

STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - APRIL 2017

NOTES:

Section A: Answer Question 1.

Section B: Answer **two** Questions **only**. Should you provide answers to all of Section B, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first two answers to hand will be marked.

Time Allowed

3.5 hours plus **20 minutes** to read the paper.

Examination Format

This is an open book examination. Hard copy material may be consulted during this examination, subject to the limitations advised on the Institute's website.

Reading Time

During the reading time you may write notes on the examination paper but you may not commence writing in your answer booklet.

Marks

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Answers

Start your answer to each question on a new page.

You are reminded to pay particular attention to your communication skills, and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples, where appropriate.

Answer Booklets

List on the cover of each answer booklet, in the space provided, the number of each question attempted. Additional instructions are shown on the front cover of each answer booklet.

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SECTION A - ANSWER QUESTION 1

1. Case Study

Aphrodite Gyms Ltd (or AGL) has been in business for the past four years. It currently operates gyms in two of the more affluent suburbs of Dublin City, with large populations and a high proportion of young professionals. AGL is exclusively for women and is designed and managed to attract female gym users. The facilities are bright and modern and the exercise equipment employs the latest technologies.

The founder of AGL, Alison Murray, has always had a keen interest in athletics, fitness and a healthy lifestyle in general. Alison was an accomplished athlete and represented Ireland many times in cross-country running. She graduated with a Degree in Sports Science in 1996 and afterwards combined her athletics ambitions with working in gyms around Dublin. She also worked for five years as the manager of a gym in a Dublin hotel, before setting up AGL.

Alison was not interested in opening the traditional, formulaic gym. From her experience, she felt that traditional gyms were frequently "too alpha male" and female members sometimes felt uncomfortable while exercising there. Alison believed that women would be attracted to a gym with a more feminine atmosphere. It was always her intention to open gyms in two locations. She believed that this would lend a certain credibility to the business, as it had a "chain of locations". In hindsight, Alison acknowledges that this may have been over ambitious, as she admits that sometimes she finds it is difficult to give sufficient time to both gyms.

The AGL gyms open from 9am-2pm and 5pm-9pm weekdays, and on Saturday from 9am-2pm. They offer a range of service levels, depending on a client's objectives and how much they are willing to pay. The annual membership subscription is 15%-20% higher than other local gyms since these are all "just traditional gyms" in Alison's opinion.

Both of the AGL gyms operate out of rented space in retail parks alongside large shopping centres. Alison's reason for this was because she wanted to create the perception that going to the gym was just another part of an enjoyable day. She explains, "*clients can come to the gym to work out, meet friends for a coffee in the shopping centre and then browse through the shops. I wanted to distance AGL from the stereotype that going to the gym is just hard work and boring.*" The drawback to this decision is that the rent payable in both locations is very high, and is by far AGL's largest overhead. That said, an important benefit of AGL's shopping centre locations is access to a crèche. Having a female only client base means that many of AGL's clients have children. Alison has negotiated an agreement with the crèche in both shopping centres to provide highly discounted child care facilities for clients while they are in the gym. This has proved to be very popular with clients, who frequently mention that without this facility they probably could not be members. While it is expensive for AGL to subsidise the childcare, it is less costly than organising separate in-house childcare.

The staff in the gym are all female and over thirty years of age. Alison chose them very carefully, not just for their relevant experience but also on the basis of personality. The atmosphere in the gyms is friendly and relaxed, and Alison expects all staff to be able to interact with clients on a first name basis. While she has high expectations for staff, they are paid above average for the sector. Several of the staff are themselves working mothers with younger children, and the flexible duty rotas and AGL's opening hours facilitate this. In general, the clients seem to like and respect the staff and there have been few complaints.

Clients become members for a variety of reasons, but general health awareness, improved fitness, and in particular, weight issues are the most common. Every new client is shown how to use the exercise equipment safely and effectively. Then, depending on a client's objectives, age and existing fitness levels, a workout programme and schedule is developed for them. While each programme is unique to the individual, most clients' exercise programmes are built around "the forty-minute workout", originally designed by Alison. This involves completing a full body workout, including a warm up and a warm down, in forty minutes, "for today's busy lifestyle",

as AGL's marketing communications explains. Clients should aim to complete the workout at least three times per week.

There are always two staff members in each gym, and more if classes are being run. Staff are always there to advise and encourage clients. However if a client wishes, AGL will provide a personal trainer service so that when the client is working out, a staff member is with her all the time. Not many clients use this service: it is expensive and the client availing of it can only come to the gym at pre-booked times. AGL also runs three-month intensive "Beach Blitz" and "Wedding Blitz" workout programmes. These are similar to the standard programme, but last one hour per session and also include circuit training twice per week. These are usually used by non-regular members.

In addition, in a studio adjacent to the gyms, AGL organises Yoga, Pilates, dance and circuit training classes. The Yoga, Pilates and dance classes are run by outside instructors and clients pay an extra fee to take part, while the gym staff themselves run the circuit training classes, and which are free to AGL clients.

AGL breaks its market down into three age groups: women under 35 years, women between 35 and 50 years, and women over 50 years of age. For the past two years, AGL has had an average of 900 Standard 12-Month Contract clients, as well as the Blitz Clients/Short-Term Clients and part-time memberships, at any one time. (Table 1 has a breakdown of the percentage of clients by age group.) In Alison's experience, the client turnover rate is similar to other gyms. However, when clients leave, Alison tries to contact them to discuss the reasons for their decision. The reasons given are generally obvious: lack of time, money, other interests, etc. However, some feedback has worried her, for example:

- "Expensive for what I got"
- "Less personal attention than I thought"
- "Apart from it being only for women, it was really the same as any other gym I was a member of..."

Table 1: Breakdown of Gym Membership

Membership Categories	Subscriptions	Average Number of Members	Age Categories			Total
			≤ 34	35 ≤ 49	50 +	
Standard 12-Month Contract	€550	900	55%	33%	12%	100%
Personal Trainer 12-Month Contract	€900	21	14%	48%	38%	100%
Short Term 3-Month Contract	€160	44	28%	56%	16%	100%
Blitz 3-Month Contract	€229	32	73%	27%	--	100%
Classes Only	€6 per class		35%	38%	27%	100%

Alison uses her athletic experience and success as a selling point for the business: for example, she refers to it in advertising and has posters of her running for Ireland on the wall of the gyms. She has used the "hook" of a woman only gym to arrange some interviews on local radio stations and for the local newspaper. One of the radio stations has invited her back several times for panel discussions on health and fitness. AGL also has a website and Facebook presence. These are generally quite static, but AGL sometimes uses Facebook to promote special offers and competitions. "Word-of-mouth" and referrals are probably AGL's most effective marketing tool: in its "Refer a Friend" promotion, any client who refers a new client (12-month contract only), receives two months free added to their membership. In addition, any prospective client can trial the gym and circuit training free for a week before deciding to join.

Alison is also considering widening the services offered. She has previously organised occasional talks by a dietician. These proved very popular and she has spoken with the dietician about building a diet and nutritional plan into the workout programme for clients. Alison sees this as part of a bespoke programme that may also involve clients using wearable fitness technology as a support for their workout programme. This idea has drifted without any real progress as Alison simply has not had the time to follow up on it. Similarly, and building on the Yoga classes run in the gyms, Alison has considered developing areas such as 'Wellness' and 'Mindfulness' classes, although she has not really investigated these, as yet.

Overall, Alison is a little frustrated with the business. She is convinced that there is a significant market for a women only gym, but so far AGL has not been quite the success which she anticipated. The business is profitable, but Alison's salary is only slightly higher than when she managed the gym in the hotel. She really enjoys the business and being her "own boss", but so far she thinks the financial rewards do not really justify the stress involved. As her accountant, she requests you to assess the business and advise her on the best way forward.

