Chartered Institute of Management Accountants

CIMA

March 2015 Strategic case study examination

Pre-seen materials

Contents

Background

You are a senior manager who works for the Look Group ("Look"). You report directly to the parent company's board and advise on special projects and strategic matters. You have compiled the following facts about the company.

Look – company background

Look is a technology company that was founded by three software engineers in 1998. The company is still based in the European city where the founders were based when they met and agreed to go into business together. The company now has worldwide operations, with physical sites in five locations around the world and an electronic and commercial presence in virtually every country.

Look was created by Jay Bride, Martin Hong and Vijay Chatterjee (hereafter "Jay, Martin and Vijay"), who were studying computer science at a prestigious university. They were working on a project to improve internet search engines when Martin had an idea that led to a search algorithm that could find useful websites far more reliably than existing software. Jay and Vijay helped him to develop this idea into a viable product. They called the software "Look" and created a company of the same name to exploit the software's commercial potential.

Jay, Martin and Vijay each owned one third of Look's shares when the company was first created. The company generated very little revenue at first and many of the people who dealt with the company were offered shares instead of a cash payment. For example, a computer dealer received a 5% shareholding in return for six PCs and a programmer who assisted with the testing of the earliest version of the Look search engine received an 8% holding.

By the time that Look started to become commercially viable, the three founders held 75% of the shares and the remaining 25% were held by a number of suppliers and employees. Jay, Martin and Vijay attempted to buy these minority shareholdings back in 2002, but 10% of the company's equity shares were left in the hands of former employees at the time of the company's flotation.

Look was listed on the stock exchange in 2004. The equity shares in issue at that time were converted to a special class of equity share called founder shares. Each founder share receives the same dividend as the equity shares that were issued to the market during the flotation, but founder shares carry twenty votes per share. No further founder shares can be issued.

The flotation injected a significant cash inflow that has been used both to promote the Look search engine and also to finance an infrastructure:

Look has two programming centres, one in India and the other in Eastern Europe. Each of those centres hires local programmers, who are generally extremely competent, to support the core businesses.

There are two major research and development centres, one in Europe and the other in the USA. These specialise in developing physical products.

Look also owns three major facilities that provide the company with the necessary data storage that it requires to provide its services and also to develop new features. Look records every search made using its search engine.

Look's business strategy

Look's basic business model with respect to its search engine software has not changed since the company was founded. Users access the software using any internet browser. When they go to the Look site they can search on any term, such as "new car". Look's software presents users with a column of links to related commercial sites. For example, the user may be presented with links to sites for car makers and car dealerships. Look has taken great care to avoid this from becoming intrusive and many users find it useful to be offered these links. The links are sponsored by Look's advertisers, who pay Look a few Cents every time their link is activated by a user.

The secret to making this business model successful is to provide users with useful links to commercial sites. Look gathers information about users that enable the company to increase the likelihood of a link being followed. For example, Look can determine the location of the user's device and so any link to, say, a car dealership can be located within easy travelling distance. Look also stores details of past browsing history from that device and so a user who has looked at a particular model of car in the past may be provided with links to all of the dealers who sell that model within a reasonable distance, or to associated links such as sites of companies who provide car insurance or who provide finance on new cars. Look has been very successful in observing traits that can be used to predict users' interests.

The Look search engine is constantly being upgraded and refined. There are several competing search engines, although Look estimates that its engine is used for 60% of all internet searches. More than 10 billion searches are conducted using Look every month.

Look's principal competitors do not necessarily use search engines to generate advertising revenues. For example, there is a social media site called Friendtime, whose users post text and digital photographs to their Friendtime pages in order to exchange information with their friends. Friendtime users are presented with links every time they log onto the site and advertisers pay for clicks through to their websites. Friendtime does not compete with Look for users, but both companies are in competition for advertising revenue. A user who has accessed an advertiser's site via Friendtime will be less likely to access that same site via Look.

The Look search engine generates approximately 70% of the company's total revenue, but the company has diversified into other ventures:

Look Space is essentially a world map. Users can search for postal addresses and other locations anywhere in the world and the site can recommend a route for walking or driving between any two points. The basic business model is similar to that used by the search engine. Users who search for a particular address subsequently receive adverts relating to the surrounding area, such as hotels, restaurants and local attractions, and advertisers pay for clicks to their sites.

Look OS is a computer operating system that has been developed to power portable devices such as notebook computers, tablet computers and mobile phones. This operating system is "open source", which means that manufacturers can use the operating system in their own devices without paying for the privilege of doing so. There are more than 900 million Look OS devices in operation.

Look Apps is an online store that sells programs that operate under Look OS. Apps are typically simple games or software packages that have a very specific purpose. Each app is sold for very little, but it is a high volume market. Look will also sell third party apps in return for a commission from the seller.

Look Phone manufactures mobile phone handsets that use the Look OS operating system. The phones are highly featured and are intended to compete on the basis of innovation and build quality rather than price. Look Phone is the fourth largest manufacturer in terms of number of handsets sold. Look Phone does not have any manufacturing capacity. The phones are manufactured by subcontractors who specialise in making electronic devices.

