise for Zoom to recruit people with experience in this area.

Acceptability considers the anticipated outcomes of the proposed strategy and whether they will be agreeable to the key stakeholders of the business. The proposition of driverless cars will be acceptable to investors if it leads to financial gain. I will be examining the sensitivity of the estimated figures in the next part of my report, but for now, if we assume the projected figures are accurate, they will deliver a positive return of J\$33.7m by the end of year 5 which will probably be acceptable to investors.

The proposal is also likely to be acceptable to senior managers at Zoom who will want to take on activities that reduce the loss at Zoom and safeguard the future of the organisation.

The proposal will be less acceptable to the current drivers at Zoom who may see their role disappearing if driverless cars 'take off'. This could lead to problems with motivation amongst the current driving team and even activities to disrupt the driverless project.

Overall there are challenges with regards to the driverless car proposal being suitable, acceptable and feasible. However, if the senior management team believe this is the future of the industry then Zoom should pursue driverless cars to ensure Zoom remains relevant in this dynamic industry.

The impact of the numbers and how sensitive the financial viability of the project is to changes in the variables

If the impact on the business is as presented by the rough numbers Dev has put together it would be a positive outcome. However, there are several issues with Dev's numbers that need to be addressed before they can be relied upon and even a result as clearly positive as this one is sensitive if several of the key assumptions prove to be incorrect.

Firstly, Dev has not considered the time value of money in his calculations. He should do this if he is attempting to undertake a capital investment appraisal with these numbers. If you applied time value of money, what appears to be a very positive outcome over a 5-year period could be far more marginal depending on the discount factor used, especially when the positive net cashflows occur later in the project, as in this scenario.

Variables and assumptions

Dev has assumed the cost of the 500 cars purchased in year 3 will be J\$60,000 each, just over half of the current price. Although the cost of driverless cars may fall, this is a large reduction in such a short time frame and may not be realistic. Additionally, Dev has assumed Xota will offer Zoom a 30% discount in year 3. There is nothing in writing to confirm this and if that discount is overstated it will make a further impact on the investment costs in year 3. Finally, Dev has assumed the government grants will be obtained in full in both year 0 and year 3. They may not.

A full sensitivity analysis would be useful to see the impact of various different variables changing, but as an example, if the cars in year 3 were J\$90,000 rather than J\$60,000, the discount was 20% rather than 30% and no government grant was available in that year, costs would increase by J\$21.3m from J\$14.7m to J\$36m which would have a significant impact on the projected result.

Other costs may also vary from plan. Projections for electricity, insurance, maintenance and licencing costs contain a considerable amount of guesswork and may be over or under estimated. The concern would be if they were underestimated. At present all these costs are static based on the number of cars. This may be unrealistic in such a dynamic environment and Zoom does not have the experience to make highly accurate forecasts.

Additionally, there could be new ongoing costs that Zoom has not foreseen as the industry is unpredictable. New congestion charge programmes launched by the government or regulations relating to licencing could all add further costs reducing the viability of the project.

If Zoom has underestimated these costs by as little as 5% it would add a further J\$1m to costs. If they are underestimated by 20% the impact would be J\$4m.

Another assumption Zoom has made is that it will receive 60% of the fare in the driverless car fleet. It may be the case that it can't find drivers willing to accept only 40% of the fare. If so, this percentage will have to change.

Overall there are many assumptions in the numbers presented by Dev that could significantly impact the positive projection for the driverless car initiative. We can see that the aggregated effect of some small changes to the variables could have a big impact overall, and given Zoom's lack of experience in this area we should be very careful to ensure a number of different scenarios are considered before making a final decision whether to proceed.

SECTION 2

Controls that could be used to manage the risks identified

A major accident puts customers off driverless cars and results in litigation

There are two factors to consider. One is the controls Zoom needs in order to prevent its own fleet of cars from having an accident, and the other is the controls required to ensure that, if a competitor's driverless car has an accident, customers are not deterred from using Zoom driverless cars.

To ensure Zoom's own fleet of driverless cars has the lowest risk of accident, Zoom must have high requirements for testing the cars before use and strict monitoring whilst in use. Zoom must work with Xota to ensure the cars are extensively tested for safety before purchase and should run its own safety checks on the vehicles when it receive them and throughout the vehicles life. Zoom needs procedures for reporting problems and processes for fixing issues if they arise. Zoom must also plan for how it will react if an accident does happen. These activities **reduce** the risk according to the TARA framework.

Obviously, having fully comprehensive insurance for every vehicle is also vitally important and this is an activity to **transfer** the risk.

