

STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - AUGUST 2015

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. A mark of 50 or more is required to achieve a pass in this 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

Bailey & Hill plc (B&H), a UK-based pharmacy, health and beauty chain was established in 1993 by Ray Bailey and Jonathan Hill. At the time, Ray was the marketing manager for a large discount furniture retailer based in Manchester, a position he held for the previous five years. Before that, Ray had a number of roles for a marketing consultancy firm, also in Manchester. The job in the consultancy firm had given him a range of experience and a wealth of business and media contacts. Jonathan worked for a British investment bank in London. He had previously been employed by the British subsidiary of a very large US investment bank. In the bank, Jonathan's role was to assess business expansion proposals from existing firms, and if the plans were commercially viable, he connected the firm to private clients of the bank. He would then also negotiate the deal between the business and the private clients. Similar to Ray, this role gave Jonathan excellent experience and connections.

Ray and Jonathan originally met at a conference in Manchester on new business start-ups and they decided to work together. After much research, they decided that the Pharmacy Sector provided an interesting opportunity. From the beginning, Ray and Jonathan had a very clear philosophy on how they wished their business to compete. They decided to take a discount retailer perspective on the pharmacy business, focusing on maximising volume and turnover while accepting lower margins. This was a strategy Ray was very familiar with from his experience with his previous employer, and did not seem to be in operation by any of the existing pharmacy chains.

The Mission of Bailey & Hill plc was 'to be the health and beauty retailer of choice for the value conscious client'.

Ray became the CEO of the business and Jonathan the CFO, although in practice, decision-making was shared between them. The combination of Ray and Jonathan's experience, business contacts and innovative business plan ensured that the business was quickly established with the backing of a small group of investors. It started with five outlets in Manchester in 1993, and over the next several years rapidly expanded across northern England.

In 2008, Bailey & Hill listed on the Alternative Investment Market of the London Stock Exchange, although this did not change the respective roles of Ray and Jonathan, who both became millionaires as a result of the flotation. By 2012 the business had 236 stores, mostly across northern England, though it did have outlets in London and Wales also.

The core of Bailey & Hill's business model is very competitive pricing to attract and retain customers. It has traditionally targeted working-class customers, though the recent recession has allowed it to target middle class customers also; the so-called 'squeezed middle'.

Bailey & Hill's increased scale also opened up new opportunities for the business, and Ray and Jonathan took the decision in 2005 to create Bailey & Hill's own label brands. This strategy has continued and developed, and now around 85 percent of sales are from own label products. Bailey & Hill still sells a limited range of branded products, but only stocks the most popular in any category. As part of its strategy, Bailey & Hill has developed two levels of own label products. It sells its 'Everyday' line, which is basic and low priced, and also a range of 'premium' own label brands that are similar in quality to name brands but whose price is on average 25 percent lower.

For example, in men's toiletries Bailey & Hill sells the two most popular national brands, its 'Everyday' brand and its premium own label brand, 'Hero'. Bailey & Hill does this for all its product categories, with the exception of fragrances, where it found that everyone wanted the name brand, especially when buying as a gift. Bailey & Hill sources all of its own label products from a small number of European firms, and has built up a very good relationship with these suppliers over the years, so much so that they sometimes come to Bailey & Hill with new product ideas. Bailey & Hill utilises the same strategy for drug dispensing: the pharmacists promote Bailey & Hill's own label generic drugs unless there is no alternative to dispensing the patented prescribed drug.

Bailey & Hill aggressively manages its cost base. It uses a basic store layout, although the store is always bright, clean and very tidy. Employees are expected to be flexible and multi-skilled. For example, even the pharmacist on duty will help tidy and clean the store once it closes for the night. Bailey & Hill sees every employee as a salesperson, and trains employees extensively to be knowledgeable, friendly and to make sales. In return for these high expectations, the company pays employees better than any of its pharmacy rivals. Bailey & Hill has also invested heavily in logistics, warehousing and stock management systems to reduce its cost base.

Bailey & Hill uses a range of media to promote its stores and any special sales events it may be running. This includes advertising on national TV and radio in the UK, local radio, newspapers and social media. It also has an in-store magazine, 'Your Life', and a loyalty card, 'The B&H Card'.

In 2012, Bailey & Hill decided to enter the Irish market and setup Bailey & Hill (Ireland). By June 2013, it had opened three 'pilot' stores in Ireland: two in Dublin and one in Cork. Ray commented in a press conference at the time, *"In many ways to us, Ireland is simply another region of the UK, at least from a retailing point of view. If you go to any high street, especially Grafton Street, in Dublin, it's like being in Chester, Cardiff or Cheltenham. In addition, the spillover of television programme viewing and advertising mean that even though we are now only opening our first few stores, the Bailey & Hill brand and what it stands for is already well known in Ireland."*

The CEO of Bailey & Hill (Ireland) is Patricia Fitzpatrick. Patricia grew up in Ireland but moved to Manchester to study to be a pharmacist. After qualifying, she remained in Manchester and started her career as a pharmacist there. She has worked for Bailey & Hill since 2001, originally as a pharmacist, but in various roles since. Her role immediately prior to her appointment as CEO of Bailey & Hill (Ireland), was Assistant Chief Operations Officer for Bailey & Hill. She has an MBA from Manchester University.

Bailey & Hill (Ireland) uses the same competitive strategy as its UK parent firm; it has the same product range, brand strategy, store layout and employee management strategy. To date, it has not engaged with television advertising as there are only three stores, however, it uses local radio and newspapers to re-inforce Irish consumer awareness from its UK television advertising. Bailey & Hill (Ireland) also uses the same loyalty card and in-store magazine as in the UK.

