JUNE 2019 MAIN EXAMINATION

MODULE:

STRATEGIC AND CHANGE MANAGEMENT

PROGRAMME:

MASTER OF BUSINESS ADMINISTRATION

(NQF 9)

DATE:	14 June 2019	TIME:	09h00 - 12h00
DURATION:	3 hours	MARKS:	100
EXAMINER:	O M Seedat	MODERATOR:	A Kader

INSTRUCTIONS TO CANDIDATES:

1. Candidates are required to answer **ALL** questions.
2. This is a closed book examination.
3. No written material may be brought into the examination room.
4. Write legibly and neatly.
5. Do **not turn over this page** until permitted by the Invigilator.

*This question paper consists of **six (6) typed pages** excluding the cover page.*

QUESTION ONE **[15]**

Read the following and answer the question that follows:

A company pursuing a strategy of vertical integration expands its operations either backwards into an industry that produces inputs for the company's products (*backward vertical integration*) or forward into an industry that uses, distributes or sells the company's products (*forward vertical integration*).

Vertical integration increases product differentiation, lowers costs, or reduces industry competition when it (1) facilitates investments in efficiency-enhancing, specialised assets, (2) protects product quality, and (3) results in improved scheduling. Today, companies have found that they can realise many of the benefits associated with vertical integration by entering long-term cooperative relationships with companies in industries along the value-added chain.

Hill, Schilling and Jones (2017) Strategic Management An Integrated Approach Theory and Cases 12th edition Cengage

With reference to the above extract, evaluate strategic alliances as a cooperative relationship to obtain the advantages associated with vertical integration

QUESTION TWO **[55]**

Read the following three articles and answer the questions that follows:

ARTICLE 1

A Banking Price War

For two decades, SA'S banking sector has remained largely the same. The advent of Capitec, in 2001, showed that customers were desperate for something different. Now, three new banks — all backed by powerful SA business personalities — are opening their digital doors, offering something entirely different. So, what can they offer that's new, and how much of a threat is this for the 'big four' banks?

Financial services used to change slowly. Twenty years after Douw Steyn launched the direct-to-consumer insurer Auto & General in 1985, insurance was still largely sold through brokers, and index funds still accounted for a tiny portion of investment assets.

Banking changed even more slowly.

More than 25 years after the launch of the internet, most banks still distribute a large portion of their products through a branch network. These branches will still be perfectly recognisable to anyone visiting SA for the first time in 30 years. None of the big banks will rock the boat; they want to protect their collective income.

That era has come to an end. In the past few months, three new banks have launched with a leaner, cheaper business model that will change the face of SA banking — Discovery Bank, Tymebank and Bank Zero.

It's been a long time coming. After Saambou and Fidelity Bank collapsed in the early 2000s, the SA Reserve Bank was for a long time reluctant to let new banks open. But these three new banks are

backed by formidable business personalities with deep pockets.
Discovery Bank is part of the wider group run by CEO Adrian Gore, which began as a health-care company in 1993. Discovery boasts Remgro associate Rand Merchant Investments (RMI) as its anchor shareholder.

Tymebank is controlled by African Rainbow Capital (ARC), an investment company controlled by the eclectic Ubuntu-botho group headed by Patrice Motsepe. As the Forbes rich list has it, Motsepe is one of the 1,000 wealthiest individuals in the world, with a fortune of $2.4bn. Before it was bought by Motsepe's company, Tymebank was owned by the Commonwealth Bank of Australia (CBA), one of the world's top 10 retail banks.

As for Bank Zero, the most entrepreneurially based of the three, it shows how far the Reserve Bank has come that it got the green light. Bank Zero is run by a maverick group of former FNB executives, most of them with strong technology backgrounds, with a few family and friends as shareholders. The chair and figurehead is the former FNB boss Michael Jordaan, based in Stellenbosch.

Somewhat ironically, Jordaan is Motsepe's partner in the data-only telecom network Rain. The Bank Zero CEO, Yatin Narsai (former head of FNB retail), runs the business day-to-day from Bryanston. Discussing the rationale for the bank in an interview with the FM, Narsai says SA ranks among the five countries with the highest bank fees in the world. "This is intolerable in such an unequal society, but then the rest of the bottom five were similarly unequal countries in Latin America," he says.

What it means:
Three new banks are set to change the face of SA banking with a leaner, cheaper business model

Back then, there were fewer smartphones (it was the age of BlackBerry) and the environment wasn't inherently as friendly for digital products as it is today. 20Twenty, for example, operated largely through a call centre, and the customer experience was often indifferent.

Though price alone might not be enough to propel the new banks into profit, they are launching at a time of considerable unhappiness over bank fees. It is easier than ever, through apps, to compare fees. Until now, none of the large banks has been prepared to jeopardise their lucrative income stream from transactional fees with a price war. But now they will have no choice.