REQUIREMENT:

Prepare a report for Aphrodite Gyms Ltd in which you:

- (a) Critically analyse the strategic position of Aphrodite Gyms Ltd, drawing on your assessment of the key drivers of change prevailing in the environment and applying the relevant theories and models;
- (b) Evaluate the key issues facing Aphrodite Gyms Ltd, and the options available for dealing with such issues; and
- (c) Recommend an appropriate strategy to ensure the best way forward for Aphrodite Gyms Ltd.

(Note: The scenario presented above is not intended to be comprehensive. You will be expected to make whatever additional logical assumptions about Aphrodite Gyms Ltd and its environment that will give you sufficient scope to demonstrate a high level of critical thinking, analytical skills and strategic vision, as over 50% of available marks will be allocated to these areas).

(Total: 50 Marks)

SECTION B - ANSWER TWO QUESTIONS ONLY.

2. P.J. McCarthy has recently been appointed the general manager of a contact centre which is part of a large US multinational corporation. Although the contact centre is located in Cork, it deals only with customer queries and complaints from the US firm's UK customers. The operations of the contact centre are organised around 'Customer Response Teams'. These teams have eight members, including a Team Leader. The work is relatively straightforward and can be repetitive, as team members must follow clear procedures and scripts for every type of query.

There is a high level of absenteeism and attrition among staff. P.J. has also noted that staff seem to lack drive, and frequently appear bored and disinterested, even the team leaders. Staff are competitively paid and there are attractive performance bonuses. P.J. believes that a workplace built on initiative, responsibility and engagement is best for everyone, including staff. In his opinion there is a lack of leadership in the contact centre, and that resolving this will be key to improving performance. He has decided that he needs to create a 'Leadership Development Programme' for team leaders across the contact centre.

REQUIREMENT:

Drawing on two leadership theories, critically evaluate the leadership style(s) that P.J. might consider when designing a Leadership Development Programme for the Team Leaders. The style(s) proposed should facilitate the team leaders in helping to address the issues identified by P.J.

(Total: 25 Marks)

3. NSEW Delivery Ltd is a large logistics and parcel delivery firm. It has recently acquired one of its main rivals, Luas Logistics Ltd. Unusually, Claire Murphy, the CEO of Luas Logistics Ltd has been appointed CEO for the combined firm, and Tony Roche, who was CEO of NSEW Delivery has stepped down to become the non-executive Chair of the Board of Directors of the combined firm, currently still called NSEW Delivery Ltd.

Claire, Tony and the Board recognise that a complete reorganisation of the combined firm is required. While nothing has been decided yet, even a new name for the firm, the reorganisation will likely include changes to align the working conditions of both firms, changes in work practices, the closure of several facilities, and redundancies across the combined firm. Both firms are mature, with a high proportion of staff who have worked in one or other firm for a long time. At present, there is a lot of uncertainty, rumours are rife and dubious, and there is growing tension and resentment, particularly on the part of staff that originally worked for Luas Logistics Ltd.

That said, Claire is hugely optimistic for the future of the firm and believes that if the organisational transformation is successful, the company will be in a position to become the largest competitor in the sector within the next five years.

REQUIREMENT:

Prepare a report for the CEO of NSEW Delivery Ltd that:

- (a) Critically evaluates a change management model that NSEW Delivery Ltd might use as an appropriate framework to structure the transformation programme. (16 Marks)
- (b) Recommends to Claire relevant strategies which senior management should use to minimise any staff resistance to the transformation programme. (9 Marks)

(Total: 25 Marks)

4. Emma Doyle grew up on her grandparents' farm in Co. Tipperary, and later went on to study food science in university in the USA. Around a year ago, she took over the running of the farm, although not the ownership, when her grandfather retired (Emma's parents own a large supermarket in the nearby town). By Irish standards, the farm is large, and there are two employees who do most of the physical work. Emma immediately saw an opportunity to combine the farm with her other passion: organic and artisan foods.

Over the past year, Emma has done a lot of research, recipe development and product testing. The feedback has been very positive and she has decided to take the risk and establish her own business. As a starting point, she has decided to initially produce premium quality yoghurts, and then expand into chilled deserts. In the longer term, she sees the possibility of using the farm to produce various premium farm produce, including organic meat, and in particular organic beef and deer. Emma plans to sell the products at a premium price, using the brand name 'Rathmurray House Farm', the name of the family farm.

Emma has obtained start-up financing from a bank, as well as an investment from her family. She has also used her family's contacts to gain access to a small chain of grocery retailers as an initial channel of distribution. Emma travelled to food and craft festivals around the country as part of her market research and product testing, and she intends to sell the product range through these channels, at least initially.

REQUIREMENT:

Prepare a report for Emma, recommending and justifying her use of a focused differentiation strategy and highlighting the key success factors necessary for it to succeed.

(Total: 25 Marks)

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - APRIL 2017

SOLUTION 1

CPA Consultants
Dublin
Ireland
24 April 2016

To: Ms. Alison Murray
Aphrodite Gyms Ltd
Dundrum
Dublin
Ireland

Re Strategic Review of Aphrodite Gyms Ltd

Dear Ms. Murray,

Thank you for inviting CPA Consultants to evaluate and report on the Strategic Direction and Options open to Aphrodite Gyms Ltd at this time. The enclosed report has three parts:

- (a) Analysis of the strategic position of the business.
- (b) Assessment of the key issues facing the business and evaluation of the business's strategic options.
- (c) Strategic proposals to develop Aphrodite Gyms Ltd going forward.

I am available to discuss the report and to provide any additional information or explanations if you should require them.

Yours sincerely,
A. Student
CPA Consultants

(a) Strategic Analysis of Aphrodite Gyms Ltd

A number of strategic analysis frameworks are used below in order to better understand the strategic position of Aphrodite Gyms Ltd:

- PESTEL
- Five Forces Model
- Resource analysis
- Value Chain
- SWOT

The General Environment (PESTEL)

1. Political and Legal Factors

In general, politics only has an indirect influence on the leisure and fitness centre sector in Ireland. The sector itself is not highly regulated, apart from normal business regulations. There are two issues to note however where politics does have an influence in the sector. Firstly, and like all sectors, the leisure and fitness centre sector is influenced by economic conditions. The sector is indirectly influenced to the extent that political decisions and circumstances can effect Irish economic performance. Therefore, concerns about the stability of the current minority government and the implications of the Brexit process, as they influence consumer sentiment, will likely impact on the sector.

The second, and more direct effect of politics on the sector, comes from the Government's policies and strategies to address health promotion, and in particular obesity and its consequences. The Department of Health and the HSE have developed strategies that seek to reduce obesity - for example, the Department's "A Healthy Weight for Ireland: Obesity Policy and Action Plan 2016-2025". A key element of these strategies is to increase people's activity levels, which if effective, should translate into increased numbers joining gyms and participating in gym classes, among other activities.

2. Economic Factors

People's expenditure on gym memberships and gym class participation is a discretionary spend: something that may be done after necessities have been paid. People will only join a gym when they feel they can afford it. In that context, the sector's performance is heavily affected by the general economic climate and economic growth rates. According to the ESRI, economic growth of 4.2% in 2016 will be followed by robust growth of 3.5% in 2017. This forecast has been revised marginally downwards, largely as a result of the Brexit referendum and other potential trade-related uncertainty. Similarly, the ESRI forecast that unemployment will continue to fall, and is expected to reach 6.8 % by the end of 2017. These are all positive indicators for the economy in general and for the gym and leisure centre sector. That said, there are signs of economic overheating in the Dublin area, putting significant upward pressure on the cost of living. This may have a negative impact on the gym and leisure centre sector there, as it reduces the discretionary spend available to people who live in the area.

3. Social and Cultural

There are a number of societal and cultural trends that are relevant for the gym and leisure centre sector. Ireland has a growing population, and in particular a growing younger population. This group is the largest potential market for gym and leisure centres. CSO projections suggest that the population of the Republic will grow to approximately 5m-5.3m by 2026, providing an expanded target market for the sector.