Patricia has ambitious plans for Bailey & Hill (Ireland). Since the pilot stores opened, they have exceeded their targets for sales, profits and operating cost per square metre. The original entry strategy for the Irish market detailed that the roll out of new stores would begin after one year if the pilot stores showed good progress. Unfortunately, this has not happened. In 2014, Bailey & Hill plc was taken over by the large German international pharmacy group, Goessel AG and both Ray and Jonathan left the business. To date, apart from changing the senior management team, Goessel AG has not interfered with the overall competitive strategic approach or the operations of Bailey & Hill. Patricia is very aware of difficulties facing the Irish pharmacy sector, but remains convinced that the Irish market still provides a significant opportunity. The consequences of the recession, cutbacks in Government spending, tightening margins in the industry due to factors such as reductions in reference pricing, the increased use of generic prescription drugs, and an ageing population, can all be seen as positive from Bailey & Hill's competitive point of view.

In the context of the ownership and managerial changes made in Bailey & Hill plc in the UK, and the opportunities that Patricia believes the Irish market offers, she wants to re-evaluate the strategic position and direction of Bailey & Hill (Ireland). Patricia has asked you to undertake a complete strategic review of the Irish business and to advise her on the direction of Bailey & Hill (Ireland) going forward.

REQUIREMENT:

Prepare a report for Patricia and Bailey & Hill (Ireland) in which you:

- (a)** Analyse the strategic position of Bailey & Hill (Ireland), drawing on your assessment of the key drivers of change prevailing in the environment and applying the relevant theories and models.
- (b)** Assess the key issues facing Bailey & Hill (Ireland) and evaluate the options for dealing with such issues.
- (c)** Recommend and justify a strategy to ensure the best way forward for Bailey & Hill (Ireland).

(Total: 50 Marks)

(Note: The scenario presented above is not intended to be comprehensive. You will be expected to make whatever additional logical assumptions about B&H plc 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).

SECTION B - ANSWER TWO QUESTIONS ONLY.

- 2.** There are 31 local authorities across the Republic of Ireland. The Government has decided to amalgamate some of the support functions so as to improve efficiencies and to cut costs. They have decided to set up a new organisation, The Local Authority Support Services Organisation (The LASSO) to achieve this. The services that will be integrated into the LASSO are the Local Authorities' HR Departments, IT Departments and Finance Departments. There will be no compulsory redundancies, and staff will still work in the same offices and locations but will be managed and report centrally to the LASSO.

The employees of the Local Authorities are strongly unionised, and there is a perception that the culture and work practices in the various Local Authorities result in relatively inefficient operations. Over time, each Local Authority has developed its own systems and procedures, and this has resulted in considerable inconsistencies; in procedures, computer systems and customer management. Your firm, PS Consulting, has been hired by the Board of Directors of LASSO to advise it on how to create an integrated organisation capable of delivering an efficient service to the Local Authorities. In particular, the Board recognises the importance of the senior management team to the effectiveness of an organisation.

REQUIREMENT:

In the context of the legacy issues identified above, and drawing on Motivation and Leadership Theories, write a report to the Board of Directors of LASSO that critically assesses:

- (a) The leadership style(s) that will be most effective for the senior management of LASSO. (15 Marks)
- (b) How the LASSO might enhance the motivation and engagement of staff once it has been set up and staff transfer from the Local Authorities.

(10 Marks)

(Total: 25 Marks)

- 3.** Tea Jay's is a small, but successful, coffee shop and sandwich bar chain. It was founded by Terri Murray and Jackie Toner, who studied together at college. Terri and Jackie see Tea Jay's as a premium coffee shop brand. It uses specially imported Fairtrade coffee beans to make its coffee, well-known chefs to create a range of signature sandwiches, and frequently updates its menu with artisan foods. It recently won the 'Best Small Coffee Chain' award from the Irish Coffee Shop Association.

At the moment, the company has five outlets, four in Dublin and one in Cork. In the context of the economic recovery, and the publicity from its award, Terri and Jackie believe that they now have the opportunity to expand more rapidly into other cities and towns around Ireland. You are a management consultant hired by Terri and Jackie to investigate the expansion methods available to the business, and, in particular, the option of using either organic growth or a franchising model to develop the business.

REQUIREMENT:

Prepare a report for Terri and Jackie critically assessing the options of organic growth and franchising as a means to the more rapid expansion of Tea Jay's. Recommend to Terri and Jackie which expansion option they should take, and why.

(Total: 25 Marks)

4. Dooley Engineering Ltd is a medium sized firm, employing 250 staff in Virginia, Co. Cavan. It was founded in 1948 by Thomas Dooley, and the current Managing Director is his grandson, Thomas Dooley Jnr. There are several other Dooley family members employed in the business. The firm is one of the largest private sector employers in Virginia.

Originally Dooley Engineering Ltd manufactured submersible pumps, but now it has three main businesses: (1) the manufacture of submersible pumps (2) pump maintenance and repair contracts for a growing range of Irish clients, and (3) a consultancy service for the design and development of manufacturing processes that utilise pumps. The pump maintenance and consultancy businesses are marketed in Ireland only, but the submersible pumps are sold around Europe, particularly in France, Germany and the UK. Dooley Engineering Ltd differentiate its pump manufacturing business from competitors based on design and manufacturing excellence, technical specifications, and the speed and flexibility with which the firm responds to customers.

Ten years ago, the firm got into financial difficulty. The Dooley Family obtained outside investment to ensure the firm's survival, and although still an ostensibly family run firm, the group of investors who rescued the firm now control 60 percent of the shares in the business.

It is now clear that the manufacturing unit has become a drag on overall business performance, and the outside investors are pushing for the manufacturing of the pumps to be outsourced. Thomas Dooley Jnr has identified a Polish firm, with an excellent manufacturing reputation, which he feels will be able to manufacture the pumps designed by Dooley Engineering Ltd, to the same or near the same quality standards as in-house, while reducing manufacturing costs by 40 per cent. Should Dooley Engineering Ltd decide to use the Polish firm, it will result in the manufacturing plant closing in Virginia, with the loss of 140 jobs there.

REQUIREMENT:

Prepare a report to Dooley Engineering Ltd critically assessing:

- (a) The position of the key stakeholders in the proposal to outsource pump manufacturing. (15 Marks)
- (b) The implications for the sustainability of the firm's differentiation strategy of using an outside supplier to manufacture the pumps. (10 Marks)

The report should recommend, with reasons, whether to outsource the manufacture of the pumps or keep it in-house.

