INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.1: STRATEGY AND LEADERSHIP

MONDAY: 1 DECEMBER 2014

INSTRUCTIONS:

1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has two sections; A & B.
3. Section A has one Compulsory Question while section B has three optional questions to choose any two.
4. In summary attempt three questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings

SECTION (A)

Compulsory question

QUESTION ONE

Overview

Kigali Bottlers Limited (KBL) specializes in brewing beer. Until a few years ago, KBL was among the leading indigenous Rwandese companies. It had won the investor of the year award in 2002, the employer of the year award in 2004 and even listed on the Rwanda Stock Exchange (RSE) in 2011.

The initial public offering (IPO) was oversubscribed by a record 150%, a feat only exceeded by UMEME in neighboring Uganda. This IPO by KBL still ranks No. 2 in the oversubscribed IPOs in the East African Community region. Lately however, the situation has not been good as shareholders are selling their stock in panic. The company has been consistently making losses for the past two years, and investors have run out of patience.

Performance

According to KBL's financial statements for the year ended December 31, 2013, the company reported a net loss of Frw 1.5 billion up from Frw 800 million in 2012. The draft statement of financial position also indicates that KBL had several outstanding obligations, including an overdraft of Frw 105 million and a term loan of $ 9.5 million from its Russian based parent company. Given the above debt together with the accumulated losses, questions are being asked about the ability of KBL to continue as a going concern.

On the contrary, however, KBL's management are optimistic about the future. They anticipate a return to profitability in 2015, and payment of dividends in 2016 or 2017 at the latest. They claim that the huge loss in 2013 was largely a result of restructuring costs, and declining revenues from reduced beer and barley exports to neighboring Tanzania, Congo and Uganda. This decline is attributed to the general economic slow-down that hit the East African economies over the period 2010 – 2013, with record inflation registered in the region. Uganda recorded inflation as high as 30% in 2011 while in Rwanda it was as high as 8.3% by December 2011.

The reorganization

As part of the group's restructuring and value chain re-alignment, KBL was chosen by its Russian based parent company as a strategic source of barley and sorghum. This meant that the company was going to do away with the brewing of barley beer (which was hitherto accounting for 68% of the beer production), and concentrate on brewing malt lager. The company's focus was henceforth going to be contracting farmers in the cultivation of barley, drying and roasting it before exporting it to related companies in Europe. In mid 2013, KBL closed down the Gisenyi plant (where barley beer had until then been brewed) to concentrate on barley and sorghum growing. Following completion of this exercise, the company now has three lines of business; barley/sorghum drying and roasting (accounting for 68% of operations), brewing of malt lager (24% of operations) and distribution of imported beer and spirits (8% of operations)[1]. The closure of the Gisenyi plant also came with massive staff layoffs which were followed by protracted litigation over terminal benefits. It is understood that the protracted litigation recently came to a close with the company winning the legal battle. Analysts attributed the victory to the fact that most of the employees were not members of any trade union.

Under the new contractual arrangements with farmers, KBL enters contracts with farmers at the start of the planting season. In these contracts, the target output is agreed in terms of quality and quantity. The terms also provide for support to farmers in form of fertilizers, pesticides and credit support through the Barley Farmers Savings and Credit Cooperative (SACCO), which was an initiative of KBL.

In spite of the contractual obligations, however, and the seemingly favourable terms, there are some smaller players in the market whose terms are deemed by farmers to be better than what KBL offers. Key among these companies is Turangye Exporters Ltd based in Butare and Gitarama, as well as Rwamahe Growers and Exporters Limited. These smaller players are said to be agents of European based breweries such as

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Heineken and Amstel. As a result, there is increasing competition for barley and sorghum with accusations and counter accusations between KBL and its competitors. Matters came to a peak in March 2014 when KBL was cautioned by both the Rwanda Stock Exchange and the Ministry of Trade and Industry over violation of the Rwanda Competition and Consumer Protection Policy. Details of the caution were never released to the press, but it is understood that the matter related to price wars and unethical advertising.

Other challenges

The above put aside, smuggled beer continues to threaten KBL's market share and revenues, and is estimated to cost the country approximately Frw 2.5 billion in tax revenue annually. The other reason for KBL's woes is the increased cost of energy. The domestic power generation is at approximately 115 megawatts while the imported power is estimated at 6 megawatts. The total available energy is not sufficient for running the country's fast growing industrial sector, therefore, leading to frequent power outages. Failure to have a continuous supply of power during barley/sorghum roasting affects the quality, yet diesel as an alternative is quite expensive. The unstable power supply has therefore negatively impacted on the quality of barley/ sorghum. In mid 2013, power outages were blamed for the explosion of a section in the sorghum roasting plant. Although the machines were repaired, the efficiency levels were significantly hampered. Owing to associated costs, the company is yet to replace the machinery.

The above aside, there is an increasing global campaign against beer drinking, with the critics arguing that beer is a key cause of non-communicable diseases such as hypertension and diabetes. Despite the fact that Rwanda has no anti-beer legislation, KBL is under pressure to warn their clients about the health dangers of drinking. The matter even came up for mention at a recent parliamentary session, with some members of parliament proposing legislation against drinking, say in the form of designated hours of operation for bars. Other parliamentarians still expressed bitterness about the massive staff retrenchment at Gisenyi a few years ago.

Rwanda has also experienced unfavourable weather conditions in the past one year which led to a fall in barley and sorghum yields by nearly 35%. The resultant shortage partly explains the rivalry among key players in the industry, since they are all scrambling for the little output.