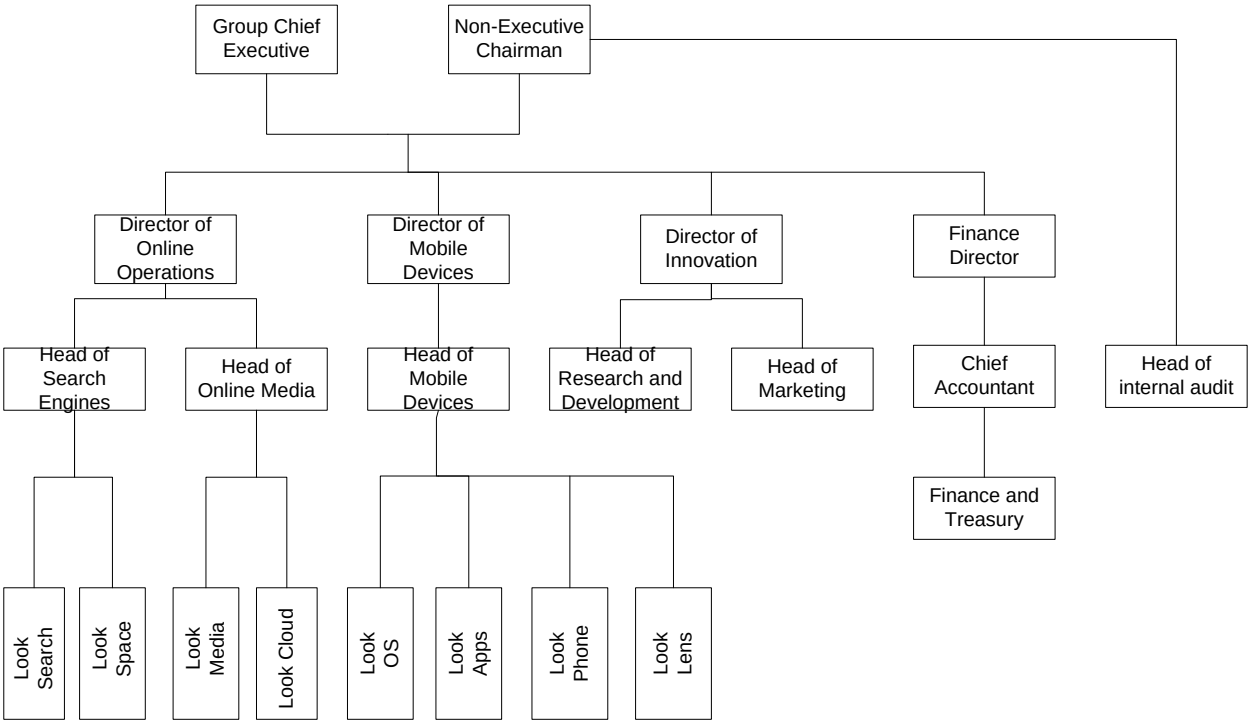
Look Lens is a contact lens that can receive signals from the user's mobile phone and can create the impression of an image floating in space. That creates a number of possibilities, such as being able to view files stored on a mobile phone or being able to call up information such as arrows pointing to places of interest as defined by the phone's GPS receiver and local maps. Users will also be able to read emails and text messages without looking at their phones.

Look Media allows subscribers to rent or buy films, television programmes and music that can be played on subscribers' computers, tablets or mobile phones. Look Media pays a royalty to the copyright holder in return for the right to sell viewing or listening rights.

Look Cloud is an online storage system. Users of this service can obtain a free account that entitles them to store up to one gigabyte of data securely on Look's server, using their web browser to upload files and to access them. Many users pay a monthly subscription fee to rent additional storage capacity beyond this limit. This is not just an online storage service. Users can search their files to find, say, letters sent to a particular person.

Look regards each of these ventures as mutually supportive. Each new venture maintains a perception that Look is an inventive and exciting company and that any positive publicity that reinforces this perception benefits every line of business. There are also direct synergies, such as the future success of Look Apps depending on the strength of the user base for Look OS because selling more devices stimulates demand for apps and increasing the quantity and quality of apps makes owning a Look OS device more appealing.

Organisation



Jay is the Group Chief Executive, Martin is Director of Online Operations and Vijay is Director of Innovation. The board is supported by senior managers who take overall responsibility for the management of the eight revenue-generating divisions, such as Look Search, etc.

In practice, Jay, Martin and Vijay tend to work very closely together, focussing more on matters that interest them. They delegate much of the responsibility for the company's supervision to their fellow directors. The three founders argue that their vision created the company and continues to sustain it. For example, the Look Lens project is a speculative venture that would not have reached the stage of a product launch if Vijay had not convinced Jay and Martin of its potential before the three of them took the idea to the board with their firm commitment to proceed.

Finance and Treasury, Marketing and Research and Development are centralised service departments that support the whole group with respect to those functions. Other operational matters, such as human resources or health and safety, are left to the individual divisions to manage.

Mobile Devices is responsible for the manufacture of hardware, such as mobile phone handsets.

All matters relating to centralised information systems are the responsibility of Look Search. The two programming centres and the three data storage facilities are managed by Look Search and the other divisions are invoiced for any use that they make of their services. Look Space, Look Media and Look Cloud are heavy users of programming and data storage. The other divisions tend not to be heavy users because they have relatively modest data storage requirements and Look OS and Look Apps have their own specialised programmers, based at the programming centres, who are experts in the Look Operating System.