Says Botha: "The big banks will cut fees, but only gradually — they need to cut costs first before they can afford to do so. "At least, in most cases, the big four banks still own the relationship with the customer and can persuade them to stay. Botha says they can be expected to increase their credit spreads on loans to make up for the lost fee income. Capitec is likely to be the least affected, says Chetty, given that it already has a competitive current account with low fees.

This means it will be the big four who will bear the brunt of the industry disruption. Already they're scrambling, introducing innovations like joining up with just a selfie. But they may have left it too late to ride the tsunami of change.

Financial Mail **28 Mar 2019** **Stephen Cranston cranstons@fm.co.za**

ARTICLE 2

Is Capitec starting a price war?

The bank has announced broad-sweeping fee cuts a week before new digital bank TymeBank is due to host an investor day

Capitec is cutting its fees. The bank, which normally announces its fee increases in March, made the announcement a week before new digital bank TymeBank is due to host an investor day, upping the ante in what could be a banking fee price war.

From March 1, the monthly admin fee on the bank's one and only account, the Global One account, will decrease from R5.75 to R5. The price of electronic payments on mobile and internet banking will decrease from R1.60/transaction to R1. Debit order fees will decrease from R3.70 to R3.50. The cost of drawing cash at all Pick n Pay, Shoprite, Checkers and Boxer till-points will drop from R1.60 to R1. And the cost of immediate payments has also decreased from R10 to R8.

International and online card purchases, transfers between own accounts and e-mailing statements on mobile and internet banking will remain free.

The bank has increased a few fees: the fee for in-branch transfers and payments will increase from R5.30/transaction to R6. Cash withdrawals from Capitec-branded ATMs will cost R6 per R1,000, while all other bank ATM withdrawal fees will be lowered to R8 per R1,000. Capitec used to charge a flat fee irrespective of the amount withdrawn.

Capitec said in a statement on Tuesday that the bank had experienced its highest single-month uptake to date, with more than 266,000 new clients joining the bank in January 2019.

In addition to low fees, Capitec clients get access to four savings plans, offering from 5.1%-9.25% interest per year," said Francois Viviers, the bank's marketing and communications executive.

20 FEBRUARY 2019 ANGELIQUE ARDÉ
https://www.businesslive.co.za/bt/money/2019-02-20-is-capitec-starting-a-price-war/

ARTICLE 3

Nedbank slashes fees in price war

Nedbank has three no-fee accounts in its armoury as it prepares to do battle against rivals such as TymeBank

It's game on. Nedbank donned gloves in the banking price war with the announcement that it is dropping the monthly account fee on its pay-as-you-use (PAYU) account.

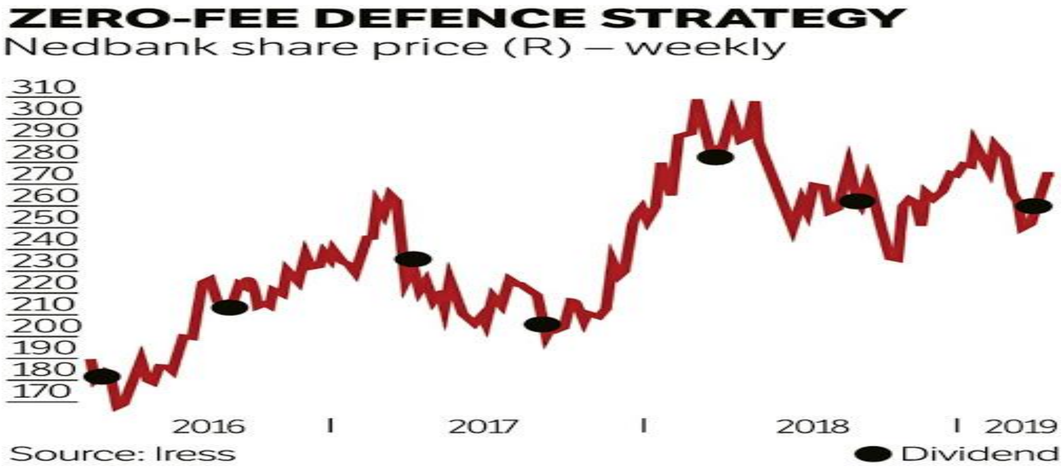
The bank, according to statistics from Genesis Financial News & Data, holds the lowest market share among the big four in terms of deposits, loans and advances. Earlier this month it launched another zero-fee digital product aimed at customers younger than 25, called Unlocked.Me.

The latest development takes zero-monthly fee transactional products offered by the bank to three. In November last year it launched a no-fee mobile wallet account, MobiMoney. However, scrapping fees on an existing product is arguably the most aggressive move by the green bank so far.

Nedbank's head of card, payments and transactional products, Vanesha Palani, says the bank is simply responding to tough times facing consumers and thought it would lighten their load by bringing "accessible, affordable banking solutions". "We are hoping to make things easier for our clients," she says. "Our commitment to financial inclusion remains absolute."

