JUNE 2018 MAIN EXAMINATION

MODULE:

STRATEGIC AND CHANGE MANAGEMENT

PROGRAMME:

MASTER OF BUSINESS ADMINISTRATION

(NQF 9)

DATE: 08 June 2018	TIME: 09h00 – 12h00
DURATION: 3 hours	MARKS: 100
EXAMINER: O M Seedat	MODERATOR: D Nag

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 **eight (8) typed pages** excluding the cover page.*

QUESTION ONE **[35]**

Read the following article and answer the questions that follow:

Can MTN become the biggest bank in Africa?

It's certainly pulling out all the stops **Hilton Tarrant**

When the continent's largest mobile operator by subscribers, MTN, appointed Rob Shuter as group CEO, Stephen van Coller as one of its vice presidents and Ralph Mupita as CFO in 2016, the strategy was plain to see. It was hinging its future on financial services.

Shuter has run a mobile operator before (Vodafone Netherlands, following a short stint as CFO at Vodacom), but was an executive at Nedbank for a decade. Prior to joining MTN, Van Coller headed Barclays Africa/Absa Group's corporate and investment bank. Van Coller originally joined to lead strategy, mergers and acquisitions. Within six months, his role was changed to head "Digital Services, Data Analytics & Business Development".

At the time of his appointment, MTN stated plainly that "his substantial commercial experience will assist in the formulation of a revised strategy for MTN, particularly in the area of convergence between mobile telephony and financial services". CFO Mupita was CEO of Old Mutual's Emerging Markets unit, active in Africa, Asia and Latin America.

One of the six pillars of its reformulated strategy is growth through data and digital and – in 2017 – it stepped on the accelerator on both fronts.

Of its 217 million subscribers as at end-2017, 69.1* million are active data users. Mobile Money (MoMo), now active in 14 of its 22 markets, had 21.8 million active customers, year-on-year growth of 35%.

Mobile money services typically offered by mobile operators include: person-to-person transfers, disbursements, bill payments, merchant payments, airtime top-ups, getting cash into the system, as well as getting cash out.

Paul Theron, CEO of Vestact, says Mobile Money is a "vitally important opportunity for MTN, especially in markets where most of their customers are unbanked, and where MTN has a dominant market share (like Nigeria, Ghana and Uganda)". He argues that they should have "many more" MoMo customers than 22 million across the group already.

Vodacom leads the way on the continent, with CEO Shameel Joosub describing the group as the "biggest bank in Africa" in November. This is the title that MTN is after (French rival Orange is a distant third, with 12 million active customers).

Vodacom has moved about $100 billion through M-Pesa (via associate Safaricom in Kenya as well as its other international operations) in the last year. As at end-September, it had 33.3 million active M-Pesa customers, of which nearly two out of every three were in Kenya. Over R82 billion is transacted monthly via M-Pesa on Safaricom's network, while R24 billion is transacted monthly in Vodacom's other international operations.

Given its unprecedented and as yet unreplicated success, M-Pesa accounts for over a quarter of Safaricom's service revenue. In the 2018 financial year, this will be in the region of R6.5 billion (of a R24 billion total). In Vodacom's other international operations (particularly Tanzania), M-Pesa already contributes 13.6% of service revenue.
Vodacom group CFO Till Streichert, made the rather obvious point on the Q3 earnings call that "M-Pesa is clearly an accretive service from a margin point of view".
This provides some idea of the scale of the revenue opportunity.

Mobile industry trade body the GSMA, highlights this point in its 2017 State of the Industry Report on Mobile Money: "Just a few years ago, mobile money was valued by many mobile network operators for its indirect benefits, such as less churn and greater brand loyalty. Today, it is widely viewed as a source of direct revenue."

MTN is catching up to Vodacom, and fast. Eight out of every ten of its mobile financial services subscribers come from five markets: Ghana, Uganda, Côte d'Ivoire, Nigeria and Cameroon. These are five of its seven largest operations. This diversity is good, as MTN is not relying on only one or two markets as in the case of Vodacom. Shuter said recently that because of high financial services penetration rates, the MoMo model was not suited to either South Africa or Iran (the remaining two of its seven largest operations).
"Mobile Money is a vitally important opportunity for MTN, especially in markets where most of their customers are unbanked, and where MTN has a dominant market share (like Nigeria, Ghana and Uganda)."

In 2017, MoMo made up 13.6% of the Ghana operation's revenue, with 7.1 active customers. That's very comparable with Vodacom's efforts in Tanzania (6.2 million active M-Pesa customers).
Shuter told Bloomberg in November that the operator was adding "about 500 000 active banking clients a month". This peaked in December, when it added 900 000 active subscribers across the group and processed transactions totalling $5.3 billion (then ±R70 billion).

Theron adds that its distribution makes this all possible: “MTN has built sophisticated networks for selling airtime and handling cash, right down to the neighbourhood yellow umbrella, so it’s a no-brainer! The functionality to handle micro-finance (deposits and payments) is already fully operational on their core Ericsson billing system”.