(Total: 25 Marks)

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - AUGUST 2015

SOLUTION 1

Acme Business Consultants
Sage House
Big Town
Ireland
24 August 2015

To: Patricia Fitzpatrick
Bailey & Hill Ireland
Main Street
Dublin
Ireland

Re Strategic Review of Bailey & Hill (Ireland)

Dear Patricia

Thank you for inviting Acme Business Consultants to analyse and report on the Strategic Direction and Options open to Bailey & Hill (Ireland) at this time. The enclosed report has three parts:

- (a) Analysis of the strategic position of the business and expected drivers of change
- (b) Assessment of the key issues facing the business and evaluation of the company's options
- (c) Strategic proposals to develop Bailey & Hill (Ireland) 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
Acme Business Consultants

(a) Strategic Analysis of Bailey & Hill (Ireland) (BHI)

The General Environment (PESTEL)

Political and Legal Factors

Ireland seems to have reached the end of austerity budgets and government cutbacks. The health sector, including pharmacies, has been severely impacted by the significant cuts that were a consequence of the economic crisis and the IMF bailout. The budget for 2015 was the first in many years to result in increased disposable income. This has not fed through to increased pharmacy sales as yet. An Irish Pharmacy Union Survey showed that 73 per cent of pharmacists indicated continued reducing levels of turnover. However, the austerity corner seems to have been turned, and the indications are that the budget for 2016 will involve further significant tax cuts and public sector pay increases. This should lead to reduced uncertainty and increased confidence and consequently increased consumer spending.

The pharmacy sector is highly regulated to protect the health and safety of the public. The Pharmaceutical Society of Ireland (PSI) regulates the pharmacy profession and pharmacies. In parallel, the Health Products Regulatory Authority (HPRA) regulates medicines, medical devices, other health products and cosmetics. The complexity and bureaucracy created by such regulations is an additional cost to be borne by the sector. It is unlikely that the regulatory environment is likely to change.

Sometime in the next 24 months there is likely to be a referendum in the UK on whether to stay in the EU or whether to leave – the so-called “Brexit”. This may have a significant impact on the retail environment in Ireland, as so many shops in Ireland are from the UK. Depending on the process, timescale, etc, a UK exit from the EU may create uncertainty and significant additional costs for retailers here; potentially pushing UK based retailers to exit the Irish market.

Economic Factors

As mentioned, after seven difficult years, economically Ireland seems to have turned the corner and is now back growing strongly again. All economic indicators show Ireland recovering healthily. For example, in June 2015 the ESRI predicted that the economic growth rate for 2015 will be 4 per cent and 3.5 per cent for 2016. In addition the ESRI predicted that unemployment would fall below 8.5 per cent next year. Ultimately this means more people working and people having more money to spend, leading to a recovery in the economy and therefore the retail – and pharmacy – sectors. In fact, both sales in value terms and sales volume unit indices are positive in 2014 for the pharmacy sector and there obviously is an expectation that this trend will continue.

Social and Cultural

In common with most of Western Europe, there are an increasing number of older people in Ireland: more people are living longer. This is as a result of lifestyle and environmental issues but also improved medicines and healthcare. The CSO estimate that 12.7 per cent of the population were over 65 in 2014. Other estimates suggest that this older group will make up 22 per cent of the total population by 2050. This represents a significant growth market for health and wellness products and services, and for the pharmacy sector. The increased age profile is mirrored by a general increased awareness of health issues and the growing wellness sector. This heightened awareness of health can translate into opportunities for the pharmacy sector as people become more proactive about their health.

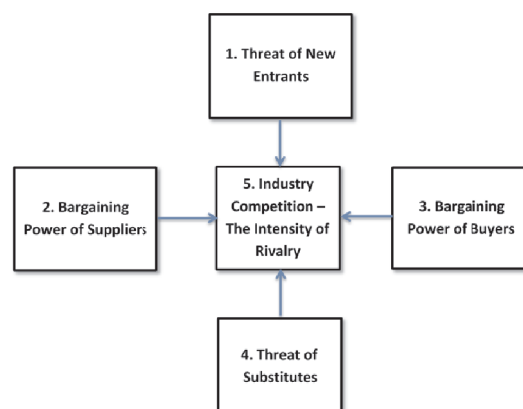
There was a trend during the “Celtic tiger” period of people being needlessly extravagant with spending. The social attitude toward spending and careful, thrifty, shopping has gone through considerable change since the economic crisis: people now tend to tell stories of the money they saved rather than the money they spent. The success of low cost retailers such as Lidl and Aldi are testimony to this. The next few years will illustrate whether there has been a cultural and long-lived attitudinal change in Ireland, where consumers remain cautious with spending, which from a low cost retailer perspective it is to be hoped they will, or whether the extravagance of the previous decade will return.

Technology

In terms of technology, pharmacy retailing is quite similar to general retailing. There is a face to face interaction between the customer and the pharmacist and sales assistant, however behind and facilitating this is a range of technology. For example, complex sales, logistics and stock management systems are integral to the effective operation of retail and pharmacy outlets. Similarly a plethora of organisational management systems, including accounting and HR systems enable the more effective management of the organisation and its employees.

These days, the Internet will also play an important role within the pharmacy sector. Pharmacists frequently use online databases to review medicines, their side-effects and so on, so as to better advise customers. Those same customers have frequently researched on the Internet beforehand so that they are now better informed – and more willing to question the medical practitioner – and the pharmacist – than before. Pharmacists increasingly need to utilise up-to-date organisational, sales and online technologies if they are to remain competitive.

Competitive Environment (Porter's Five Forces Model)



This model provides an insight into the nature and dynamics of competition in the pharmacy sector.

The threat of new entry

The threat of new entrants is influenced by entry barriers and the existing attractiveness and potential in the industry. The main entry barriers to the pharmacy sector include access to capital, particularly in the current economic climate and complying with regulations, including licensing requirements. From the perspective of incumbent firms entry barriers are relatively low. The licensing of new pharmacies is easier than heretofore, and capital is beginning to become more available. The sector has few switching costs, as pharmacies tend to sell the same branded products and customer loyalty would tend to be limited. Therefore a convenient location and price are important factors to generate sales. Overall the threat of new entrants is medium, mainly due to the existing competitive nature of the industry rather than barriers to entry per se. That said large competitors, for example from the UK would find it relatively straightforward to enter the Irish market.