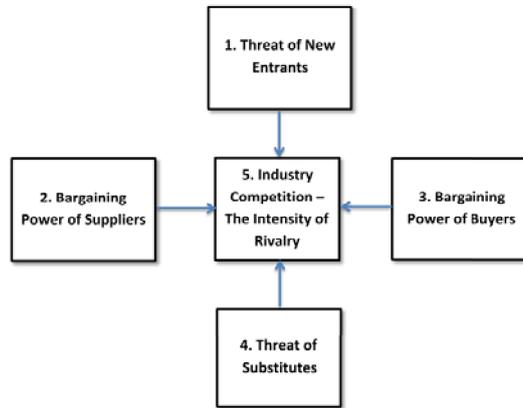
A second relevant trend is the ever growing perceived importance of body image. For many reasons - the media, celebrities, advertising - people are more conscious of their image, and spend money on beauty and diet products. Many of these people also tend to become members of gyms and leisure centres as part of their strategy to manage their body image. These body conscious people are a potentially important target market for the sector.

In complete contrast, and as identified above, Ireland has a growing obesity problem. The WHO have forecast that Ireland will be the most obese country in the world by 2030. To address this, society will have to change eating habits and lifestyles: less processed foods and more active lifestyles. A part of this active lifestyle may obviously involve gyms and exercise classes, and this should provide another potentially important target market for the gym and leisure centre sector.

4. Technology

Technology impacts on the gym and leisure centre sector in a number of ways, and the sector needs to leverage it to remain attractive to users. First, and most obviously, exercise and weights equipment have changed considerably. For example, equipment such as treadmills, cross-trainers and stationary bikes, are programmable to provide a variety of exercise routines to users, depending on their objectives. Secondly, a more recent trend is the use of wearable technology to support exercise and fitness programmes. Wearable sensors, similar to watches can provide a wide range of useful data to aid fitness: sleep patterns, heart rates, distances, routes run, etc. Gym and leisure centres may use these to support clients' exercise programmes.

Third, exercise and sports science has evolved considerably, providing a much better understanding of the interaction of the body and nutrition, rest, exercise routines etc. Lastly, organisational technology such as computerised records, websites and social media allow the gym or leisure centre to operate more effectively. That said, these should only provide parity rather than any competitive advantage.



Competitive Environment (Porter's Five Forces Model)

Porter's Five Forces Model provides an insight into the nature and dynamics of competition in the gym and exercise sector.

1. The Intensity of Rivalry

The gym and exercise sector is very fragmented: for example, there are over 100 gyms in Dublin alone, excluding hotels with gym facilities. There are few chains of gyms operating, and those chains that do exist tend to have less than five outlets. Gyms will generally seek to provide a differentiated service based on location, equipment, classes and atmosphere. There is a growing trend toward no frill gyms also, with the largest extant chains being examples of this: for example, Ben Dunne Gyms and Flye Fit. Significant differentiation can be difficult to achieve in the sector and customer switching costs are low. The market is again growing after significant difficulties during the economic crisis, however as evidenced by the emergence of low cost gyms, customers remain cautious. Overall, the fragmented nature of the sector and the low switching costs would tend to suggest that the level of rivalry in the sector is medium to high.

2. The Threat of New Entry

The likelihood of a new entrant into a sector will be driven by the extent of entry barriers into the sector and the future potential of the sector. There are no significant entry barriers into the gym and exercise sector. For example, there are relatively low capital costs and the availability of inputs (equipment, premises, staff) makes the sector quite straightforward to enter. It can be also difficult to create a true differentiating factor among competitors in the sector. Finally, there are low buyer switching costs and levels of customer loyalty. Overall, there are no significant barriers for new entrants to overcome, so the risk associated with new entrants tends to be relatively high.

3. The bargaining power of buyers

It can be difficult for gyms to maintain a loyal client base. A lot of what is provided by a gym - the equipment, classes, etc - are widely available in many gyms. Therefore, it can be difficult for gyms to create a strong differentiating factor that attracts clients and maintains their loyalty. Gym members will usually have a twelve-month contract, but once that ends, there are few switching costs encountered by clients in deciding to move to a new gym - perhaps the main switching cost is clients' level of familiarity with a gym's facilities and layout, which is not a difficult obstacle. Overall buyers have medium to high level of influence: although individual clients probably cannot negotiate membership terms, in general they must be happy with service provided or they will likely change gym.

4. The Threat of Substitutes

A substitute is another sector that provides an alternative service that fulfils to a greater or lesser extent the same requirement. If a service is to be perceived as a genuine substitute, it must be comparable, similarly priced and as readily available. There are a wide range of possible substitutes to the general service

provided (exercise and fitness) by gyms. The alternatives to going to the gym include participation in team sports, individuals simply going walking or jogging, home weights and exercise equipment, and even exercise DVDs. The variety, easy availability and frequently the low cost of many of these alternatives ensure that gyms must add value to attract clients and do so with a reasonable cost. Overall, the influence of substitutes seems to be relatively high.

5. The Bargaining Power of Suppliers

Suppliers of key inputs into a sector may use their power to increase input prices and improve their sales terms. In the gym sector, to the extent that there is no single key input, suppliers will have a reduced influence. The sector has three important inputs: gym equipment, premises and lastly, the gym instructors. There are several manufacturers and distributors of modern, high specification, gym equipment. However, in general individual gyms are not an important customer and do not purchase in the volume necessary for special sales terms: they will generally have to accept the given price and sales terms. While during the recession, there was a higher vacancy rate in retail/commercial units, the recovery has led to returned demand and allowed landlords to again expect higher rents, as the vacant supply overhang reduces. Therefore, it is likely that rental costs in the gym sector will increase. There are a high number of college graduates, from a variety of institutions, who have the technical capabilities to be a gym instructor, so the sector does seem to have a readily available supply of employees, reducing the salaries necessary. That said, the number of more experienced, and more expert instructors is likely to be more limited. Overall, the influence of suppliers is relatively low.

In general, the underlying determinants of intensity of competition are generally high in the gym sector, and firms will need to be effectively managed to be successful.

Resources and Competences

Resources may be assessed from a number of perspectives

1. Physical resources, human resources, financial resources, intangible resources
2. Strategic capabilities: threshold and unique resources and competencies

1. Physical Resources

Physical resources - the actual gym, gym equipment and other facilities - have a key role in the success of competitors in the sector. AGL has two modern styled gyms in excellent locations adjacent to shopping centres. Both gyms use the latest exercise equipment and both have the use of a crèche. The gyms also have studio rooms where classes may be held.

2. Human Resources

As with most small businesses, Ms Murray, the owner-manager, is the most important human resource of the business. The gym instructors and the instructors who take the classes (Yoga, circuit training, etc) are the second key element of the attractiveness of AGL. AGL's instructors are over thirty, well experienced, with personalities that suit the client interactions expected in their role. They have all been personally recruited by Ms Murray and they are liked and respected by clients.

3. Financial Resources

AGL is currently profitable though not to the level that Ms Murray hoped or expected. It has a high cost base due its location and consequent rental commitments, as well as its crèche arrangements. In addition, staff are paid above the sectoral average. The gym sector is high margin with individual clients adding only low additional or variable costs.