The MoMo engine processed an average of 4 600 transactions per minute through last year, has 325 000 active agents in place and delivered average revenue per user (ARPU) of $1.10.

This uplift provided by MoMo-driven revenue is obvious in the ARPU reported across many of its core markets through last year. In Ghana, for example, ARPU increased from GH¢13.66 in Q4 2016 to GH¢18.15 in the same quarter last year.

MTN’s strategy to drive additional services revenue extends beyond just banking, however. There are efforts underway in e-commerce as well as entertainment services. It has 9.3 million active gaming subscribers in 10 markets and 1.8 million music subscribers.
Shuter told Bloomberg in November that “in the right markets, there is no reason why an MTN version of Spotify, where we collect the money from the pre-paid wallet or mobile-money account and we arrange the local content, can’t be successful.”

Its stated focus for this year is to “rapidly scale Mobile Money and rich media subscriptions”. Getting there is going to rely on MTN continuing to drive mobile data adoption and usage.

In its 2017 integrated report, MTN says, “the big aspects of growth in our industry are data and digital. Data is about selling megabytes: we want to bring another 130 million customers into the data world and reach 200 million data customers in the next few years.”

“Our dual-data strategy is very important here: delivering high capacity 4G in cities and broad 3G coverage in rural areas. A big piece of digital is MTN Mobile Money because consumers really need an easy, affordable, transactional financial services product that has not been provided by the mainstream commercial banks. Who else will lead that if not MTN?”
Having 200 million data subscribers is a stated aspiration for 2022. Along with this, it is targeting 100 million digital subscription customers in less than five years’ time, including 60 million for Mobile Money.

The ever-shifting regulatory environment may temper financial services growth in some markets, and Theron says that MTN “does need regulatory approval to operate effectively, without workarounds and odd partnerships with local banks. MTN doesn’t need (or probably want) full banking licenses in each market”. Growth in Nigeria, for example, remains hampered by the requirement that MoMo users have actual bank accounts. Cracking Nigeria could change the game completely.

Look out, Vodacom. “Under new CEO Rob Shuter the business is in much better shape,” says Theron. “It’s a good time to buy MTN shares.”
http://moneyweb-2.instantmagazine.com/investor/the-moneyweb-investor-issue-41/can-mtn-become-the-biggest-bank-in-africa

Questions:

1.1 Discuss the sources of competitive advantage that MTN has in its aspirational quest to be “Africa’s biggest bank”. (10)

1.2 Discuss whether MTN has a sustainable competitive advantage giving full reasons for your responses. (10)

1.3 The process of strategic management means setting a pathway for an organisation to change and then putting in place plans and policies which enable it to achieve its corporate aim. With reference to this, critically discuss the nature of key decisions made by MTN as it aspired to be “Africa’s biggest bank”. (15)

QUESTION TWO **[20]**

Read the following article and answer the questions that follow:

How being sceptical paid off for Massmart

The company says its cautious strategy in the rest of Africa is proving to be the right approach

12 January 2017 Adele Shevel

Resisting pressure from investors to expand at all costs has insulated Massmart from the dramatic fallout in many oil-dependent African countries, says CEO Guy Hayward.

For years, Massmart has been slammed for its sluggish expansion plan, while some rivals, such as Shoprite, have marched across the continent and brought back enormous returns. This manifested in sharply different trajectories: while Shoprite’s share price soared 551% over 10 years, Massmart’s stock rose only 70%. Shoprite gets 17% of its sales outside SA, but for Massmart this figure is only 9%.

In 2016, however, the hype of "African expansion" came badly unstuck, as it slammed head-first into the reality of shoddy governance and poorly diversified economies being battered by a steep plunge in oil revenues.

Casualties included Tiger Brands, which sold its Nigerian business and uncovered a scam in its East African operations; Mr Price and Woolworths, which couldn't sell stock in Nigeria; and Standard Bank.

Hayward says investors had stars in their eyes between 2010 and 2012, thinking African expansion was a one-way bet to huge profits.

"I was having investor meetings where I said we were going to be quite cautious. The audience would say: 'You just don't get it.' [But] I wanted evidence supporting either that I was right or that I was wrong."

The pressure from investors intensified from the time Walmart took control of Massmart in 2010, and shareholders expected this to spark a speedy raid into sub-Saharan Africa.

Hayward resisted. Now it seems to have been a wise move.

"At no time did we slug the Africa Kool-Aid and demand 10 stores a year. I think those of us who are still trading well in Africa never did that — we always remained fairly measured. My impression is that the guys who came unstuck and who have had to withdraw probably went in a bit hard," he says.

This isn't to say there isn't the potential for big profits, but rather that this must be done in a considered, carefully planned way.

Two years ago a study commissioned by Massmart found that 15 sub-Saharan countries are likely to represent 88% of the retail potential in the region until 2024.