The Board comprises two executive directors in addition to Jay, Martin and Vijay. There is also a non-executive chairman and three additional non-executive directors.

Looks employees are as follows

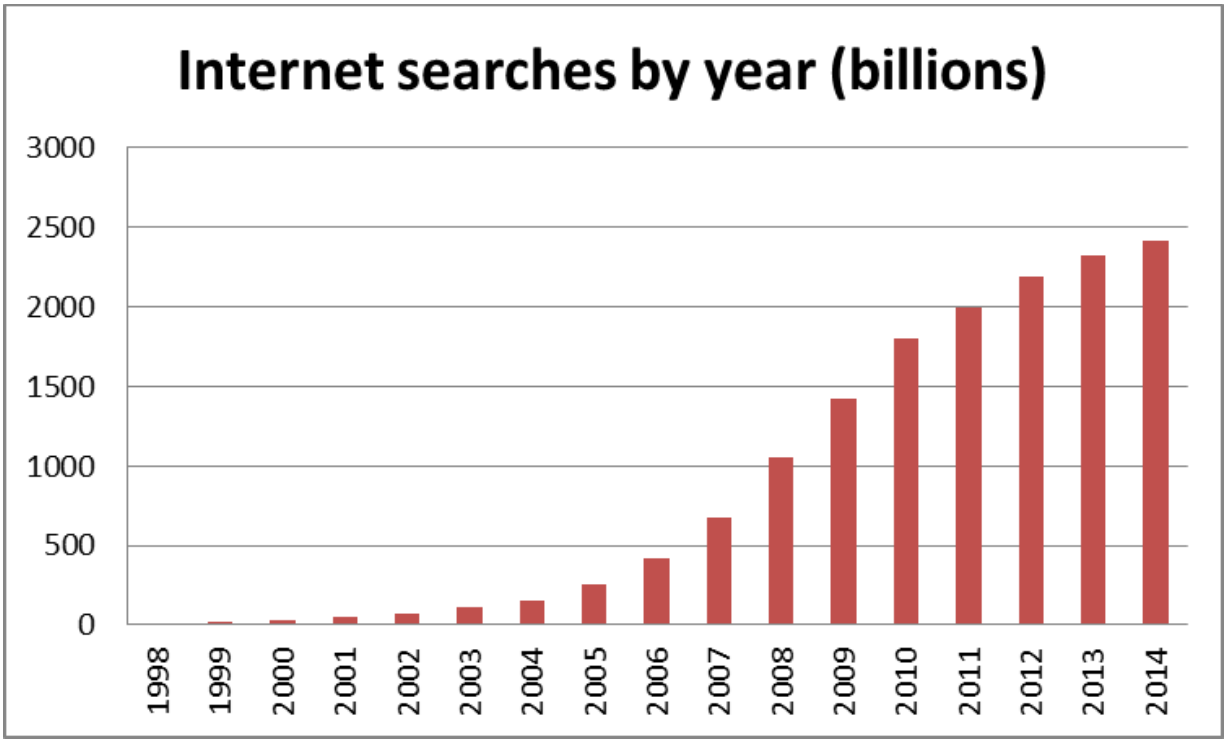
Look Search	5,083
Look Space	803
Look Media	2,012
Look Cloud	651
Look OS	3,480
Look Apps	2,548
Look Phone	1,967
Look Lens	263
Research and Development	1,907
Marketing	598
Finance and Treasury	706
Internal Audit	234
	20,252

Look prides itself on being an excellent employer. Each of the company's sites offers an attractive working environment and includes facilities such as a good cafeteria and leisure facilities. Employees are well paid, although that is partly because Look needs to retain staff in the face of competition from other technology companies.

Look pays staff to develop themselves. The company will sponsor staff who wish to seek further qualifications and staff can apply for time to develop their own ideas, even if they do not have any immediate or obvious scope for commercial exploitation