4. Intangible Resources

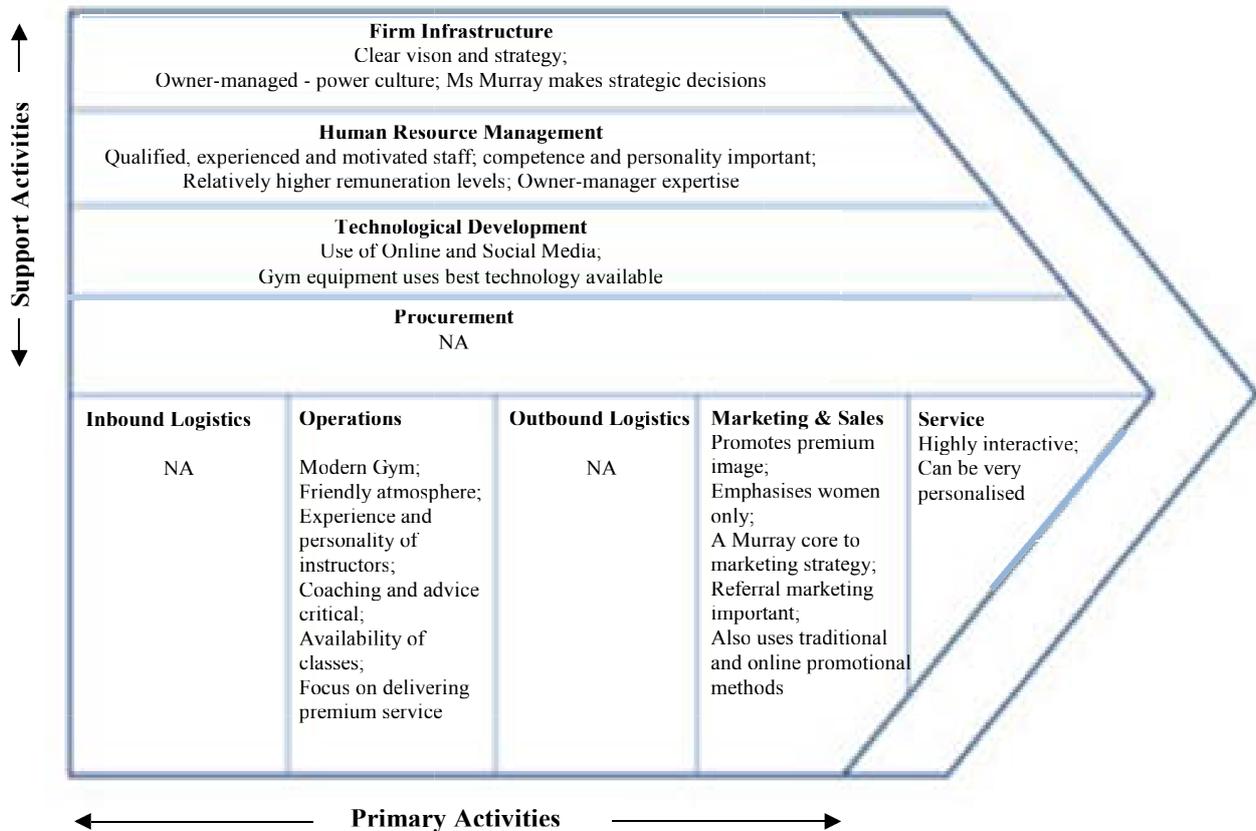
AGL is a relatively recent arrival into the sector, but has proved quite popular. It seeks to promote a premium level image, and it has the unique selling point of being a women only gym. Ms Murray, and the other staff, have considerable knowledge and experience in their roles. They have created a friendly and attractive atmosphere in the gyms. AGL has over built its client base to over 900 regular users.

5. Unique resources and competencies

The resource based view of the firm and of strategy suggests that firms should identify the resources and capabilities it possesses, particularly those that are superior to rivals, and base their competitive strategy around them. In that context, the relevant unique resources and competencies that AGL may leverage include:

- Ms Murray's knowledge and experience
- Image and unique selling point: women only gym
- The gym's brand and reputation
- The staff's experience, ability and relationship with clients
- Substantial number of current clients
- Access to crèches for clients

Value Chain of Aphrodite Gyms Ltd



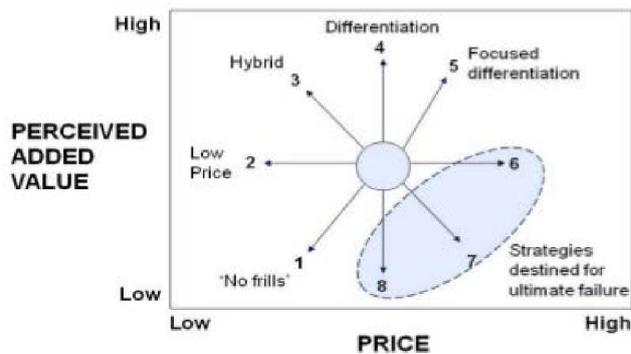
SWOT Analysis of Aphrodite Gyms Ltd

A useful analytical summary and decision-making tool is a SWOT Analysis. However, the analyses need to be based on research and data, not just management opinion.

Internal	<p>Strengths</p> <ul style="list-style-type: none"> • Currently profitable • Two attractive locations in shopping centres in affluent areas of Dublin <ul style="list-style-type: none"> - Effectively “a chain” of gyms • Business model and target market very different to most gyms • Ms Murray, the owner manager <ul style="list-style-type: none"> - Her experience, knowledge, etc • Instructors experienced and liked by clients • Relatively large client base of 900+ • Access to crèches • Modern exercise equipment • The positive, attractive culture for women clients 	<p>Weaknesses</p> <ul style="list-style-type: none"> • High cost base • Not as profitable as expected • Complete over-reliance on Ms Murray • Related, Ms Murray not able to manage both gyms to the extent she would like • Potential that service levels do not match clients’ expectations <ul style="list-style-type: none"> - Especially in the context of the 15%-20% fee premium
External	<p>Opportunities</p> <ul style="list-style-type: none"> • The increasing numbers of image and health conscious people, especially women • Continuing economic recovery in Dublin area allowing more people to afford gym membership • Provide other services to clients <ul style="list-style-type: none"> - For example, nutritional advice, mindfulness courses, more technologically integrated fitness programmes • Increase the number of AGL’s gyms in Dublin <ul style="list-style-type: none"> - Or in the other cities, such as Cork or Galway • Improved marketing to further develop the client base of the existing gyms <ul style="list-style-type: none"> - Use of social media - which AGL’s target market use constantly - Leverage Ms Murray’s media exposure more 	<p>Threats</p> <ul style="list-style-type: none"> • The market is highly fragmented and there is ongoing risk of increased competition • The establishment of other gyms specifically targeting women users. • Cost of living in Dublin rising <ul style="list-style-type: none"> - Undermining discretionary spending • The implications of Brexit for The EU, Ireland and particularly, for the Irish economy • Technology advances (eg wearable technology) may make other, more effective substitutes to gyms, readily available.

(b) Issues and Challenges Aphrodite Gyms Ltd

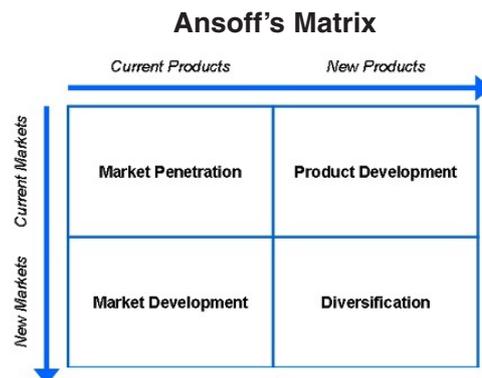
Bowman’s Strategy Clock



Bowman's 'Strategy Clock' expands on Porter's three competitive strategies, and increases the possible positions to eight. In doing so, it uses the price and perceived value combinations many firms use, as well as outlining the likelihood of success for each strategy.

AGL is pursuing a ‘focused differentiation’ competitive strategy: the firm charges a relatively high price for what it sees as a more attractive gym environment and service than rivals. It is focused both geographically - limited areas in Dublin - but more importantly, it is focused on one target demographic: women. Ms Murray has articulated a persuasive business case for the firm, emphasising the differing needs of women and men when looking at gym membership. The use of only female instructors, the friendly atmosphere, the types of classes and talks available should all be attractive to the female gym user.

The strategy used by AGL seems clear and to make sense in the context of the chosen target market and as a means of differentiating the firm from the many alternative gyms available. However, as alluded to by some clients who have left the gym, AGL may not be providing the level and uniqueness of service that justifies the membership fees that it charges. This competitive strategy can only work (as can the others) if it is implemented coherently. If premium membership fees are charged, the service innovation and quality provided by AGL must justify it. Ms Murray will need to consider this issue carefully.



