

LEARN CIMA – MANAGERIAL LEVEL – November 2015



DEEP DIVE ABC CASE STUDY



It is advised that you first go through our LEARN CIMA KYP and then read this document since it combines details from various part of the preseen case study in the hope of building a solid discussion.

How big is ABC?

When considering the size of ABC it cannot be based on revenue comparison between real world companies. This is because the revenue figures as well as all financial data are given in K\$, the official currency of Kayland and there is no conversion factor given, for us to decide on the relative magnitude of that currency compare to the real world.

Therefore a factor which we can use is the number of consultants – ABC has 60 full time staff and 200 part time consultants, amounting to approximately 260 total consultants figure.

Top global IT consulting companies & number of staff:

	Name	Employee number	Services Revenue (\$m)
1	Hewlett-Packard (HP)	100,000	34,678
2	CSC	70,000	16,281
3	Accenture	88,000	15,555
4	Capgemini	180,000	11,255
5	T-Systems	50,000	8,744
6	Science Applications International Corporation (SAIC)	13,000	7,547
7	Atos	93,000	7,386

From the above table it is clear that the top global companies' employ thousands of consultants and in comparison to ABC, they are huge.

This also indicate that ABC has potential to grow and may be a new step forward should be taken, which can even require the need for raising capital. Furthermore ABC might be operating on a local and regional level; it might be attracting only local and regional consultants as well as clients.

Forbes' best company to work for in 2015 is Google!

For IT consultancy which is a service, the output is heavily influenced by the person delivering the service. Therefore the quality of the consultant will directly impact on the quality of the output.

With this concern, retaining key talent, motivating, satisfying and developing them is a key cause for concern in ABC. Especially in this competitive field the loss of a key consultant would be detrimental to the company.

From Forbes' 100 Best Companies to Work For in 2015, the winner topping the list is Google. You can see the whole list [here](#). It is also interesting to note that out of the top 10 companies, 3 companies are from the Information Technology industry, namely Google, SAS institute and Salesforce.

Some of the perks for an employee at Google include:

- Free breakfast, lunch, and dinner
- Free health and dental
- Free haircuts
- Free dry cleaning
- Subsidized massages
- Gyms and swimming pools
- Hybrid car subsidies
- Nap pods
- Video games, foosball etc.
- On-site physicians
- Death Benefits
- Paid Time Off for New Mothers



ABC's three founders have believed to reward its consultants generously. This reward is only one aspect on treating the employees. While looking at the list above on how Google treats, it seems that ABC can improve in many a ways both financially and non-financially in treating its employees.

ABC focuses on a part time workforce and does this result in failures and slips in treating its staff well? ABC on the other hand does not have a Director for Human Resources and also no separate department for Human Resources.

Moreover the human resources segment is contained in the supporting department of Project management office and staffing.

The mysterious external shareholders of ABC

In the preseen (page 10) it is mentioned that in the year 2007, nearly 10 years after its establishment, ABC issued new shares to several external shareholders in spite of the need for expansion. There are no further details given on these external shareholders, they are unnamed as well.

Who can these external shareholders be?

- Are they venture capitalists? Generally venture capitalist would be keen on investing in technology related firms and might have a wealth of experience in the same field.
- Are they not in the IT industry? Since it is stated that they are external does that imply whether these shareholders are external to the IT industry was well. If they are external are there any extra benefits from them such as ABC providing services.
- Are they individuals or institutional funds? If they are institutional investors then they might be inflexible and even risk averse compared to individuals. This can effect on ABC's growth, direction and profitability.
- Are their cultures and values in line with that of ABC's founders? For example Andrew prefer long term relationships over short term profit, therefore he might be reluctant to overcharge in a short term project which might be less acceptable for an external shareholder would might want to maximize the return so as to capitalize the investment made in ABC.
- What percentage holding they possess in ABC? If one of them or a collective owns more than 50%, it would result in control of ABC.
- Do they influence board decisions? As per the given details it seems that this is less likely and ABC's three founders are the key drivers of ABC.
- Will they demand a higher dividend? If this is yes it will lead to a lack of funds for investing in new projects. Since the IT industry is constantly developing, new investments are a must for survival and to avoid being obsolete.
- Are they ready to capitalize their investment in ABC? If yes whom will they sell the shares to? Will ABC's founders buy those shares? Or will any other director buy?