Prospects

According to Gustavo Gatera the managing director at KBL, "With the Gisenyi plant now closed and the operations substantially streamlined, management focus is now on efficient management of barley and sorghum. With expected but not guaranteed financial support by the parent company, KBL should return to profitability sooner rather than later".

Required:

(a) Guided by the PESTEL framework, the five forces model and value chain analysis, comment on KBL's operating environment.

(25 Marks)

(b) Evaluate the strategies implemented by KBL in light of the challenges faced. **(15 Marks)**

(c) How might the promotion mix, as an element of the marketing mix, be used by management to restore the company to profitability? **(10 Marks)**

(Total 50 Marks)

SECTION B

Attempt two questions from this section

QUESTION TWO

Kigali City Master Developers Limited (KCMDL) is a supplier of concrete products in the housing and construction industry. Its main business is the production and sale of concrete blocks, roofing tiles, burnt clay bricks, flower pots, ventilators and other decorative clay products. KCDML has become a household name in the construction sector in and around Kigali, and a choice supplier for the major construction firms in Rwanda, even though it is no longer the market leader. Over the years, the company's positive performance has been supported by the fast growing construction industry in Rwanda, the high cost of entry into the industry and the consistent growth in demand for residential and commercial properties.

In spite of the fast growing construction sector that the company has served for long, KCDML is faced with a major threat of declining clay deposits. Having operated in their Kibungo base for over 30 years, the company' clay deposits are expected to run out in three years' time. Unlike some of its competitors, however, KCMDL operates as per Rwanda Environment Management Authority (REMA) guidelines. All depleted clay mines are back-filled and trees planted thereafter to restore the environment.

For long the company enjoyed a near monopoly status, even though this did not affect its product quality. One major challenge though was customer care. Clients had to place orders several months in advance, with an 80% deposit required before confirmation of the order. Back then, KCMDL seemed unable to meet its demand. Lately, however, the industry has seen several new entrants, who are now threatening to further reduce KCMDL's market share. These new players sell their products at lower prices and their products are of lower quality. They are also more visible in the marketplace with active roles taken in sponsoring major sports events such as the Kigali International Peace Marathon and other charitable causes. KCMDL has never been involved in any such activity; neither does it have a public relations officer.

The other challenge being faced by KCMDL is the reported ageing machinery which can no longer run for long hours without breakdown. Needless to say regular breakdowns affect the product quality.

Required:

Prepare a marketing plan that will enable KCMDL to meet the increasing competitive threats and restore them to their position as market leaders.

(Total 25 Marks)

QUESTION THREE

Ms Patience Niragire is the managing director of Uwero Microfinance Ltd (UML), which specialises in financial services. The company has five offices in different geographic locations within Rwanda, and is a popular source of finance for small and medium-size enterprises. Products offered mainly relate to short and medium-term finance. In pursuit of growth, the company recently took over Umkombozi Savings and Credit Cooperative (USCC), another microfinance company operating in Rwanda. Since then, UML has expanded its branch network to over 15 branches across the country. According to the Association of Microfinance Institutions in Rwanda, UML is now the second largest microfinance institution in the country, in terms of branch network and customer numbers. Although the two companies both deal in financial services, the management style and work culture in USCC is different from that in UML and the two institutions operate based on different information technology platforms. Staff in the acquired USCC is also reportedly low on motivation with rumours doing rounds that they are going to be retrenched, despite earlier assurances from management that they were to retain their jobs. Ms Niragire is naturally concerned that the USCC operations might not be successfully integrated into UML. A board meeting is due in a week's time and she is concerned that her directors will be questioning her on the action taken about the above reports, which may ultimately affect the value expected from the acquisition.

Required:

(a) Assess the factors which need to be taken into consideration if the acquisition is to be successful. **(15 Marks)**

(b) Discuss the potential synergies that could have driven the above acquisition. **(10 Marks)**

(Total 25 Marks)

QUESTION FOUR

Ms Genevive Karisimbi recently joined Rwanda Safaris Ltd as the chief executive officer. Rwanda Safaris Ltd is a small company that deals in tours and travel business with focus on the mass and cheaper end of the market. Popular destinations for its clients include Nyungwe National Park, Akagera National Park and Parc National des Volcans. The company's revenues have grown at an annual rate of 15% over the past five years but profits have not risen at the same rate. Price has been the company's main competitive tool with clients offered low prices in anticipation of reaping from increased numbers.

With all focus on price and profit, little attention has been given to customer care issues. In the past two years alone, customer complaints have risen to a record high with over 25% of the customers registering complaints. Common complaints include delays in flights and shuttle pick-ups from the airport, poor choice of hotels and general unreliability. These complaints have attracted negative media coverage for the company. As a result, general business inquiries fell by 35% in the past year.

Ms Karisimbi is convinced that it was wrong for the company to focus on profits only and that the practice was not sustainable at all. She believes that if you do not get the service right then the profits will inevitably suffer. She also notes that there is need for regular refresher training for all staff categories, not only those who interface with clients, but backroom staff such as accountants as well.

You have now been engaged by Ms Karisimbi for a short-term management advisory assignment. She is particularly interested in performance measurement at Rwanda Safaris Ltd.

Required:

(a) Guided by the balanced scorecard, assess the performance indicators which are relevant for a company like Rwanda Safaris Ltd. **(16 Marks)**

(b) Discuss the critical success factors required of a company like Rwanda Safaris Ltd. **(9 Marks)**

(Total 25 Marks)

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