Ansoff's matrix of generic growth strategies describes how a firm may pursue present and potential products and markets (customers). Using a combination of existing products and potential new products, and existing markets and potential new markets, Ansoff identified four possible product-market growth options. Each of these directions has alternative possibilities for a firm, depending on its resources and competences.

As a starting point, AGL should seek to maintain and further penetrate its current market position. AGL is currently not performing, financially at least, as Ms Murray originally expected. AGL will need to review the nature and the level of service it provides, especially in light of some of the comments made by clients who discontinued their membership of AGL. This is especially the case in the context of the higher membership fees it charges compared to other local gyms. AGL may need to improve its service levels, and to improve its promotional activities to increase its number of clients.

In addition, AGL may decide to provide new services to its existing clients: service development. Ms Murray has already had some discussions with a nutritionist with a view to incorporate nutritional advice and support into the current exercise services. Similarly, Ms Murray has considered, though not investigated, wellness and mindfulness classes. In relation to incorporating the nutritionist service, if she is to launch it, Ms Murray will need to consider carefully whether to include in the current membership fees structure - which is already 15%-20% higher than rivals - or whether to introduce it as an add-on service for an additional fee.

AGL could also open further gyms in the Dublin area (or wider afield). AGL has a clear business model and method of operating: Ms Murray could leverage this into an increased number of locations. This option would require additional capital investment and it is unclear if Ms Murray is in the position to obtain this.

In the context of the above analysis and the concern that Ms Murray has expressed about the lower than expected profitability AGL has achieved to date, the following are the key issues that Ms Murray needs to reflect on, and on which she will have to make choices.

1. The cost base of AGL is relatively high. This is due in the most part to the locations chosen for the gym, shopping centres, which normally would attract higher rents. In addition, AGL pays staff, the second major component of the firm's cost base, above the market rate: though again this may be to ensure the firm retains the current, seemingly excellent, staff.

2. The high cost base is to an extent ameliorated by the relatively high membership fees that AGL charge. However, these relatively high membership fees are also a concern. Clients are expected to pay up to 20% more than in other gyms in the area, which prima facie is likely to discourage some potential clients from becoming members.
3. Notwithstanding the potential for the membership fees charged by AGL to discourage potential clients, some people who did join the gym and who then left, have complained that the gym does not provide the innovation or service to justify the membership fees charged. The perception that AGL is not able to justify the membership fees charged is potentially an important issue.
4. While AGL has attracted a relatively large client base, the firm has been less successful in attracting clients in the over 50 age group. While the under 34 age group is traditionally the most active age group, the increased health awareness and activity levels of the over 50s do make them an attractive target market. This is further indicated by the increased relative spending power of this group.
5. The over-reliance of AGL on Ms Murray. It is not clear in the brief, but there does not seem to be anyone to manage the business in the absence of Ms Murray: for example, if she were ill or wished to go on holidays.
6. The increasing health and fitness awareness of the general population, and the continuing economic recovery provide AGL with growth opportunities. AGL may be able to consolidate in its current locations as well as considering potential growth opportunities, particularly, opening new gyms and providing services in addition to the fitness gym.
7. While the financial resources of the business seem sufficient to support the firm at the moment, AGL is making a disappointing level of profits. It is not clear if AGL will have the financial resources necessary to further develop the firm without improving the firm's profits and cash flow.
8. AGL does make use of online and social media, however these are relatively static and under-utilised. It is mentioned that referrals remain the most effective marketing tactic used. Similarly, there is greater scope for using technology with clients, for example, using wearable technology to support clients' exercise programmes.

(c) Recommendations for Aphrodite Gyms Ltd

The following are recommendations that Aphrodite Gyms Ltd may use to address its current concerns and to develop into the future.

1. AGL should continue with its current focussed differentiation competitive strategy, concentrating on women clients. Although the firm is not in business for that long, the strategy has been quite successful to date in attracting clients, and seems to have few, if any, direct competitors.
2. AGL should reconsider how it markets to the 50 plus age group target market, and the types of services and classes it provides for this group. This age group is under-represented in AGL's client base at present but does represent a significant potential target market.
3. The levels of service provided by AGL may not be fully aligned to clients' expectations, in particular in light of the membership fees charged. AGL should review all elements of its offering - workout plans, gym layouts, instructor's styles - to ensure that the firm delivers a premium service that justifies the membership fees charged.
4. AGL has a relatively high cost base and should review all elements of the cost base to ensure it receives value of money. It is likely to be difficult to negotiate down the rent payable on the gyms and similarly it may be counter-productive to seek to reduce instructors' wages. However, outside of these two, albeit most important costs, there may be opportunities for efficiencies.
5. While AGL already provide a range of services to clients, it should pursue the additional services already identified: nutrition, wellness and mindfulness, as well as the increased use of technology, especially wearable exercise support technology. This will provide a more 'holistic experience' for clients and may create a more obvious differentiating point from rivals. As much as possible, these additional services should be absorbed into the existing membership fee structure, as this is already at a substantial premium.
6. A potential target market that AGL does not seem to have pursued is corporate clients. Many firms now provide additional perks to staff, including gym memberships. AGL should target larger businesses located close to the gyms who may wish to provide membership to female members of staff.
7. AGL is over-reliant on Ms Murray. Ms Murray needs to identify an existing staff member who can take on a management role and responsibilities, or to recruit someone to that role. At present, if Ms Murray were to become ill, or even go on holidays, there is no current staff member to manage the business in her absence. This represents a significant risk to the business.

Indicative Marking Scheme for Question 1

	Marks
(a) Application of PESTEL	
<ul style="list-style-type: none"> • PESTEL implications should be related to the case scenario • 6 elements x 2 marks; maximum of 10 marks 	10
Application of Five Forces Model	
<ul style="list-style-type: none"> • Indicators identified by Porter must be used to reach a conclusion for each force • 5 forces x 2 marks 	10
Analysis of Resources and Competences	
<ul style="list-style-type: none"> • Explain main resources, should indicate relative importance to competitiveness • Explain main competences, should indicate relative importance to competitiveness • Use of Value Chain analysis 	3 3 <u>3</u>
	9
Preparation of a SWOT Analysis	
<ul style="list-style-type: none"> • Should relate and link strengths to weaknesses, opportunities and threats • Issues in the SWOT should be prioritised, not just listed 	5 <u>5</u>
	34
(b) Assessment of issues and options	
<ul style="list-style-type: none"> • Must be logical and clearly relate to previous analysis • Should refer to relevant models (Bowman or Porter, Ansoff...) • Issues and options should be prioritised, not just listed 	8
(c) Strategy / Proposals	
<ul style="list-style-type: none"> • Must be logical and clearly relate to previous analysis • Recommendation(s) should be prioritised and justified, not just listed 	8 <u>8</u>
Total Marks	<u>50</u>

SOLUTION 2

Introduction

The leadership provided by senior management is a critical driver of organisational performance. Without effective leadership, organisations will likely drift and organisational targets will not be achieved. Effective leadership is equally important for the units, departments and teams that are the components of an organisation: these too cannot deliver results without leadership. There is no one understanding or theory of leadership: different leaders behave in different ways depending on personality as well as the organisational situation. In a general sense, according to Richard Daft, 'leadership is the ability to influence people toward the attainment of organisational goals.'

The General Manager of the contact centre, Mr McCarthy, has inherited a very difficult situation: there seems to be very little staff engagement with the work, leading to high levels of absenteeism and attrition. From the point of view of the contact centre being able to improve morale and performance, as well as the design of the Leadership Development Programme, probably the issue of most concern is that the current customer response team leaders have succumbed to the same disinterested attitude. It is almost inevitable that if management and team leaders exhibit this level of negativity, staff will follow.

The nature of the work is also a factor in the attitudes that have evolved in the contact centre. The work, as is the case with many contact centres, is straightforward and repetitive. Additionally, team members' opportunities to use initiative is quite limited. The requirement that team members closely follow procedures and scripts when dealing with queries, significantly restricts them in how they approach any particular query.