The threat of new substitutes

In looking at substitutes, the pharmacy sectors needs to be broken into two areas: dispensing prescribed drugs and over the counter sales, including general health and beauty. If a service is to be perceived as a genuine substitute, it must be comparable, similarly priced and as readily available. In the case of over the counter sales etc, supermarkets, healthfood shops etc, do provide genuine, frequently less expensive, alternatives to the pharmacy. However, there is no real alternative option to dispensing prescribed drugs. Alternatives would include Internet purchasing and buying abroad, but these would be limited in impact. Overall the threat of substitutes is relatively weak.

The intensity of rivalry

The pharmacy sector is generally fragmented with many small, local rivals as well as some larger regional chains. The only substantial chains competing across the country are in fact UK based firms. The sector's products are standardised and regulated, which reduces the opportunities for differentiation and for creating switching costs. The sector sells a high proportion of name brands from large, powerful suppliers. Lastly, the sector has seen declining turnover and operating margins over the past several years, due to the economic crisis and peoples' reduced spending power. Overall the degree of existing rivalry is strong.

In general, the underlying determinants of competition are generally strong and pharmacies have to be innovative and well managed to build a position where they can successfully address the influence that rivals, suppliers and buyers exert in the industry.

The bargaining power of buyers

The pharmacy sector sells to the general public. Individually therefore buyers are not influential: they buy only small quantities and are price takers. However, pharmacy products are standardised and branded and buyers have no switching costs. In addition, there is usually a range of alternative pharmacy outlets available so the individual buyer has a clear choice. Also, in the current economic climate, buyers are more motivated to pay the lowest price. Overall therefore, as a stakeholder group though not individually, buyers do have considerable influence.

The bargaining power of suppliers

There are two important categories of supplier into the pharmacy sector: pharmaceutical firms that supply the medicines pharmacists dispense and consumer goods firms that supply the retail products sold in the pharmacy, such as Nivea or Gillette. The firms in these sectors tend to be much larger than their pharmacy customers, which as mentioned are fragmented.

The suppliers have well-known brands and supply patented and trademarked products that cannot be directly substituted, and without which pharmacies cannot operate, at least in relation to the drug dispensing side of the business. These factors result in supplying firms having significant influence in the sector, although large pharmacy chains do have a relatively stronger bargaining position, due to their scale.

Resources and Competences

Resources may be assessed from a number of perspectives

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

Physical resources

BHI currently only leases three outlets in Ireland, however in the UK B&H has substantial physical resources, in terms of outlets, warehousing, lorries for distribution, etc. BHI maintains a standardised store layout and design to reduce architectural and merchandising costs.

Human resources

BHI has around 30 employees, while there are over 2,000 in the UK. The management approach and culture is very demanding and employees tend to self-select; those who are not comfortable tend to leave while the employees who stay tend to buy into the culture and ethos and are highly motivated. BHI has a clear and effective approach to HR and employees are well trained. Patricia Fitzpatrick is an experienced manager and as a pharmacist understands the business.

Financial resources

There is not much reference to financial resources, however Bailey & Hill and by extension BHI are owned by a Goessel AG, a large German multinational. It is unclear whether BHI will be an investment priority for Goessel AG, and whether BHI has the political influence to lobby for investment. Another financial issue is the ongoing pressure on operating margins into the future, although BHI are better placed than any competitor to deal with it.

Intangible resources

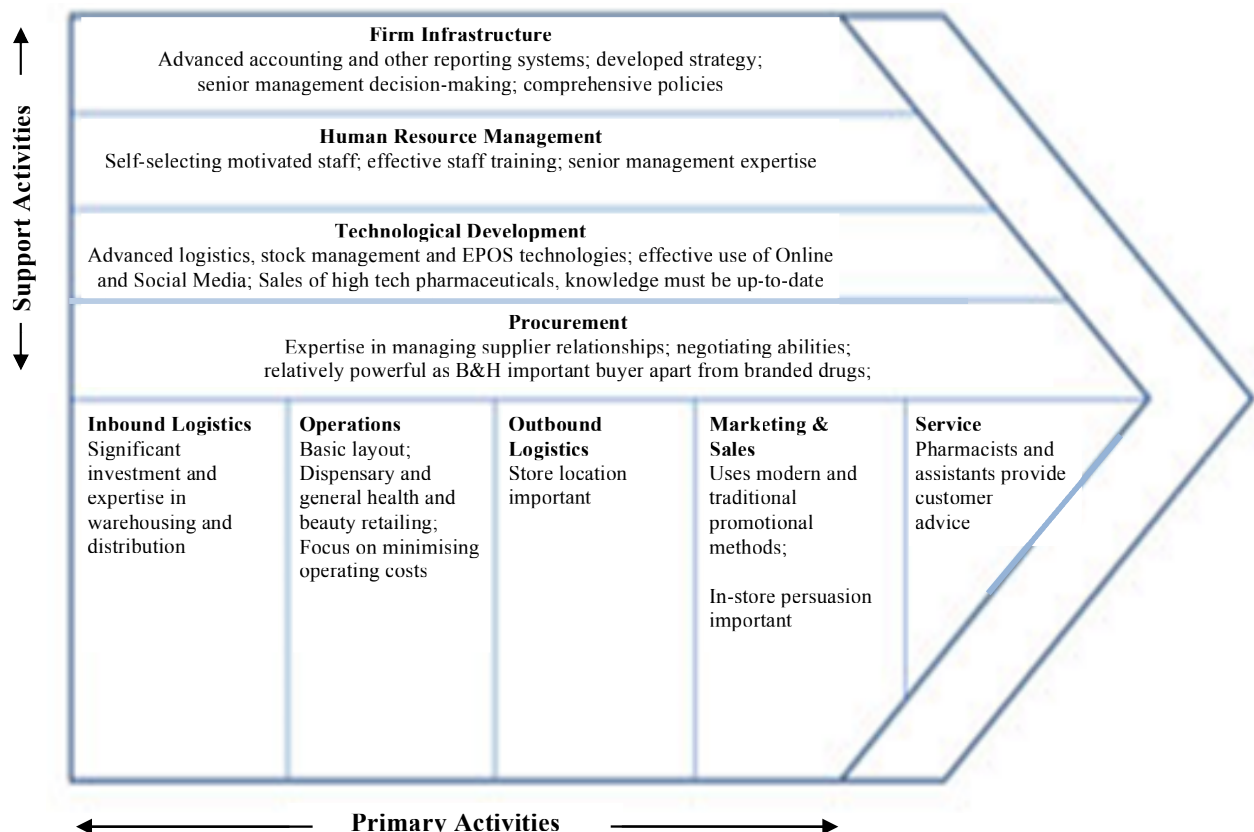
Perhaps BHI most important intangible resource is its links with Bailey & Hill in the UK. Relatedly, the ability the firm has to manage its cost base is an important resource, as is its logistics and supply chain management capabilities. The brand name, especially insofar as it has spilled over from the UK is another important intangible resource.