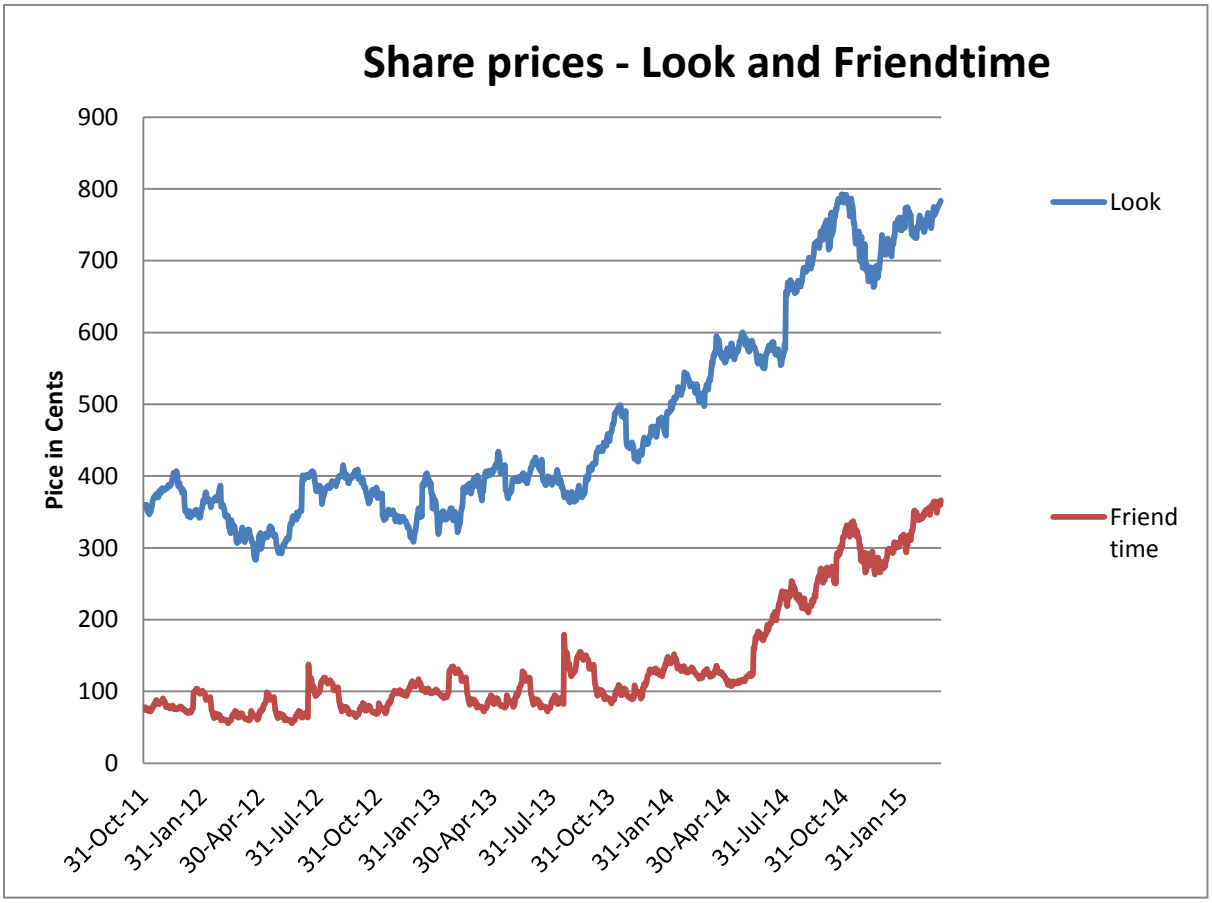
Industry data

When Look was first established the internet was in a state of relative infancy. Usage has grown dramatically since, although the rate of growth has declined significantly as usage has gone towards saturation point.



Look's analysts believe that internet users will tend to spend increasing amounts of time online, with the growth in the use of mobile devices, social media and online music and video for entertainment, but they will not necessarily conduct many more searches because of this.

Share prices over the past three years or so for Look and Friendtime are shown as follows:



Look's Mission Statement

Look is often credited with having two mission statements. The official mission statement is:

"Connecting people to the World."

Look's underlying intention is to make knowledge in almost any form instantly accessible to those using the company's services. The search engine is an obvious example of this, but the other divisions also contribute. Jay, Martin and Vijay believe that Look is a powerful force for enhancing the good of society.

Look also has an unofficial mission to "Do only good". This underpins an extensive ethical code:

Serve users

Respect others

Protect privacy

Respect external regulations

Work in Look's best interest (subject to the above)

Look's strategy

Look's main strategic priority is to maintain market dominance. The company requires economies of scale and scope to attract users and so attract advertisers in order to generate revenues from its services. The loss of significant market share to a competitor could lead to disproportionate losses.

Look's directors have prepared the following outline SWOT analysis:

Strengths	**Weaknesses**
• Significant user base • Highly recognisable brand	• Dependence on programmers and other specialists whose skills are in demand • Dependence on availability of internet for delivery of service
Opportunities	**Threats**
• Innovative new products can capitalise on existing brand image • Growing presence of the Look OS platform in the home and workplace	• Growing concerns about online privacy • Increasing concerns about regulation • Relatively low barriers to entry for potential competitors

Look's board of directors

Jay Bride, Co-founder and Group Chief Executive

Jay Bride co-founded Look in 1998. Today he serves as Group Chief Executive.

Jay has a Bachelor of Science degree in Computer Science and a PhD in Software Engineering. He holds honorary doctorates from three leading universities.

Jay has been credited with developing the business model upon which Look's success has been built.

Martin Hong, Co-founder and Director of Online Operations

Martin Hong co-founded Look in 1998. Today he serves as Director of Online Operations.

Martin has a Bachelor of Engineering degree in Electronic Engineering and a PhD in Software Engineering. He serves as a visiting Professor of Systems Architecture at a prestigious university and he has published many academic papers on the mathematics of search algorithms.

Martin wrote the algorithm that is the basis for Look's search engine.

Martin's role as Director of Online Operations requires him to maintain his strategic vision for Look's systems architecture.

Vijay Chatterjee, Co-founder and Director of Innovation

Vijay Chatterjee co-founded Look in 1998. Today he serves as Director of Innovation.

Vijay has a Bachelor of Science degree in Mathematics and Statistics, a Master of Science degree in Statistical Analysis and a PhD in Software Engineering.

Vijay has successfully patented many ideas that have been brought to the market by Look, including three patents that protect the intellectual property embedded in the Look Lens device.

Amanda Wilson, Director of Finance

Amanda Wilson has been Look's Director of Finance since 2007. She is an accountancy graduate and is a professionally qualified accountant. She has held senior position in accounting and finance at two manufacturing companies and was the Finance Director of a small commercial bank before she joined Look as Finance Director.