Zoom cannot control accidents or incidents happening across the industry but will protect its own operation if it reassures customers that Zoom driverless cars operate

the highest levels of safety and control and that incidents occurring elsewhere would not happen at Zoom. This activity would **reduce** risk.

Zoom should recruit legal advisors who could handle any matters that result in litigation.

Low levels of experience managing a driverless fleet

To address the lack of experience Zoom has in managing a driverless fleet it would be beneficial to recruit staff members with experience. Zoom can also ensure that the relevant members of staff involved in this area of the business are trained up by people who understand it well. The senior management team should spend a significant amount of time learning more about driverless cars, reading relevant information and consulting with experts. This **reduces** the risk to Zoom.

Theft/damage of the cars

Zoom must now ensure the safety and security of its fleet of driverless cars. It does not have this issue with its normal fleet, where car management remains the responsibility of the driver.

Zoom should implement controls to protect the cars from theft and damage including insurance, training for drivers, and sensible procedures for storage and monitoring of the cars when they are off the road. A central 'hub' that the cars return to periodically (if they are not in use, or as scheduled for checks, cleaning and maintenance) should be protected by CCTV and access to the fleet should be limited to relevant personnel only. Zoom can use geolocation software to ensure it always knows the whereabouts of its cars. The insurance activity **transfers** the risk to the third party and the high levels of security over the cars **reduces** risk.

Lack of support for electric car use and poor mobile data coverage

Zoom should ensure the cars are scheduled to return to the central hub or alternative charging locations when required to keep them fully functional. This should be built in to the scheduling software. Zoom must ensure that no car is despatched to a job if it does not have enough charge to complete it and operate primarily in areas of good charging and mobile data coverage. The software should direct the driver to the nearest charging point when needed. This could be challenging for Zoom as Jayland does not yet fully support electric car use. It is likely to become less of an issue over time as the government continues to invest in the electric car charging structure in Jayland and as mobile data coverage improves. Zoom should lobby the government to provide better coverage with regards to both electric charging and mobile data coverage and needs to be continually alert to improvements in coverage and extend operations into new areas of coverage as soon as possible. By managing the schedules of the cars well and lobbying the government to improve the infrastructure, Zoom **reduces** the risk.

Vehicle hacking could lead to security issues

Again, this will partly come down to ensuring the physical security of the cars, both when they are in use and when they are stored at the central hub. Additionally, Zoom must look at the software network it uses and take steps to ensure it is fully protected against any cyber threats. Zoom should talk to the software partners it uses to manage the operation of the driverless car fleet and work together with them to ensure that the risk of vehicle hacking is minimised. However, cyber threats are omnipresent in technology industries and organisations can find it difficult to predict every possible

threat. Therefore, beyond taking the widest possible range of steps to **reduce** this risk organisations must **accept** that risks from hacking activity may present that they have not been able to prepare for.

Does the downtime strategy fit with our competencies, mission and vision?

Fit with competencies

The positive side of using the fleet in downtime for deliveries is that it provides Zoom with revenue when the driverless cars would otherwise be idle. Other than that, there are many issues with this strategy, a key one being that it does not fit with Zoom's key competencies and would take a considerable amount of management time to co-ordinate.

Zoom is a ride hailing service specialising in using forward thinking technology to move people from location to location. It has no experience of managing deliveries, an activity that requires a whole different set of skills and organisation. Although the activity still involves driving cars, the process of managing goods rather than people is fundamentally different and does not match Zoom's core competencies.

Worse still, there is a real risk that by undertaking deliveries in downtime Zoom could seriously distract management attention from the all-important matter of growing this new and innovative area of the business.

Fit with mission 'to provide shared transport experiences that connect and bring people together'

Using the driverless car fleet for deliveries does not connect and bring people together. It strays from the core business model of Zoom as it involves moving goods rather than people. Although there is a tenuous argument to say that by delivering goods from one person to another this service would indirectly connect and bring people together, on balance this activity is far more likely to harm the mission than help it as deliveries of items become a distraction. Therefore, it can be argued that overall this strategy does not fit with Zoom's overall mission.

Fit with vision 'to change the way our world moves'

As the concept of making goods deliveries in driverless cars is a completely new way of moving goods around then this strategy would go some way to contributing to the aim of 'changing the way the world moves'. However, clearly from Zoom's perspective as a taxi ride provider, the focus of that statement has always historically meant changing the way people around the world move rather than goods. This idea does not support the vision.