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. The pharmacy sector is highly regulated and sells generally standardised and branded products and services. BHI is contradicting this to the extent that it emphasises own brand non-dispensed products and its own brand generic medicines as much as possible. In that context, the relevant unique resources and competencies that BHI and (B&H) may leverage include:

- Cost management capability
- Cost conscious culture in the firm
- HR practices, staff training and productivity
- Ability to manage relationship with suppliers
- Store layout
- Staff and organisational culture
- Reputation and brand
- Patricia and other senior management experience and expertise

Value Chain of BHI (H&B)



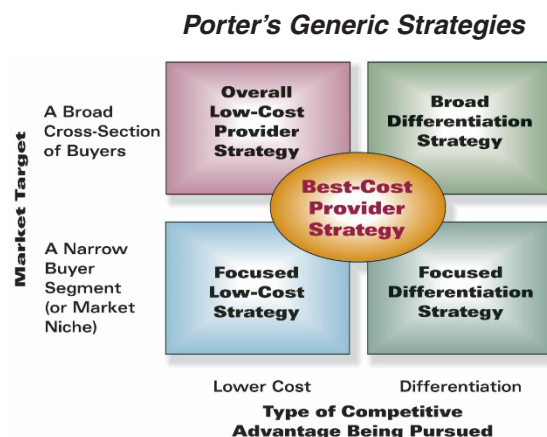
SWOT Analysis

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	Strengths <ul style="list-style-type: none"> • Management experience and expertise • Financial resources of Bailey & Hill (UK) and Goessl AG • Proven business model • Motivated and trained sales staff • Recognised brand • Excellent warehousing and logistics • Good relationship with suppliers • Positive organisational culture 	Weaknesses <ul style="list-style-type: none"> • Limited use of name brands • Very tight dispensary margins • Not much experience of Irish market and customers • Overemphasis on costs and ignoring service and advice
External	Opportunities <ul style="list-style-type: none"> • Geographic expansion • Economic recovery and increases in income • Aging population with increased health care needs • Increased awareness of health and wellness • Widen services provided, as these become less regulated • Continued use of social media and online to create awareness and drive sales • Continued Government health cuts and pressure on reference prices etc. 	Threats <ul style="list-style-type: none"> • Do H&B and Goessl AG still prioritise the Irish operation? • New [UK] competitors entering the Irish market • Irish rivals being acquired by large [UK] pharmacy chains • The economy not recovering as predicted • Customers potentially reduced sensitivity to price as economy recovers • Impact of UK exit of the EU • Ongoing or increasing regulations

(b) Issues and Challenges facing BHI

BHI is very new to the Irish market, but has the benefit of the scale advantages of its status as a subsidiary of a large, successful pharmacy chain in the UK. In many ways, Ray is correct when he commented that the Irish market is for all intents and purposes a region of the UK in terms of retailing.



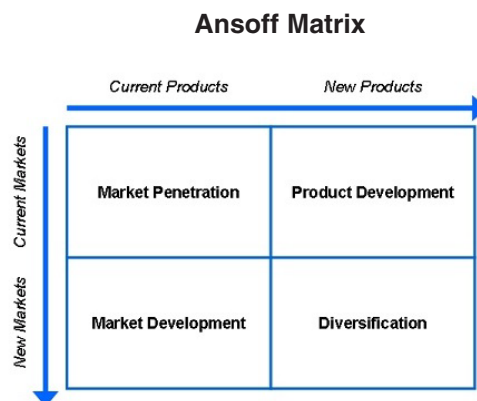
Porter's generic strategies describe how a firm pursues competitive advantage. Porter suggests that there are four generic strategies, either lower cost, differentiated, or focus, again based on low cost or differentiation. Many writers would also add a fifth alternative, where the firm attempts to balance the drive to reduce costs with relatively high levels of quality and service. The firm's choice of generic strategy depends on its analysis of its strengths, either managing costs or innovation and service, and whether it has the size to compete in the wider market or whether it only has the resource to compete effectively in a niche.

H&B, and by extension, BHI are in general following a low cost strategy. The firm emphasises minimising costs, for example by:

- Aggressive management of its cost base
- Strong negotiations with suppliers
- Pricing low to increase stock turnover
- Using own branded products and generic drugs
- Investment in stock control and warehousing software
- Generating scale economies

H&B has been very successful in implementing this strategy in the UK and have effectively positioned themselves vis a vis the impact of Porter's Five Forces. It would be reasonable to expect BHI to follow the same strategy in Ireland into the future.