Victor Lee, Director of Mobile Devices

Victor Lee has been Look's Director of Mobile Devices since the division was first created in 2011. Victor has a Master of Engineering degree in Design Engineering. He worked in product design and in marketing at a major global mobile telephone company before he joined Look.

Victor joined Look in 2008 to take charge of the development of mobile devices. He was promoted to Director in 2011 when the Mobile Devices Division was created in response to the growth in this line of business.

Charles Anstruther – Non-executive Chairman

Charles Anstruther has been Look's Non-executive Chairman since 2012. He was previously Chief Executive of a major multinational retailer. He has served as Finance Director of two other quoted companies during his long and successful career.

Charles is a qualified accountant and he holds a Master of Arts degree in Politics, Philosophy and Economics.

Charles chairs the Audit and Remuneration Committees.

Alison Gordon – Non-executive Director

Alison Gordon has been a non-executive director since 2011. She has a background in software engineering and has held senior managerial positions with a number of companies in the telecommunications industry.

Alison has a PhD in Systems Architecture.

Alison is a member of both the Audit and Remuneration Committees.

Michael Yip – Non-executive Director

Michael Yip has been a Non-executive Director since 2012. He has had a long career in the telecommunications industry. He served as Director of Technical Operations in an unquoted company before joining Look.

Michael has a Master of Science degree in Software Design and a Master of Business Administration degree.

Michael is also a Non-executive Director of an unquoted bank.

Michael is a member of both the Audit and Remuneration Committees.

Mara Reynolds – Non-executive Director

Mara Reynolds has been a Non-executive Director since 2010. She was previously one of Look's longest-serving employees, having joined the company as a secretary in 2000. She was Martin Hong's Personal Assistant from 2005 until her retirement in 2010. She was offered a non-executive seat on the Board in recognition of her long service and loyalty to the company.

Mara does not sit on any Board committees.

Internal Audit Department

Look's Internal Audit Department has offices at every site from which the group operates. The department comprises a mixture of qualified staff and trainees. Given the nature of Look's business activities, internal auditors are recruited from a mixture of backgrounds, mainly accounting or computer science. The Head of Internal Audit believes that there are benefits in having a range of skills in the department and that those without an accounting background can learn to apply their skills in an audit context and those who started as auditors can learn about the IT issues required for their role.

The Internal Audit Department focuses on compliance audits, as is traditional, but there is a heavy emphasis on compliance with IT operations to ensure that the security and privacy of data is safeguarded in accordance with Look's standard operating procedures.

The Internal Audit Department uses the risk-based approach to planning and conducting its investigations.

Reference Material 2

The following information has been extracted from Look's financial statements for the year ended 30 September 2014

Look Group Consolidated statement of profit or loss

	Notes	Year ended 30 September 2014 $ million	Year ended 30 September 2013 $ million
Revenues	[1]	62,488	50,615
Costs and expenses:			
Cost of revenues	[1]	(22,496)	(16,197)
Research and development		(8,654)	(6,795)
Sales and marketing		(6,528)	(5,222)
General and administrative		(3,524)	(3,216)
Total costs and expenses		(41,202)	(31,430)
Operating profit		21,286	19,185
Interest and other income, net		256	452
Profit before tax		21,542	19,637
Tax expense	[2]	(3,468)	(3,875)
Profit for year		18,074	15,762

Look Group Consolidated statement of financial position

	Notes	As at 30 September 2014 $ million	As at 30 September 2013 $ million
Assets			
Non-current assets			
Property, plant and equipment	[3]	14,500	19,987
Intangible assets	[4]	8,756	4,871
Goodwill	[5]	12,874	9,478
		36,130	34,336
Current assets			
Inventories		485	412
Trade receivables		8,874	9,852
Deferred tax		1,144	1,526
Marketable securities		38,971	32,746
Cash and cash equivalents		8,973	7,625
		58,447	52,161
Total assets		94,577	86,497
Equity			
Share capital	[6]	20,000	20,000
Retained earnings		54,967	45,839
Total equity		74,967	65,839
Non-current liabilities			
Long-term debt		4,800	4,800
Net pension scheme liability		1,624	1,328
Total non-current liabilities		6,424	6,128
Current liabilities			
Trade payables		2,258	2,364
Short-term debt		2,897	3,874
Accrued expenses and other current liabilities		3,586	3,412
Deferred revenue	[7]	1,200	1,005
Income taxes payable		3,245	3,875
Total current liabilities		13,186	14,530
Total equity and liabilities		94,577	86,497

Reference Material 3

Basis of consolidation

The consolidated financial statements include the accounts of all subsidiaries controlled by the parent company. All intragroup balances and transactions have been eliminated.

Cost of revenues

Cost of revenues includes the expenses associated with the operation of data centres, including depreciation of hardware, staff costs, energy, and bandwidth costs, credit card and other transaction fees related to processing customer transactions, as well as content acquisition costs.

Property, Plant and Equipment

We account for property, plant and equipment at cost or valuation less accumulated depreciation. We compute depreciation using the straight-line method over the estimated useful lives of the assets, generally two to ten years. We depreciate buildings over periods up to 25 years.

Depreciation for equipment commences once it is placed in service and depreciation for buildings commences once they are ready for occupation. Land is not depreciated.