In the context of the above it is almost certain that in isolation the proposed Leadership Development Programme will not be successful. In addition to the programme, Mr McCarthy needs to review a number of issues to maximise the likelihood that it will have the impact intended.

1. The nature and rigidity of the work: the extensive use of procedures and scripts.
2. The promotional criteria and person specification for team leader.
3. The hiring criteria for customer response team members, as well as the work training they receive.
4. The performance measurement criteria and process for customer response team members.
5. The remuneration levels and criteria for team leaders and customer response team members.

The Leadership Development Programme

The Leadership Development Programme will seek to educate the customer response team leaders in more effective leadership behaviours and styles, and to thus improve the performance of the customer response teams and the contact centre. There are a range of theories of leadership that may be used to provide a basis and a structure to such a programme, including:

1. The [Managerial] Leadership Grid
2. Path-Goal Theory

The [Managerial] Leadership Grid

This is a behavioural theory of leadership. It was developed by Blake and Mouton (1964), and in common with other behavioural theories, it posits that managers can emphasise a combination of two (organisational) behaviours:

- Concern for people (accommodating people's needs, supporting and praising people, etc)
- Concern for production (defining group tasks, planning work schedules, etc)

Blake and Mouton suggest that with the appropriate training, a manager may be able to evolve from their current combination of behaviours and move toward a more effective combination.

The Leadership Grid identifies five categories of leadership style. For example, the 'Task Management' style is predominantly concerned with the work and operations: employees are seen as simply parts of the operational machine. This seems to reflect the circumstances in the contact centre at the moment, as the strict policies and scripts seem to minimise the individual employee's task flexibility. This style may increase productivity in the short run but, as the contact centre has discovered, strict policies and procedures over time tend to lead to employee dissatisfaction and high labour turnover.

Blake and Mouton labelled the most effective leadership style 'Team Leadership', which involves a high concern for both organisational issues: people and production. In the Team Leadership style, the leader believes that commitment, empowerment and respect are the key elements in creating a team atmosphere which will then lead to higher employee satisfaction and importantly enhanced productivity.

The contact centre team leaders will need to be educated on dealing with team members more sensitively, as individuals with their own needs, and to respect team members and their abilities. Over a period, this change in leadership style should improve the team dynamics and contact centre culture, and thus go some way to address the issues facing the contact centre.

Path-Goal Theory

Path-Goal Theory is a contingency theory of leadership. It was developed by House (1971) and suggests that circumstances may affect the most effective form of leadership. The relevant situational factors involve the characteristics of the employees, including their experience, abilities and personality. A second set of situational factors involve the work context, including the team dynamics, the manager's authority and the extent to which the work is highly structured.

House also identified four styles of leadership.

1. Directive leadership focuses on communicating clear goals and expectations.
2. Supportive leadership focuses on relationships and sensitivity to individual team members' needs.
3. Participative leadership involving consulting with staff, and considering their ideas and expertise before making a decision.
4. Achievement-oriented leadership involves setting challenging goals for the team and showing confidence in the team members' abilities.

In the context of the current work structures in the contact centre, directive leadership is effectively redundant in that the contact centre's comprehensive policies and scripts already create very clear expectations and behaviours. As a starting point, team leaders would need to provide a more supportive environment for team members. They should show more empathy and more individualised concern for team members, including non-work issues. This should ameliorate the negative impact of the strict work practices to an extent. In the medium term, if the contact centre is to enhance its work culture - and performance - the team leaders will have to evolve a more participative style and a more achievement-oriented style and thus engaging employees more. This will allow team members to be involved in decision-making and will illustrate a confidence in their abilities. However, as identified later, these leadership styles would be undermined, and even counter-productive, in the current work environment.

Conclusion

The performance levels and the work culture of the contact centre are unacceptable at present. This has led to high levels of absenteeism and staff turnover. If Mr McCarthy's objective of a workplace built on initiative, responsibility and engagement is to be realised, a different and more effective style of leadership is needed in the contact centre, and in particular from the team leaders. The Leadership Development Programme proposed by Mr McCarthy will need to incorporate the lessons from theory outlined above, which clearly suggest a more employee and people centred style is necessary.

The Managerial Grid for example, highlights the benefits of a "team leadership" approach, which requires a greater emphasis on the team member as an individual, not just an employee. Similarly, Path-Goal theory describes the need for supportive leadership in the circumstances prevailing currently in the contact centre, and also the benefits of participative and achievement oriented leadership to improve performance and engagement.

However, the leadership of the team leaders cannot be addressed in isolation. The organisational and work culture of the contact centre as described will need to also change, otherwise any new leadership styles used by the team leaders will be redundant and perhaps seen as manipulative by team members. The current strict work policies, scripts, etc, effectively act to neutralise leadership at the moment, and the Leadership Development Programme will need to be accompanied by changes in organisational policies and procedures if and different leadership styles are to have an impact.

Indicative Marking Scheme for Question 2

			Marks
Explain importance and nature of leadership			
• Especially to the contact centre			4
Discuss two theories of leadership in depth.			
Possible theories:			
• Managerial/Leadership Grid			
• Situational Theory			
• Path Goal Theory			
• Likert's Management System			
• Transformational Leadership			
For each leadership theory			
• Explain the main elements of the theory	(2 Theories x 3 Marks)	6	
• Discuss insight from theory relating it to the contact centre	(2 Theories x 6 Marks)	<u>12</u>	18
Conclusion			3
Total Marks			<u>25</u>

SOLUTION 3

(a)

**To: NSEW Delivery Ltd
Dublin
Ireland**

**From: A Student
CPA Consultants
Dublin
Ireland**

Date 24 April 2017

Introduction

An important element in effective strategy implementation, and of business management in general, is the organisational ability to manage change programmes. Change programmes are notoriously difficult to implement successfully and the majority do not achieve the targets originally expected. While a concern, given the amount of research there is in the area, and the frequency with which organisations face these issues, there are a number of identified reasons for the lack of success of change programmes. The most important of these is the almost inevitable resistance to the implementation of such programmes on the part of many organisational actors, notably front line staff. In addition, each change programme occurs in a different change context so that no two change programmes, even within the same organisation, are the same.

Change management is particularly important in the context of organisational integration after a merger or acquisition. If the synergies and other benefits that motivated the merger or acquisition are to be realised, significant changes to the operations of the combined organisation are likely to be necessary. This is the case in the aftermath of NSEW Delivery's acquisition of Luas Logistics Ltd. If the combined firm is to realise Ms Murphy's vision of becoming the largest competitor in the sector, the changes identified, and probably others, will have to be effectively implemented.

Kotter's Transformational Model

There are a variety of change management models that might provide a useful framework for the combined firm. A model aimed particularly at organisational transformations, such as that required by NSEW Delivery has been developed by Kotter, especially in his book, 'Leading Change'. Addressing the transformational efforts of firms, Kotter describes eight integrated and overlapping steps. Each of these steps takes time, and according to Kotter cannot be skipped or foreshortened without undermining the entire transformational programme. The first three steps focus on creating a climate for change, the next three address engaging and enabling the organisation, while the last two look at implementing and sustaining the change.

Creating a climate for transformation

Ms Murphy and NSEW Delivery must first build a climate that is more accepting of change. There are many fears and rumours in the firm, and a large proportion of staff seem to be employed in one of other firm for a long period of time. This creates the likelihood that the staff have become institutionalised in their work, and this will need to be broken down. Kotter outlines how creating a 'sense of urgency' is critical at the start of a transformation programme. This urgency will need to create the initial energy and enthusiasm for the change programme, otherwise it will likely not even commence. For example, Ms Murphy may be able to use the fact of the acquisition itself, and the clear need for integration and rationalisation of the combined firm, as the initial trigger for the organisational transformation. Ms Murphy's leadership will be critical in this stage.