Ansoff's generic growth strategies describe how a firm pursues present and potential products and markets (customers). By considering directions to grow via existing products and new products, and in existing markets and new markets, Ansoff identified four possible product-market combinations. In the context of H&B, the three pilot outlets in Ireland can be described as a means of H&B using Ireland as Market Development. That is, using the existing products and business model in a new market. There is now an opportunity for BHI to expand its geographic footprint in Ireland substantially; or in Ansoff's terminology further Market Development. It is also possible, even advisable, for BHI to attempt to increase the sales and market share of its existing outlets, this process, Market Penetration, should really be an ongoing dynamic for any business – increasing sales!



In the context of the above analysis and the uncertainty in the pharmacy sector and even the continued presence of BHI in Ireland, the following are the issues that BHI needs to reflect and make choices on.

1. The support and resources that BHI will receive from Bailey & Hill and Goessl AG. If BHI is to grow into a major competitor in the Irish market, it needs the continued sanction of B&H as well as financial, logistical etc support. It may be a case that with the acquisition by Goessl AG, and the change in management, that Bailey & Hill decides to withdraw from Ireland. The longer term strategy for Ireland needs to be determined sooner rather than later as all other decisions fallout from this.
2. Following from (1), continued access to Bailey & Hill suppliers, brands and product range. Without access to these, BHI cannot effectively compete.
3. The achievement of scale in Ireland. A critical element of the cost leadership strategy that Bailey & Hill follow is access to scale economies, for example, in logistics, supplier negotiations, etc. BHI can leverage the scale of the UK operation, but as the acquisition by Goessl AG shows, BHI needs to reduce its reliance on the UK operation in the longer term and become viable independently – this requires BHI to achieve scale in Ireland.

4. What adjustments, if any, to make to the BHI business model in Ireland. To date, BHI are simply replicating the UK business model in Ireland. Bearing in mind Ray's comments regarding the Irish market place, it would be useful to undertake market research to ensure BHI is not missing opportunities in Ireland.
5. The continuing pressure on operating margins. The pressure on operating margins comes from both (a) HSE pressures for budgetary savings and (b) competition and customers' price consciousness. While the pricing pressures are useful to BHI at one level, it reduces the pricing options of the firm.
6. Roll out of expansion across Ireland. If Bailey & Hill (and Goessl AG) remain committed to the Irish market, BHI need to decide the locations and timeframe of the rollout of new stores. With the backing of a multinational as large as Goessl AG BHI should have the financial, management and marketing resources to expand quite rapidly around the country, presumably starting with the larger towns.
7. Reliance on Patricia Fitzpatrick. At present, BHI seems quite reliant on Patricia, although when and if BHI expand in Ireland, there will be sufficient activities and revenues to resource and justify a full management team in Ireland.

c) Recommendations for BHI

The following are recommendations that BHI may use as the basis for competing in Ireland and developing into the future.

1. BHI must clarify both Bailey & Hill and Goessl AG's position on the future of the Irish operation. If there is no support for the Irish business, Patricia must try to build it within the organisation or recommend that BHI be closed.
2. Assuming that both Bailey & Hill and Goessl AG give their support, BHI must expand its footprint and achieve significant operational scale. This will require significant funding and therefore the active support of the parent firm in the UK and Germany.
3. BHI should continue with the competitive strategy focusing on cost, own brands and generic drugs.
4. As part of its marketing strategy, BHI need to inform and persuade the public that BHI's own branded products, including generic drugs, have a similar quality and are as effective as the more expensive name brands. This is critical if BHI it to widen its appeal as it sells little other than own branded products.
5. As BHI roll out stores in Ireland, it needs to build an effective management team. At present, it seems that Patricia is effectively doing everything and as the organisational scale increases that will not be possible.
6. Over time, BHI should try to reduce its dependence on Bailey & Hill and create an independent existence within Goessl AG. Increased scale in Ireland is critical to this, as is effective organisational politics.
7. BHI's, and originally Bailey & Hill's, organisational culture and the motivation of its shop-floor staff are clearly operationally beneficial. BHI needs to ensure that this continues into the future.
8. BHI should constantly investigate its cost base and supply chain for opportunities to reduce its cost base, particularly in light of the pressure on margins.
9. BHI should have a market research firm investigate customers' perceptions of the business and if the business model transplanted from the UK needs to be adapted, and in what way(s).

Indicative Marking Scheme for Question One

Marks

- (a)** Application of PESTEL
- PESTEL implications should be related to the case scenario industry
 - 6 x 2 marks, maximum of 10 marks **10**
- Application of Five Forces Model
- Indicators identified by Porter should be used to reach a conclusion of the influence of each force
 - 5 x 2 marks **10**
- Analysis of Resources and Competences
- Explain main resources, including prioritisation in terms of impact on competitiveness **3**
 - Explain main competences, including prioritisation in terms of impact on competitiveness **3**
 - Use of Value Chain analysis **3**
9
- Preparation of a SWOT Analysis
- Should relate and link strengths to weaknesses, opportunities and threats
 - Issues in the SWOT should be prioritised, not just listed **5**
- (b)** Assessment of issues and options
- Must be logical and clearly relate to previous analysis
 - Should refer to relevant models (Bowman, Porter, Ansoff...)
 - Issues and options should be prioritised, not just listed **8**
- (c)** Strategy
- Must be logical and clearly relate to previous analysis
 - Recommendation(s) should be prioritised, not just listed and justified **8**

[Total: 50 Marks]

SOLUTION 2

The report should include most of the following, or similar...

(a)

Introduction

In the context of the economic crisis and in an effort to increase operational efficiencies there have been a number of programmes to create more integrated organisations across the public service, Irish Water being the most visible. In any attempt to amalgamate and consolidate so many different organisations and departments, 31 in this case, there is inevitably going to be significant issues, in particular around integrating very different systems and procedures.

As is the case with any merger or amalgamation it is the soft, people related issues rather than the technical, procedural or even hardware concerns, which will undermine and delay the integration process – or even make it fail. That is why amalgamations, such as that being attempted by LASSO, need to be carefully managed and people issues such as motivation and leadership must be given careful consideration.