Software Development Costs

The costs of developing software, including costs to develop software products or the software component of products to be marketed to external users, are written off before the technological feasibility of such products is determined.

Software development costs also include costs associated with programs for our own internal use and with cloud-based applications used in the delivery of our services.

Note 1 - Segmental analysis

	Look Search	Look Space	Look Media	Look Cloud	Look OS	Look Apps	Look Phone	Look Lens	Total
	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million
Revenues	42,492	9,373	4,374	1,875	0	1,250	3,124	0	62,488
Cost of revenues	(6,297)	(5,624)	(2,025)	(2,475)	1,575)	(1,125)	(2,025)	(1,350)	(22,496)
Revenues less cost of revenues	36,195	3,749	2,349	(600)	(1,575)	125	1,099	(1,350)	39,992

	USA	Europe	Africa and Middle East	Asia and Australia	Total
	$ million	$ million	$ million	$ million	$ million
Revenues	26,245	17,496	11,248	7,499	62,488

Note 2 - Tax expense

	$ million
Current tax	3,086
Net movement in deferred tax	382
	3,468

Note 3 - Property, plant and equipment

	Property	Plant and equipment	Total
	$ million	$ million	$ million
Cost or valuation			
As at 30 September 2013	32,485	18,343	50,828
Additions	1,296	2,989	4,285
Disposals	0	(2,374)	(2,374)
Impairment adjustment	(2,536)	(7,329)	(9,865)
As at 30 September 2014	31,245	11,629	42,874
Depreciation			
As at 30 September 2013	876	24,632	25,508
Charge for year	83	5,793	5,876
Disposals	0	(874)	(874)
Impairment adjustment	(128)	(2,008)	(2,136)
As at 30 September 2014	831	27,543	28,374
Net book value			
As at 30 September 2014	30,414	(15,914)	14,500
As at 30 September 2013	31,609	(6,289)	19,987

Note 4 - Intangible assets

Intangible assets comprise patents rights purchased from third parties.

	$ million
Cost or valuation	
As at 30 September 2013	27,564
Additions	9,751
As at 30 September 2014	37,315
Amortisation	
As at 30 September 2013	22,693
Charge for year	5,866
As at 30 September 2014	28,559
Net book value	
As at 30 September 2014	8,756
As at 30 September 2013	4,871

Note 5 – Goodwill

Goodwill increased as a result of the acquisition of Memory Games.

Note 6 - Share capital

	$ million
Founder shares	1,980
Equity shares	18,020
	20,000

Note 7 - Deferred revenue

Deferred revenue arises because many of Look's advertisers pre-pay for advertising.

Reference Material 4

Risk factors

Competition	We have several lines of business, each of which faces significant competition for market share. Our businesses operate in markets that are constantly evolving and our competitors are often capable of finding new and unforeseen ways to strip us of market share. We must respond by developing our own strategies in order to maintain revenues.
Investment on new businesses	The Look Group is always keen to develop new lines of business and develop existing lines through investment. This process often yields significant benefits, but it can also prove disruptive to ongoing business activities.
New technologies	The Look Group's core business activities centre on the internet. This is an area of rapid development and the technologies that affect our business are constantly changing. New devices and platforms, such as smart televisions, are being introduced to access the web. Such new platforms have the capacity to impact on our business model.
Advertising revenues	Much of our revenue comes from advertising consumer products. Economic factors can affect the demand for the products that we advertise and that can have an impact on our advertisers' willingness to pay for our services.
Regulations and scrutiny	Legitimate concerns about the security and privacy of our users often lead to changes in the law and in other forms of regulation. Such changes can prove to be disproportionate and disruptive to our operations.
Political motives	Governments have acted to curtail or disrupt free access to the internet by their citizens. That can have a detrimental effect on our ability to provide a high standard of service. It can also leave us open to accusations of political bias when we act alongside governments in order to minimise the disruption that such restrictions may create.
Legal liability	We are open to an increasing volume of claims associated with the services that we provide. Users can have claimed that links suggested by our search engines are either misleading or defamatory. There are concerns about privacy issues. Our liability is also increasing through the growing importance of cloud-based storage and the consequential liability associated with the loss or corruption of data
Joint liability	In many cases, our products and services are used in conjunction with devices or software provided by third parties. We can be left facing accusations of negligence by a user who claims to have suffered a loss because of a malfunction in a device or program that may have been supplied by a third party.
Manufacturing and supply chain	We are heavily dependent upon third parties for the supply of bought in goods and services, both to service our web-based products and also the physical devices sold by us. Many of our products are manufactured in developing countries where there are concerns about poor working

	conditions.
Security and quality of service	Third parties may attempt to disrupt and interfere with our online services. Malicious access can be motivated by criminal intent or simply a desire for notoriety.
Interruption of communications	Our services are vulnerable to disruption of the links that form the basis of internet activities. While inherently robust, those systems do have a finite capacity to cope with disruption. Our reputation will be severely undermined if our services are disrupted, particularly if such disruption occurs at a time when a natural disaster stimulates demand for access to relevant information.
Key personnel	The Look Group was founded by three individuals who continue to provide a significant input into developing and expanding the business' vision. We also depend heavily upon the skills of engineers and programmers to maintain and enhance the high quality service with which we are associated.
Ad blocking	Many users would prefer to access our services without the associated download of advertising links. There are various techniques that can be used to block ads, which would severely curtail our revenues from advertising.