Nedbank is the second of the established banks to cut fees on existing transactional products in the face of rising competition by new players such as TymeBank, whose biggest selling point is zero fees. In March Capitec decreased the monthly admin fee on its Global One account from R5.75 to R5. It reduced a host of other fees, but increased a few others, including in-branch transfers.

Palani says that while a large percentage of Nedbank's customer base has bundled banking products, more people are taking up the PAYU offering as well. She says the account has recorded strong growth year on year. It is popular, she says, with people who use the account mainly for purchases, as it offers free card swipes. The PAYU accounts are not confined to entry-level customers — customers across all segments are taking up this product.



When Nedbank launched Unlocked.Me, analysts said it was targeted at a small base of clients as a defensive strategy. Doubt lingered as to whether the bank could roll out a zero-fee account to more customers, as traditional banks have revenues to protect.

Though Nedbank did not say how much of its transactional revenues it will forgo by scrapping PAYU monthly admin fees, banking analyst at Avior Capital Markets Harry Botha says that even if a big share of Nedbank's customers hold these accounts, the bank would still sacrifice less in transactional income when one considers the upside potential.

"Let's assume Nedbank has 5-million customers. At R5.50 (including VAT) the fee cut will reduce Nedbank's Group revenues by about R287m or 0.5%. It's not significant. I think Nedbank hopes to recoup the fee reduction by attracting more customers," he says.

Palani says the bank is hoping to compensate for the lost revenue by an increase in physical and cash-intensive transactions, and bundled products. "We aim to offer affordable banking to everyone across PAYU and bundle products. Bundles are great value for high-transacting clients and those who love all the added benefits and value that come with these offers, like airport lounge access and rewards."

The move to announce three zero-fee entry-level accounts shows that Nedbank is not prepared to lose its customer base to the new players, which are targeting the same market with zero-fee accounts.

"I think the fee cuts are defensive," says Botha. "Management has a specific target to grow its transactional banking customer base. Nedbank’s fee structure is now like that of TymeBank, but Nedbank’s distribution channels and overall product capabilities are much more advanced than TymeBank’s."

Nedbank grew its entry-level customer base by 8% in 2018 and, in terms of customer numbers, the segment is now the bank’s largest. The bank is also offering a stokvel account to this market, allowing it to take more deposits and earn interest income.

Wessel Badenhorst, analyst at 36One Asset Management, says the entry-level segment has become an important part of Nedbank’s banking ecosystem. The bank used to focus exclusively on the higher end of the banking market, particularly in the early 2000s. But it changed its strategy to grow retail banking as a whole in recent years, especially with the launch of the Ke Yona account in 2011.

"I suspect the launch of the zero-fee accounts is aimed at maintaining Nedbank’s competitiveness at the youth and entry level," he says, pointing out that this is the market where competition is intensifying the most. "A lot of the growth in retail banking clients over recent years has been at the youth and entry levels for Nedbank (younger clients).

"They have struggled to increase their percentage of main-banked clients for the bank as a whole, as well as clients with more complex banking needs." Badenhorst says there are at least three reasons it makes sense for Nedbank to service the youth and entry-level customers without charging them monthly admin fees.

"First, the cost of servicing additional clients who use digital platforms is marginal. Second, the deposits in these accounts still represent funding for the bank. The bank forgoes the fee income on these accounts but can still earn the usual interest rate spread when it lends to other customers. Third, the bank clearly hopes to grow with these clients as they grow older, earn more and have more complex banking needs."

He adds that this model makes it easier and cheaper for Nedbank customers to stay than to switch between banks.

25 APRIL 2019 LONDIWE BUTHELEZI
https://www.businesslive.co.za/fm/money-and-investing/results/2019-04-25-nedbank-slashes-fees-in-price-war/

Questions:

2.1 Undertake a SWOT analysis of a challenger bank and a traditional ‘big four’ bank. (16)

2.2 Evaluate the business model of the challenger banks mentioned in the first article. (12)

2.3 Critically discuss the ‘entry’ strategies of the challenger banks. (9)

2.4 “it will be the big four who will bear the brunt of the industry disruption”.
About this view:

2.4.1 Discuss, with reasons, the strategies the ‘big four’ banks should adopt. (8)

2.4.2 Discuss the elements of change management that the ‘big four’ banks should undertake to counter the threat of the challenger banks. (10)

QUESTION THREE [15]

Change which is imposed on an individual by his or her manager is always going to be resisted. With reference to this, outline the reason why individuals resist change and discuss the strategies that managers can utilise for enhancing the success of change initiatives.

QUESTION FOUR [15]

Assess the use of mergers, acquisitions and alliances as a means of business expansion and describe the conceptual framework of mergers and acquisitions

END OF QUESTION PAPER