Leadership

In trying to implement the insights from a theory such as Herzberg's, the LASSO will confront significant challenges. Over the years the disparate departments around the country have evolved their own culture and work practices, and they are strongly unionised. Strong and effective leadership will be necessary throughout the LASSO for it to evolve into an effective organisation. According to Richard Daft, "leadership is the ability to influence people toward the attainment of organisational goals." There is no one accepted definition or theory of leadership: different leaders behave in different ways depending on their personality as well as the organisational situation.

Leadership theories include "Trait Theory" which concludes that leaders exhibit certain traits, for example, intelligence, desire to lead and being a good communicator. However there is no definitive list of traits identified as integral to leadership. "Behavioural Theory" suggests that leaders behave in certain ways, and the theory identified two categories of behaviour, people oriented and task oriented. Building on this, "Contingency Theory" concludes that the appropriate leadership approach will depend on the situation and that a leadership style that may work in one organisation or at one time, may not work in another.

An example of contingency theory, Robert House developed "Path-Goal Theory", which links leadership and motivation nicely. The theory emphasises the leader's responsibility to increase motivation to attain personal and organisational goals through:

- Helping staff identify and achieve their goals.
- Clearing obstacles, thereby improving performance.
- Offering appropriate rewards along the way.

The theory then identifies four types of leadership to achieve this:

- Directive leadership: This focuses on communicating goals and expectations, and assigning clear tasks. This style works best when employees have lower levels of ability, or they are inexperienced and where the roles and tasks are unclear.
- Supportive leadership: This focuses on relationships, and sensitivity to individual employee's needs. This leadership style is best when tasks are boring, repetitive or stressful.
- Participative leadership: Here the focus is on facilitating employees feeding into the decision-making process and using their experience to participate. Leaders consult with staff, and consider their ideas and expertise before making a decision. This approach works best when team members have high levels of ability and are experienced, when the task is complex and challenging.
- Achievement-oriented leadership: This focuses on setting challenging goals for staff. The leader has confidence in the employees, and expects them to perform well. This style works best when staff members have high levels of ability and need to achieve.

This theory provides useful insight and guidance for managers throughout the new, evolving LASSO. It illustrates that managers (leaders) will have to adjust how they interact with staff depending on which staff group they are interacting with, and the nature of the decisions that are being taken. For example, the managers who are dealing with more experienced colleagues who have an expertise in the area, may utilise a more participative and achievement oriented style, while those same managers may need to be more supportive and directive toward newer staff or staff that are "out of their comfort zone", for example because they have transferred department or changed roles as part of the

LASSO integration process.

Another leadership style that would be useful to LASSO, in particular for the senior management in the organisation, is the more contemporary idea of “Strategic Leadership”. Strategic leadership combines technical understanding of the business, day-to-day and financial control with the energy and vision to secure the long term future of the organisation. Strategic leadership welcomes innovation and develops a positive, trusting relationship between management and staff. LASSO should ensure that the senior managers appointed have the capability and insight to take on and to balance these issues: balancing the future vision of the organisation with the present operational needs, balancing people with policies and efficiency with innovation.

(b)

Motivation

According to Steven Robbins, motivation is “the processes that account for an individual’s intensity, direction, and persistence of effort toward attaining a goal.” Motivation is an individual phenomenon, is intentional and choice based. This means that a person or organisation can never motivate someone else – they can only create an environment where the person chooses themselves to become motivated.

There are several popular theories of motivation. A theory that is widely used and which LASSO may find insightful was developed by Frederick Herzberg. Herzberg describes motivation as having two elements:

- Hygiene factors or maintenance factors
- Motivator factors or growth factors

Hygiene factors derive from the job environment and are extrinsic to the job. They include such things as working conditions, job security, nature and bureaucracy of company policies and work relationships with others. Controversially Herzberg includes rates of pay as a hygiene factor, but frequently it is instead seen as motivator factor especially for lower and middle income employees.

Motivator factors derive from the job content and are intrinsic to the job. They include such things as having interesting work, responsibility and autonomy, personal growth opportunities and career advancement.

The LASSO must move beyond the current HR policies and practices if a better integrated - and more motivated – organisation is to develop. The LASSO must ensure that there are standardised policies and procedures in all locations – but they must also ensure that these are viewed as fair and not too bureaucratic by staff. The LASSO must also reassure staff that pre-existing working conditions, especially benefits and holidays will remain, or at least only change over a period of time or for new employees only. According to Herzberg, this will minimise the amount of dissatisfaction in the workplace.

In addition, the LASSO needs to try to ensure that staff have more autonomy to make decisions and use their initiative rather than follow bureaucratic rules blindly. Relatedly, and in particular the LASSO should use the integration process to build into the organisation more effective opportunities for staffs’ professional development and even map out possible careers paths for staff. This will obviously not be straightforward, however, these actions should lead to a more motivated and engaged workforce.

Conclusion

There are many theories of leadership and of motivation that provide useful insights into how to bring the most out of staff and encourage their engagement with the organisation and what it is trying to achieve. LASSO needs to use the process of amalgamation and organisational integration as an opportunity to rebuild the organisational context: to move away from the negative culture and inefficient work practices. To do this the LASSO must openly and positively engage with staff and bring them on board with the process. The LASSO must create the work environment and provide the leadership that will enhance the motivation of staff and ultimately allow the organisation deliver on its remit.

Indicative Marking Scheme for Question Two

	Marks
(a) Leadership	
• Explain nature of leadership	2
• Discuss in-depth two theories (or approaches) of leadership in depth (2 x 6 marks)	12
• Theories / approaches must be applied and related to LASSO scenario	
• Conclusion	1
	15
(b) Motivation	
• Explain nature of motivation	2
• Discuss in-depth four strategies to improve motivation (4 x 2 marks)	
• Must refer and use at least one theory of motivation (Herzberg, Expectancy...)	
• Strategies and theory must be applied and related to LASSO scenario	8
	10

[Total: 25 Marks]

SOLUTION 3

The report should include most of the following, or similar...