Reference Material 5

Look's Corporate Social Responsibility Report for the year ended 30 September 2014

Look's motto "do only good" runs through every aspect of the company's operations, including minimising the company's environmental impact.

Look's carbon footprint

Since the company's foundation, we have acknowledged responsibility for our impact on the environment.

The fact that a typical internet search generates a little less than half the CO_2 emissions of boiling a kettle is frequently repeated. Look accepts that operating any data-based activity consumes electricity and so generates externalities. We have responded in several ways:

- Look's data centres are managed with care to reduce energy consumption. Our servers are the most energy-efficient that we can source. We work with suppliers to ensure that hardware excels in energy performance. Efficient servers generate less waste heat and so require less energy to be consumed directly in operations and indirectly through cooling and air conditioning.

- We conduct regular energy audits and our data centres use approximately 50% less energy than comparable centres.
- Look has been carbon neutral since 2005. We invest heavily in carbon offsets that exceed our estimated CO_2 emissions.
- Look funds research into the development of renewable energy sources. In 2014 we funded projects to the value of $1.1 billion. We work directly with leading universities to identify research projects that might not otherwise attract funding but that do stand a realistic prospect of success in the long term.

Reference Material 6

Case study: Western Data Centre

The Western Data Centre has recently completed a rolling programme to upgrade the power management of the Centre's servers. This was actually more expensive than the installation of new machines, but Look has a policy of upgrading and repairing equipment whenever possible to avoid the consumption of energy and scarce materials required for the manufacture of electronic equipment.

The Western Data Centre draws water from a nearby river to augment temperature control. The water is filtered, run through clean pipes that absorb waste heat from operations and discharged back into the river. An independent environmental audit established that this arrangement increased ambient river temperature by a negligible amount and had no net effect on plant or animal life. The water running through this system is actually cleaner when discharged back to the river than when it is drawn into the Centre.

The Western Data Centre offers a free bus service to local railway stations and other public transport links so that staff can use public transport whenever possible.

The food served in the Western Data Centre's cafeteria is sourced locally and the menu changes to make the best use of local produce when it is in season.

Look's products

Many of Look's products reduce users' environmental impact significantly.

Our mission of "Connecting people to the World" means that information that would previously have been accessible only through a journey to a library or a book shop can now be accessed from a computer or mobile phone.

The efficiency of Look's search algorithms make fewer demands of the infrastructure and so reduce energy consumption (in addition to providing users with a fast and efficient service).

Look Space enables users to plan journeys that follow the shortest route and so reduce fuel consumption (or encourage them to walk or cycle rather than drive for shorter journeys). We are working on an upgrade to Look Space that will integrate journey searches with bus and rail timetables so that users are automatically offered a viable public transport alternative whenever one exists.

Look Media offers users the ability to access content without the need to manufacture a physical disk and associated packaging and burden the environment with the carbon footprint of buying and delivering that disk.

Look Cloud ensures that data is secured securely and efficiently, again without the need for users to buy hardware that would require a footprint in its manufacture, distribution and operation.

Look's people

Look's reputation as an employer is emphasised both by the very low rate of staff turnover and the very large number of applications that are received for every job that is advertised.

Look has a clear policy of treating staff with respect and of providing them with opportunities to grow and develop. Look has a formal training scheme for all staff that is designed to ensure that professional skills are maintained and extended. New staff are encouraged to participate in external training that is relevant to their roles and all staff can reclaim the cost of any external classes or training, regardless of its relevance to their roles, once they have been in post for more than two years.

Look provides excellent benefits, including competitive salaries and other rewards. All sites have free pre-school childcare facilities. Cafeterias are heavily subsidised. Every site has a well-equipped gym and some sites have swimming pools and other leisure facilities.

Look in the community

Look sponsors a number of activities that are intended to show support for local communities.

Every member of staff is free to participate in a scheme where Look provides training in programming and information systems to local schools. Interested staff are granted one or two working days per month to assist in this programme and full travel expenses are paid.

Look supports a number of charities by providing data management services and other services free of charge.

Look provided logistical support to the charities which assisted in the recent tragedy in Central Africa.

Look's assistance meant that food, medicine and building materials offered by aid agencies were quickly directed to the areas of greater need. Look established a temporary data centre at the nearest major airport within 72 hours of the news of the tragedy and provided skilled programming and operations staff to maintain the centre. The head of a charity that was also involved commented that Look's assistance had been invaluable and she hoped that Look could be called upon to provide similar support in the event of a future disaster of this scale.

Reference Material 7

Look in the news

The following article was published recently by a leading business newspaper.

Whither Vijay?

Vijay Chatterjee, Look's charismatic design guru, seemed somewhat subdued at the launch of the latest iteration of the Look Lens product. The product may have been his brainchild, but he did little more than introduce the head of the design team to the assembled hordes of press and took little further interest in proceedings.

It has long been suspected that Vijay is becoming a little disenchanted with life at the very top of the internet giant. He was clearly at his happiest when the internet was a wild and exciting place and Look was regarded as innovative and iconoclastic. Now it is just another large corporation that is answerable to the capital markets. Even Look's no-suit, cheerful cafeteria with free coffee culture is not that different from that of many other businesses.