Is ABC a private or a public entity?

The present case study does not explicitly mention whether ABC is a private or a public entity. On the surface it seems like it is a private entity and reasons for this stance include:

- ❖ The three founders still holding key board positions.
- ❖ No details of shareholdings of other directors been given. If for example a shareholder with a large stake is present then ABC might be required to offer a board position as well.
- ❖ No details of ABC's share price or market information has been given.
- ❖ Only the details of one share issue have been given (The issue of shares in 2007 to external shareholders and not to the public).
- ❖ ABC's risk management report does not include any risk related to the share price reductions or risk of negative public image, meaning it might not be publically listed and would not have the extra risks a public entity would generally encounter.
- ❖ ABC is relatively young with a history of only 19 years (established in 1996).

If ABC is a private entity, then on the exam day a possible scenario or trigger would be ABC going public. There would be many a challenges and changes that ABC would encounter as a result of getting listed.



Price setting for services at ABC

ABC seems to consider the long term perspective when quoting for its services offered, whereas it might be aiming to provide an attractive price at first in the hope of getting future work.

This is the view of the Andrew the founder, as mentioned in his blog post given in the preseen. The core of his blog post is about building long term relationships. Why has he written such as post is a thought to consider? Maybe is it because he feels that other decision makers do not carry the same view as him.



What if a manager of ABC wants to charge a client an excessive amount now regardless of any possible future work? ABC's revenue for the year 2014 has increased by 3% compared to the prior year and the gross profit has increased by 7.5%. Since the gross profit has increased relatively higher than the revenue, it implies that ABC's profit margins have increased, which also means ABC's price has risen higher than its direct cost base. Does this indicate a higher price being charged to ABC's customers?

Whether a blog post is simply enough to drive long term decision making is a question to be pondered by the top management. Are there any performance measures in ABC that stimulate such long term decision making? Are there any unrealistic sales targets set which conflicts with this long term thinking?

The industry is such that products have a short life cycle whereas technologies become obsolete rapidly; therefore Andrew's stance on long term relationships is justifiable.

As discussed earlier ABC is a relatively tiny IT service provider compared to popular global brands and therefore its relative reputation would be lesser to demand a premium price.

However ABC is a service provider and the price level of the service offered also convey degree of quality as well. Therefore being extreme and hitting rock bottom prices would also not be an ideal situation for ABC. ABC pays its consultants handsomely and therefore its cost base would be high and would not allow very low prices to be set as well.

Near stagnant revenue growth at ABC

ABC's revenue in 2014 increased by a mere 3% compared to the prior year's figure. However the profit from operations increased by 7%, the profit before tax increased by 11.5% and the net profit increased by nearly 14%. This signifies successful management by cost minimizing, whereas the management at ABC should be given applause.

However is the increase in revenue of only 3% a satisfactory figure? When considering the rapid development of the importance of information technology by businesses in the modern context including new advancements such as the cloud, big data, and the internet of things and so on, a yearly growth of 3% is not impressive at all.



ABC's Director of Marketing is not solely responsible for winning businesses, but all of its five consultancy service areas are made to pursue revenue. Is this dual responsibility creating confusion, conflicts and problems so that revenue are not maximized?

Should ABC focus more on the indirect route of getting revenue, which is by partnering with a hardware vendor, by ABC setting up the hardware and configuring the software? Can ABC partner with hardware suppliers?

Maximizing revenue for the coming year seems achievable especially with the release of Petaware OS 2015. Just like the Millennium bug was an opportunity for ABC to launch itself, the release of the Petaware OS 2015 can be a launching pad for ABC for the next level.

The role of the Chief Executive

The general job description of a Chief Executive officer can be summarised as below:

- Creating, communicating, and implementing the organization's vision, mission, and overall direction.
- Leading, guiding, directing, and evaluating the work of other executive leaders.
- Formulating and implementing the strategic plan that guides the direction of the business or organization.
- Evaluating the success of the organization.
- Overseeing the complete operation of an organization in accordance with the direction established in the strategic plans.
- Representing the organization for civic and professional association responsibilities and activities in the local community, the state, and at the national level.