It is unlikely that any one person has the influence and the ability to change an entire organisation. Kotter discusses the need to build 'a guiding coalition' of people from around an organisation, from different levels of management and different areas of the business to drive and steer the transformation programme. Obviously, in this case, Ms Murphy needs to be the leader of this 'change team', but she will need significant support from around both organisations. The change team will need to include a balance of committed people from both NSEW Delivery and Luas Logistics, otherwise it will lead to resentment and disengagement from the change management process.

If a firm does not know where it is going, it will never get there. A key element of transformation programmes is the articulation of a positive, attractive future for the organisation – as a result of the transformation programme.

Ms Murphy, and the other senior management, need to develop a 'vision' for the future of the NSEW Delivery as a combined firm. The vision created will need to be more than just numbers, but rather an understanding of what the firm can become in the future. It needs to be appealing to all stakeholders, but in this case, especially employees.

Engaging and enabling the organisation

Transformational change programmes tend to generate lots of information. Unfortunately, the message about organisational change is often lost and people fail to see why the change is needed. Ms Murphy and the guiding coalition need to effectively communicate the vision and change strategies that will allow the firm to realise that vision. They need to keep the communications simple and relevant, and to address people's anxieties, distrust, or anger. For example, Ms Murphy and the team need to be honest about the likelihood of facility closures and redundancies, while stressing the longer term benefits for the firm, and for the employees remaining.

There are many barriers to the successful implementation of transformation programmes, and if such programmes are to succeed, the organisation needs to be able to identify such barriers, and importantly have the ability and strength to address them. The typical problems arise from the pre-existing culture, structure and processes of the organisation and the unwillingness, or inability, of some managers or staff to accept the necessary changes. Ms Murphy and the coalition team need to identify these barriers as quickly as possible, and try to make changes, for example, altering policies and procedures. If Ms Murphy and the coalition team decide to lose some managers, as well as eliminating the difficulties these people represented, it also sends a strong signal to the rest of the firm: get on board!

Transformation programmes will take time to develop and to produce the results hoped for. However, it is difficult for people, management or employees, to wait three or four years to see improvements in performance metrics. Therefore, management need to ensure that they work toward achieving some 'shorter term wins' that are visible to the organisation. Ms Murphy and the coalition team need to ensure that within one year to eighteen months, a significant change milestone will have been achieved. For example, the winning of a major new contract - as a result of the 'firm's larger but more efficient market presence'. If progress is not evident, the natural inclination is for management and staff to become disinterested and disengaged from the transformation process.

Implementing and sustaining the change

If and when the transformation programme is beginning to produce identifiable improvements, an organisation must seek to ensure that these improvements are 'consolidated' - and used as a base to build further improvements. The changes implemented by an organisation through a transformational programme may be fragile and can regress if the momentum is not maintained. Ms Murphy and the coalition team need to use the credibility provided by the success to date to reinvigorate and drive further improvements. For example, NSEW Delivery will need to ensure that in the future the firm promotes and develops employees who can implement the vision.

An organisation will need to embed the changes brought about by a transformational programme. The changes made need to be anchored in the organisation's 'new' culture and way of doing things. This is several years into the future, but as the transformation programme progresses, and hopefully delivers, Ms Murphy and the coalition team will need to insure that the changes in policies, procedures and most importantly attitudes, are institutionalised from being the new way of doing business into just being accepted as the only way to do business. Ms Murphy and the team need to ensure that attitudes, not just actions, change over time.

(b)

Strategies to Manage Resistance

There are several possible reasons for staff, and even management, to resist changes in an organisation. Some of the most common reasons include economic self-interest, fear for loss of a job and uncertainty about one's capacity to effectively fill any new role. Again Kotter emphasises the need for the organisation to initially understand the rationale for any resistance on the part of staff and management: otherwise, inappropriate or ineffective strategies may be employed to manage the problem. Again Kotter (along with Leonard Schlesinger) identified various strategies open to organisations to reduce resistance to change. These include education and communication; participation; facilitation and support; negotiation; and well as manipulation and explicit and implicit coercion. Obviously a strategy that may work in one circumstance may not work in another, so the organisation must match the reasons for the extant resistance with the strategies utilised to address it.

In the context of NSEW Delivery, it seems clear that communication strategies are going to be key in bringing staff on board. Currently there is a lot of uncertainty and rumours are filling the gap in communications. Research has illustrated that communication is the most effective strategy for reducing resistance in general, and this is almost certainly the case with NSEW Delivery – or whatever the new firm will be called. Ms Murphy and the management team need to use all possible media to inform the firm, and stakeholders outside it, of their plans for the future. It is critical that they are upfront: if they lose credibility now it will make further implementation more difficult. For example, senior management must admit that there is likely to be redundancies, but to balance this with the firm's vision for the future.

It is not clear from the brief if there is union representation in the firm, but even if there isn't it will be necessary for the senior management to negotiate with staff around the implications of some of the potential operational changes proposed, especially the redundancies and the closure of facilities. While coercion and imposition are alternative change management strategies, using such negative approaches would likely damage the culture of the firm and undermine its longer term performance. If other elements of the transformation programme are to succeed - and these are also problematic - it will be critical to pursue any closures and redundancies in a negotiated and an equitable manner. The firm will need to be fair and be relatively generous to those people who are being made redundant, many of whom will have worked with the firm for several years. It is important that management show integrity.

A further change strategy that Ms Murphy and the management team may implement involves including staff in the decision-making and planning process, at least as it relates to the proposed transformation programme. The firm is seeking to restructure working conditions and work practices. The objective of these changes is to align the two firm's activities and to make the combined firm more efficient. People who are involved in an activity on a daily basis are the most likely to understand it. It makes sense therefore, to involve staff who have the experiential knowledge, in reorganising such activities and work practices. It is also key in this instance to involve a balance of staff from both NSEW Delivery and Luas Logistics, otherwise those feeling ignored will only increase their resentment toward the changes. To the extent that staff may be asked to participate in the transformation programme planning, they are more likely to feel a level of ownership of these plans, and in general be more accepting of them.

Conclusion

It is critical that NSEW Delivery employ a robust model and framework to co-ordinate the many changes necessary to successfully integrate the combined organisation. In the absence of such a framework, changes will be piecemeal and lack coherency. Kotter's transformation model provides that coherent approach. In addressing the likely staff resistance to the suggested transformation programme, it would make sense that management use a combination of ongoing communication, participation and negotiation strategies. A combination of an effective transformation programme structure, combined with effective strategies to reduce resistance should ensure that the proposed changes are implemented as successfully as possible.

Indicative Marking Scheme for Question 3

It is critical that NSEW Delivery employ a robust model and framework to co-ordinate the many changes necessary to successfully integrate the combined organisation. In the absence of such a framework,

		Marks
(a) Explain importance and nature of managing change		
• Especially in the context of NSEW Delivery		2
Discuss one model of change management. Possible models include:		
• Bridges' Transition Model		
• Kotter's 8-Step Change Model		
• Lewin's Unfreeze-Change-Refreeze Model		
For chosen model		
• Explain the main elements of the model	4	
• Discuss and relate model to NSEW Delivery	<u>8</u>	12
Conclusion		<u>1</u>
		15
(b) Discuss four strategies to manage resistance, for example		
• Communication and education		
• Participation		
• Negotiation and agreements		
• Facilitation and support		
4 strategies x 2 marks = 8 Marks Maximum	8	
Conclusion	<u>1</u>	9
Total Marks		<u><u>25</u></u>

Solution 4

**To: Ms Emma Doyle
Rathmurray Farm
Co Tipperary
Ireland**

**From: A Student
CPA Consultants
Dublin
Ireland**

Date: 24 April 2017

Introduction

A competitive strategy describes the longer term plan of a firm to gain competitive advantage over its competitors. This is a critical decision for a firm as it creates the framework for how it will develop operationally. The firm's competitive strategy is the combination of 'competitive weapons', such as pricing, quality, channels, features, tastes, it chooses to employ to capture market share and out-compete its rivals. Two popular models used to understand the nature of competitive strategy are Porter's 'generic strategies' and Bowman's 'strategy clock'.