Vijay has been rumoured to be interested in stepping down from Look's board. He is a keen sailor and he would clearly love to spend more time competing for trophies in the competitive world of yachting.

Reference Material 8

Competitor analysis

Look's primary business is in the area of online search, both through the Look Search product and the Look Space (which is essentially a search engine that adds the dimension of mapping to the basic idea). Both of those products generate revenue indirectly through the sale of advertising on a "pay per click" basis.

Look faces a diverse range of competitors in this field:

Firstly, there are the traditional search engines, such as Wellfind and Webrun. While Look is far more popular than any of the direct alternatives, it costs users nothing to experiment with other engines and some comments in the computer press have identified benefits to be had from switching.

Secondly, there are more specialised search engines that focus on specific areas. For example, Planeweb is designed to search for flights and Webmedic can be queried for health advice. These sites are usually linked to sales portals offered by advertisers. For example, Planeweb's users can find the cheapest flight on the day they wish to travel and they can book and pay for tickets without leaving the site.

Thirdly, many e-commerce sites fulfil a similar purpose to Look Search. For example, users can search the Buyfind site for products that interest them. They can read the specifications of the products in that category and also reviews posted by users who have already purchased those products. Purchases can be made directly through the Buyfind site and paid for using a credit card.

Finally, other content providers can attract users and offer them adverts that interest them. For example, social media sites such as Friendtime or Picpost are frequently used to promote products. Users on these sites have accounts that they can use to communicate with their friends by posting information that can be accessed by other account holders who have been granted access. Users generally upload personal news and photographs. Advertisers sometimes pay to create commercial accounts that users can link to in order to download product information and advertising links are shown on users' browsers when they are reading their friends' posts. These sites do not compete with Look for users, but advertisers have limited advertising budgets and so they do compete for advertising revenues.

Look's other business activities are far smaller, but are important because they are growing and have the potential to expand dramatically.

Look Media is a logical progression for Look. It enables the company to generate income by making sales directly to its users. Look Media competes in a relatively crowded market, but the company's strong brand recognition means that they may choose to download their favourite film or music from Look Media rather than a competitor. Volume is the key to this market because Look Media has to pay a royalty to the companies which own the copyright in these media files. Higher volumes make it easier to negotiate keener royalty payments, which can be passed on to users in the form of lower download prices.

Look Cloud is also a business that generates regular fees from users and is also a business that is crowded with competition. Look has the advantage of being a known and trusted name and that is important when the company is asking users to entrust their personal data to a remote server.

Look Phone, Look OS and Look Apps are effectively one business that has three symbiotic elements. When Look decided to enter into the crowded marketplace for mobile phone handsets it was faced with the reality of a single, dominant supplier that had captured consumers' imagination. That competitor remains the dominant force in the market, but Look has made significant inroads by developing a viable alternative operating system that is popular with users. Look's operating system would never have captured market share unless Look had stimulated demand by offering a range of phones on which to run it. Making the operating system open source and giving it to other manufacturers was an inspired move because it has underpinned the credibility of the Look Phone as a viable alternative. Much of Look's success in this market has been due to the fact that other manufacturers have adopted Look OS. The growing base of Look OS users has created a ready market for Look Apps.

Look Lens is a rather confusing business proposition because sales will depend on whether users are prepared to use contact lenses. The company will produce prescription lenses for those who need them anyway, but many of the young people at whom this device is targeted will not require contact lenses and may be unwilling to wear plain lenses just for the sake of accessing the output from their phones. The Look Lens has been criticised by many commentators as providing a solution to a problem that does not really exist, but it does have the advantage of appealing to early adopters and it may train wearers to believe that they need to be connected to the internet, their texts and emails on a more or less continuous basis.

Reference Material 9

Extracts from Friendtime's financial statements

Friendtime Group Consolidated statement of profit or loss

	Year ended 30 September 2014 $ million	Year ended 30 September 2013 $ million
Revenues	49,990	35,431
Costs and expenses:		
Cost of revenues	(13,498)	(8,908)
Research and development	(1,358)	(1,749)
Sales and marketing	(9,248)	(8,237)
General and administrative	(2,491)	(2,214)
Total costs and expenses	(26,595)	(21,108)
Operating profit	23,395	14,323
Interest and other income, net	(587)	(479)
Profit before tax	22,808	13,844
Tax expense	(2,444)	(2,357)
Profit for year	20,364	11,487

Friendtime Group Consolidated statement of financial position

	As at 30 September 2014 $ million	As at 30 September 2013 $ million
Assets		
Non-current assets		
Property, plant and equipment	9,852	9,674
Intangible assets	4,200	4,200
Goodwill	896	896
	14,948	14,770
Current assets		
Trade receivables	4,478	4,685
Deferred tax	986	921
Cash and cash equivalents	874	1,129
	6,338	6,735
Total assets	21,286	21,505
Equity		
Share capital	1,000	1,000
Retained earnings	9,652	10,997
Total equity	10,652	11,997
Non-current liabilities		
Long-term debt	4,400	3,800
Net pension scheme liability	486	412
Total non-current liabilities	4,886	4,212
Current liabilities		
Trade payables	1,078	984
Short-term debt	1,000	1,000
Accrued expenses and other current liabilities	845	654
Deferred revenue	682	584
Income taxes payable	2,143	2,074
Total current liabilities	5,748	5,296
Total equity and liabilities	21,286	21,505