From the above points it is clear that a Chief Executive's role is strategic in nature with a long term and overall focus.

Andrew Gourlay, ABC's Chief Executive seems to be tied up with day to day operational activities quite a bit. It is mentioned in the preseen material that he spends much time as possible on client meetings and overseeing key projects. He also conducts monthly staff meeting and also not to forget, he maintains a personal blog as well. All these tasks are operational in nature and are less strategic.



ABC and its Organisational structure

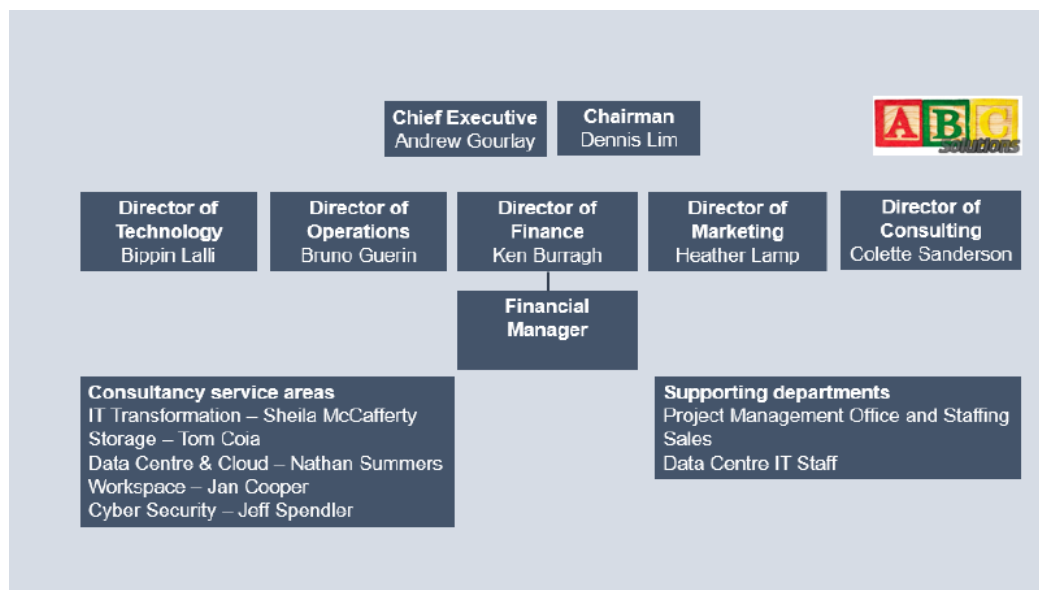
ABC's organisational chart is not one that is straight out of a management text book, it is challenging at first sight to figure out what type of organisational structure that is adhered to. Is it a divisional structure where the organisation is divided based on products/services or is it a functional structure where the organisation is divided into different functions?

ABC has elements of a divisional structure, whereas part of it is grouped under different divisions which are the different consultancy service areas.

The supporting departments are grouped under different functions and therefore it reflects some aspects of a functional structure.

There are 3 executive directors out of 5, who seem to be directly in charge of the consultancy service areas. These include the director of technology, director of operations and director of consulting. The reporting lines are not clear at ABC and this might even lead to confusion as well as conflicts, which would hinder optimum decision making and performance.

Since each of the consultancy service areas also pursue their own sales leads, it should be considered whether they report to the director of marketing with regards to sales. The sales department of ABC, headed by the Director of marketing might be able to focus more on new customers and less on repeat customers because each of the service areas might be better positioned to target the existing repeat customers. Therefore this situation does not grant the director of marketing sole authority and even not having the sole responsibility can mean it is less productive. ABC's revenue for the year 2014 has increased by only 3% compared to the prior year and this can indicate that it is not achieving the expected high growth which is possible in a high growth industry such as information technology.



The road ahead for ABC

The road ahead for the IT industry looks prosperous with higher growth levels. Will ABC also travel to prosperity?

As seen above IBM has a separate division to for Microsoft services. Petaware can be thought to be synonymous with the real world Microsoft. Cant ABC also has such a separate section to focus more on providing specific services related to Petaware?

As much as there are challenges, there seem to be many opportunities as well for ABC and let's hope it succeeds, together with your valuable advice as the financial manager!