Fit with vision 'to make life easier for everyone'

It could be argued that by providing this service Zoom will make life easier for Cheer.com and all those individuals buying from Cheer. However, this is not Zoom's 'reason for being'. This proposal will not make life easier for the drivers who will have to contend with delivering items rather than people in downtime and is unlikely to make life easier for potential taxi journey customers if they find they can't hire a car because it is busy making deliveries. On balance, once again, this activity will not help achieve Zoom's vision.

SECTION 3

The relative merits of keeping the accident quiet or making it public knowledge

Although it is certainly tempting to keep this incident quiet, especially given the apparent willingness of the victim to remain silent on the matter, it is not an ethical course of action to take. Being open and honest about issues with this new form of vehicle is an important part of the industry learning about how to improve driverless car safety.

The risk of being open and honest about the incident is that it puts customers off using Zoom driverless cars. If Zoom is transparent about what happened, kind to the victim and clear about what it plans to do to ensure this never happens again, it is likely that this one-off incident will be forgiven by the public limiting the impact over the long-term.

The risk of keeping the matter quiet is higher. The matter may become public anyway and then it will become apparent that Zoom has not only had an incident, but also paid a member of the public to keep quiet. The public will then quite rightly ask “what else is Zoom hiding?” and may perceive the incident to be part of a bigger picture of accidents, secrecy and duping the public. This is likely to be far more damaging to reputation and sales performance than releasing the facts about what happened in a controlled manner.

How we can manage the driverless car workforce, so that they feel confident again

The driverless car workforce is not well prepared for the operation of Zoom driverless cars. They receive only 1 hour of training when they start, which is inadequate for the role they are taking on. By offering such low levels of training and preparation for the role, it exposes Zoom to the risk that they will be incapable of operating the cars well and lack confidence in their work.

Indeed, it is possible that the incident with the pedestrian and the dog could have been avoided if better training had been provided, and it is important to make sure the driver involved in this incident is not made a scapegoat.

Zoom needs to make it very clear that it supports the driverless car fleet and that it is an important part of Zoom’s overall operation. Good communication on this could excite the drivers, showing them they are part of something new and forward thinking for both Zoom and the country of Jayland. A presentation from senior management would be an appropriate way to set the tone from the top.

Zoom also needs to invest in the workforce, providing comprehensive training, leadership and support to the drivers. This should start at the point of recruitment and continue whilst they work at Zoom, including regular two-way communication to update drivers on the latest news and obtain their feedback on how things are going ‘on-the-road’.

New KPIs to measure the performance of driverless cars

Zoom may wish to use many of the existing KPIs but specifically apply them to the driverless operation. For example, it may measure revenue growth for the driverless car operation, driverless rides completed, market share, and experience ratings. Zoom should monitor how the driverless car operation performs in these areas over time, and in comparison, to the regular fleet.

There are also some additional KPIs specifically relevant to the driverless car operation that may be of use.

- *Number of reported technical problems and speed of resolution.* Zoom may wish to monitor how many technical issues are reported by the drivers and how quickly those are rectified. The smooth operation of driverless cars is critical to success, so this is an important area to measure and teething problems with the technology should be identified and addressed as soon as possible.
- *Total number of kilometres driven.* As part of the attempt to build consumer confidence in driverless cars, it may be useful to keep a running total of the number of 'driverless' kilometres completed. The higher that number, the more the public will start to believe this is a tried and tested way to travel. This is a commonly quoted statistic in the industry and would be a useful way to show Zoom's competence in the area.
- *Kilometres driven without driver intervention.* A commonly quoted statistic in the driverless car industry is how many miles the car has driven without requiring human intervention. The higher this number is for the Zoom fleet, the faster the progress will be towards a completely driverless model and the higher the public confidence in the concept will be. By understanding this metric, Zoom can monitor the progress it is making to a completely driverless car model.

Will the accident impact business valuation?

Zoom is not listed on a stock exchange, and therefore the shares are only valued when an event takes place such as an equity issue or the sale of the business. As a result, the impact of the incident becoming public knowledge will not be immediately obvious with regard to the company's valuation.

However, it is inevitable that any news such as this could impact adversely on valuation. In Zoom's case the business is loss making, but the valuation of the business will reflect confidence levels in future growth and profitability. An incident such as this may impact on the revenues of the business due to safety concerns with consumers, and this in turn will impact on investors' confidence levels in future growth and profitability.

To conclude, it is likely that the incident will be largely forgotten over time, particularly if the safety record is unblemished from now on. Therefore, as long as a share issue, listing or share sales is not contemplated in the short-term, the risk of any adverse impact on share valuation will recede.