The Focus Differentiation Strategy'

Porter, for example, discussed three generic competitive strategies. Firms that use 'broad differentiation' offer customers high perceived value, based on a combination of expertise, innovation and strong marketing. On the other hand, firms that use 'low cost leadership' strategies offer low prices for adequate products or services; this is based on low margins and very high volumes of sales. As an alternative, Porter also discussed the use of a 'focus' or niche strategy which then uses a cost or differentiation basis to compete in the identified niche target market.

Firms that use a focus strategy concentrate on a particular niche market and by understanding the dynamics of that market and the unique needs of customers within it, they can develop products or services specialised for that niche market. The firm's objective is to serve the niche market so well that it will build significant brand loyalty amongst customers and thus make the particular market segment less attractive to competitors.

This is the strategy that Ms Doyle intends to follow with the Rathmurray Farm brand. The product, at least initially, will be premium quality yoghurt. The intention is to then diversify the product range over time. The niche market Ms Doyle has chosen are those people who are interested in organic and artisan foods, including those that take the time to go to food festivals, and presumably 'farmers' markets'. This cohort of people are interested in healthy, locally produced foods, are usually more affluent and therefore able to pay the inevitable higher prices.

The Focus Differentiation Strategy: An Evaluation

From the point of view of Ms Doyle and the Rathmurray Farm brand, the decision to pursue a focus differentiation strategy makes sense; and is probably the only realistic competitive strategy open to the business at present.

Although it should not be the main reason to pursue it, the focus differentiation strategy is ideal for smaller firms, such as Rathmurray Farm. Smaller firms will almost always have limited resources: both money and people. At present, Ms Doyle seems to be the only employee of the business and therefore volume production and sales are unrealistic. The niche strategy will therefore provide a starting point for the business.

Ms Doyle is herself very interested in organic and artisan foods, and she has also spent the past year doing market research. This gives her an unusually deep understanding of customers' needs and the target market where she intends to compete. Therefore, Ms Doyle should be able to use these insights to produce products very suited to the demands of the niche market.

The focus differentiation strategy, if effectively implemented, should provide Rathmurray Farm some important benefits. First, and perhaps most important, the market understanding and product quality that Rathmurray Farm has, will allow it to charge higher prices and obtain higher profit margins. In fact, customers in niche markets tend to be quite demanding, but tend also to accept that they will have to pay higher prices for the products they demand.

Another key benefit of a focused differentiation strategy is the ability to generate strong customer loyalty by shaping the business to the needs of the niche market. If Ms Doyle is able to establish a reputation of product

quality, service and excellence, the target market community will likely develop a relatively strong loyalty to the Rathmurray Farm brand. This has dual benefits in that it increases the volume of repeat purchasing by Rathmurray Farm's customers and it make it more difficult for rivals to attract customers away.

A focused differentiator emphasises meeting the demands of a more narrow market segment. Therefore it should become more quickly aware of changing customer demands and expectations, and be able to respond to these more rapidly. Ms Doyle has done an amount of research and has an excellent understanding of the target market. In addition, she intends to continue to sell through food festivals and farmers' markets. This will give the business ongoing access to individual customers and customer groups and will enable Rathmurray Farm to respond to changing trends and to address customer complaints.

There are difficulties with the focussed differentiation strategy also, and Ms Doyle will need to be aware of these and be ready to address them as effectively as possible when the need arises. First, and probably most important, the focussed differentiation strategy is expensive to implement. If Rathmurray Farm is to be successfully positioned as a premium brand, there are potentially significant marketing, package design, production and other costs going to be incurred. For example, Ms Doyle will need to access high quality supplies (ingredients, packaging) to create the necessary image. This will create a squeeze on margins, albeit with the opportunity of higher prices being charged to customers.

A second problem for the focussed differentiation strategy is the possibility that the niche market may disappear. Ms Doyle needs to be sensitive to customer trends, and in particular any suggestion that customers' tastes are moving away from organic and artisan foods. In addition, the demand for these more expensive food products is likely to be more sensitive to economic growth. If the Irish economy was to encounter more difficulties, Ms Doyle might see the demand for Rathmurray Farm products contract. Also, and related, by definition a niche market is limited in size and this may prevent firms from developing and growing into larger competitors. This is unlikely to be a concern for Ms Doyle for some considerable period.

A last key issue is competition. There is the possibility that the main firms in a sector may become interested in the same niche market, and start to compete in it. They may do this because the niche market has grown in size and therefore has become more attractive, or maybe even as a reaction or attack ploy against another large rival. Ms Doyle, although not competing against the large food producers needs to monitor these firms' announcements and actions. There will inevitably also be some other niche competitors and Ms Doyle will need to try to maintain Rathmurray Farm's key differentiators to distance the brand from these niche rivals.

Critical Success Factors

There are a number of factors that are critical to the success of a focus differentiation strategy. A business must be effective in these areas otherwise it will completely undermine the implementation of the strategy.

As a starting point, the firm must have an in-depth understanding of the dynamics of the chosen niche and of the attitudes, behaviours and demands of the target market. The focus differentiation strategy is predicated on serving a given niche in a superior and unique manner. This is obviously not possible without an in-depth understanding of the niche. Ms Doyle has done considerable research into her chosen target market - in fact, she already has a long standing interest in artisan and organic food - and would herself be a customer! She needs to maintain that connection with the target market and ensure that the firm responds has the target market evolves.

If a firm is to charge, and sustain, a price premium as part of the focus differentiation strategy, it needs to ensure that its product or service meets, or even exceeds, the target market's expectations in terms of quality. The quality provided must support the price charged. Quality can mean different things to different people, but Ms Doyle will at least need to ensure that only excellent quality ingredients are used in the Rathmurray Farm products, that there is consistency in terms of flavour and texture, and that the products are always well presented and packaged. Ms Doyle needs to ensure that customers can see and taste why they are paying a higher price.

A third important factor in the success of the focus differentiation strategy is effective sales and marketing. Customers must be aware of the product or service, and be persuaded that this is what they want to purchase - and at a premium price. This will require a considered, interesting and effective marketing strategy. Ms Doyle will need to create a 'brand narrative' that evokes the uniqueness of the Rathmurray Farm range. For example, this might include the imagery of the old farm house, fields and nature, alongside copy about tradition, natural and healthy. Ms Doyle will need to have an effective online presence that uses and communicates this narrative, as

well as informing about the business. Social media, such as Facebook and Instagram, will also be important; especially as the available marketing spend is likely to be quite limited.

Conclusion

Ms Doyle has developed an excellent business idea and has invested the hours, the energy and the money to get it up and running. The decision to employ a focus differentiation strategy makes sense especially in the circumstances of the limited scale and financial resources available. Ms Doyle's familiarity with the target market is also of huge benefit. However, while this strategy does have significant benefits, it is not a guarantee of success. There will need to be a consistency across the Rathmurray Farm brand image, marketing distribution and product quality if the target market is to be persuaded and the price premium justified.

Indicative Marking Scheme for Question 4

	Marks
Explain the focus differentiation strategy	
• Relate explanation to Rathmurray Farm brand	3
Discuss five issues about focus differentiation strategy, relating discussion to the case.	
Possible issues:	
• Suitable for SMEs with limited resources	3
• Potential to charge premium prices	3
• The creation of strong customer loyalty	3
• Able to respond quickly to market trends	3
• Can be expensive to implement	3
• Over time, the niche may disappear	3
• Large firms may start to compete in the niche	3
• Any other relevant issue	<u>3</u>
Maximum of 5 issues x 3 marks = 15 marks	15
Discuss three critical success factors in depth.	
Possible factors:	
• In-depth knowledge of the target market	2
• Quality and consistency of product and service	2
• Effective marketing and brand development	2
• Innovation and R&D	2
• Any other relevant factor	<u>2</u>
Maximum of 3 issues x 2 marks = 6 marks	6
Conclusion	<u>1</u>
Total Marks	<u>25</u>