That study was undertaken by Canback (owned by The Economist Intelligence Unit) and looked at how "informal retail", such as markets, are expected to be converted into formal retail. Whereas formal retail now stands at 8% of the region's retail, that should grow to 17% by 2024.

At the moment, Massmart operates in 13 of the 15 countries included in the study. It is not represented in Angola and Ethiopia.

"What we've learnt about Africa is that securing title to real estate is still fraught and very expensive. Often these countries don't have a deeds registry," Hayward says.

One also needs to counteract volatility in the region, he says. "You don’t want to be in two countries only. The risk-diversification approach says you should be in more than six or eight countries, to spread the risk," he says.

The Game division, with two decades in the business, is the star performer for Massmart in Africa. Hayward says other arms of the company are now making names for themselves.

"A bit like a very talented 20-year-old [making an impression] in a cricket side, Builders Warehouse is emerging, and has made a lot of runs. Game is a deeply experienced African operator — the company has seen it all," he says.

Builders Warehouse is recording sales of more than R1bn in three countries outside SA, and growth rates are high.

"It’s triggered some very interesting interactions. African consuls-general have approached us and said: ‘My president has come to me to ask: when are you going to build a Builders Warehouse?’"

Yet, two years after the Canback study, Massmart has plans to build just one Builders Warehouse store outside SA. Hayward adds: "But that doesn’t mean we aren’t in 20 discussions."

Hayward says retailers have learnt some hard lessons in recent years.

"One of the reasons why other countries in Africa are so volatile is that they are heavily dependent on exporting commodities such as oil, diamonds, coal and steel — and heavily dependent on dollar revenues. So when both go wrong they are doubly affected," he says.

This is what happened in Nigeria in 2016, as the country dipped into recession for the first time in decades and its inflation rate hit an 11-year high of 18.3%.

These alarming changes wrongfooted many investors, who had bet the house on Nigerian growth.

The Canback study says that of the top 50 cities in Africa, 20 are in Nigeria.

Hayward speaks of a deeper investment discipline within Massmart that is now paying off. "We are very clear about the end goal and what we want to achieve, whereas five years ago we were less well informed. We, and I include myself, were winning the prize but not sure of how we got there," he says.

Massmart has had its failures too. For example, Builders Warehouse first opened in Gaborone in 2012, and it didn’t go well.

Hayward says its Botswana travails were possibly linked to the collapse of the Zimbabwean economy. "We didn't realise the extent of the cross-border trade going on. We opened in Maputo [Mozambique] about two years ago, and then all the dials went bright green. The size of the stores were right, as was the offering. We opened in Lusaka [Zambia] in 2015 and are doing similarly well there and in Tete, in northern Mozambique, where we opened in about 2013," he says.

As well as Game and Builders Warehouse, Massmart owns Cash & Carry stores in Botswana, Namibia and Mozambique, and plans to open in Zambia soon.

Though Massmart's African stores are often contrasted with Shoprite, there are big differences. For a start, Shoprite's stores are smaller and about convenience, while Game and Builders Warehouse stores are more destinations for specific purchases.

Each of Massmart's non-SA stores averages about R200m/year, while Shoprite's sales average about R60m for those stores.

But even as the "Africa rising" narrative has hit a speed bump, Massmart's stock has strengthened. This suggests the poor sentiment of recent years following Walmart's takeover of the company may finally be turning.

Though Massmart's share price has slid 22% since 2011, it gained 36% in 2016 as its sales trumped analysts' expectations. For the 44 weeks to October, sales grew 7.6% to R73.2bn — marginally more than price inflation of 6.4%.

But analysts are still wary.

"We expect market conditions to remain tough for the short term," says Momentum SP Reid analyst Alexander Sprules. "Massmart remains one of the more pricey retailers, and we are of the view that the current price level is not substantiated by the growth implied."**https://www.businesslive.co.za/fm/money-and-investing/2017-01-12-how-being-sceptical-paid-off-for-massmart/**

Questions:

2.1 Discuss the nature of key decisions made by Massmart in terms of its response to the 'Africa rising' narrative. (10)

2.2 Identify the generic strategy Massmart was pursuing and evaluate whether its 'cautious strategy in the rest of Africa" was "the right approach" (10)

QUESTION THREE **[20]**

Implementation of any change programme needs to take account of the restraining forces of change. Managers should anticipate some employee resistance and plan for this eventuality in the change strategy (Brown, 2011:171)

With reference to this, discuss the reasons for employee resistance to change and suggest ways in which resistance to change can be overcome.

QUESTION FOUR **[25]**

4.1 Critically discuss the following statement:
"Strategic leadership is at the core of strategic management" (15)

4.2 Competitive advantage can be built by redefining the product offering of an organisation through value innovation and creating a new market space. The process of thinking through value innovation has been described as searching for a "blue ocean".
Explain the concept of a 'blue ocean' in this context and discuss its impact on strategic direction. (10)

END OF QUESTION PAPER