Introduction

Tea Jay's is a small chain of five coffee shops and sandwich bars. It is successful, profitable and has just won the prestigious "Best Small Coffee Chain" award from the Irish Coffee Shop Association. Terri Murray and Jackie Toner now face a typical dilemma for the entrepreneur: how to scale up a successful business, or indeed, whether they want to scale up the business. The scaling up of a business brings with it inherent opportunities, but it also brings with it a significant risk: can the success of the business on a small scale, usually with limited numbers of employees and geographic footprint be replicated on a larger scale? If it cannot, will the entire basis of success of the organisation disappear as the scaling strategy fails?

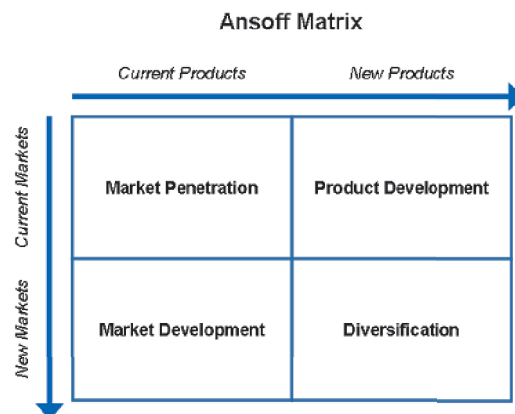
When a business decides to scale up, it has to make the strategic choice of which method, or combination of methods it will utilise. There are three methods available to any business:

- Organic growth (or internal development)
- Mergers and acquisitions
- Strategic alliances, of which franchising is a popular example.

Terri and Jackie have ruled out the use of mergers or acquisitions to growth the business and instead have focussed on either organic growth or franchising.

Organic growth

Organic growth refers to the growth in a firm's sales that are driven by internal resources. It is the sales growth a firm achieves by predominantly using its existing people, ideas and business, rather than businesses it acquired. Organic growth is the primary means of development for any business, but especially smaller businesses.



At present, Tea Jay's does develop new products and buy in artisan products, however, in the context of Ansoff, the current proposal is really about developing new geographic markets. This will involve a significant amount of work, as well as investment on the part of Terri and Jackie. For example, Terri and Jackie will need to:

- Source the finance to undertake the organic growth, as it is likely that retained earnings from the existing premises will not be sufficient.
- Identify the cities and towns where they wish to locate their outlets.
- Decide how many outlets they can open in any given period, for example, ten per year?
- Identify suitable locations for the outlets and negotiate a lease.
- Organise for the store to be outfitted, staff hired and trained.
- Build a local advertising to support the opening.

This is a huge volume of work and it means that compared to alternatives Terri and Jackie will have to accept that this approach is slower than others. That said, there are a number of benefits to Tea Jay's growing organically, including that Terri and Jackie will have more control over the pace, locations, etc of the firm's growth – too rapid an expansion may lead to instability and mistakes. They will also be able to learn as they go, so that the outlet expansion they have already completed can be used as a basis for the current growth proposal. Lastly, but importantly, organic growth will have relatively low up-front costs for Terri and Jackie, as hopefully financing can be arranged as new outlets require it.

As mentioned, two of the major drawbacks to organic growth are the time that it takes, compared to alternative growth strategies, and the amount of work required of Terri and Jackie. In addition, significant company financing will be required, even if not immediately and it not clear that Terri and Jackie will be able to access this. Lastly, Terri and Jackie have opened a number of outlets already, but these are in the largest cities with which Terri and Jackie may be more familiar. It is not clear that Terri and Jackie can as effectively and as quickly find a good location in say, Mullingar or Ennis.

A Franchise Model

A franchise refers to where a business (the franchisee) acquires the right to use another business's (the franchisor) proprietary knowledge, processes and trademarks, in order to sell its products or services. Franchising is a popular strategic growth method, in particular in the food service sector. For example, firms such as McDonald's, Burger King, and in Ireland Eddie Rockett's and of course, O'Briens all use franchises as part of their growth strategy. If Terri and Jackie decide to utilise this growth strategy, there will be significant upfront work required. In a sense, franchising involves leveraging an existing business model and operating system, and therefore Terri and Jackie will need to codify and standardise in policies and procedures their existing business, including:

- Menus and pricing
- Store layout and design
- Training requirements
- Uniforms
- Financial and other performance metrics

In addition a very carefully constructed franchise agreement will have to be developed to protect Tea Jay's image etc.

In general, the franchisee will provide the capital to lease and outfit the café, so the most important benefit of franchising from Terri and Jackie's perspective is the significantly less finance required to growth the business. In addition, it will normally be up to the franchisees to identify the location for the café. Taking these together, it means that Tea Jay's can expand more rapidly than through organic growth. The fees and royalties that the franchises generate may be substantial, and while they will need to be managed and monitored, Terri and Jackie obtain the financial return without the work or risk associated with organic growth.

That said, franchising has a number of inherent issues and risks. There is a lot of upfront work necessary to prepare the business model, franchise agreement, metrics etc so that Terri and Jackie will be in the position to offer franchises. Perhaps most importantly, Terri and Jackie will effectively need to trust another person and business to deliver the same quality and service that the original Tea Jay's offers, and if the franchisee does not, then Tea Jay's image and brand is undermined for all its outlets, not just the franchisee's. While Terri and Jackie can use the franchise agreement, metrics etc as controls, they are still relying on a third party "outsider" to run a café. Therefore a major risk factor, and critical step in franchising, is Terri and Jackie's ability to identify, develop and manage suitable franchisees. If unsuitable people are sold franchises it will result in an amount of problems for Terri and Jackie.

Recommendation

Both organic growth and franchising are viable strategic growth options for Tea Jay's. To a great extent the better option will depend on Terri and Jackie's attitude toward control and risk as well as the amount of finance they can obtain and the timeframe for growth they have in mind. Organic growth will take longer, but increases the control that Terri and Jackie have and reduces the risk. Alternatively, franchising will grow the business much quicker, uses other people's cash, but will weaken Terri and Jackie's control and increase the business risk.

Assuming that Terri and Jackie wish to see a more rapid expansion, they should use a franchising model to grow the business. However, given their limited experience in the area, they should employ a consultant with significant franchising history to support them, or even perhaps bring in a minority partner who has been through the process of being a franchisor before.

Indicative Marking Scheme for Question Three

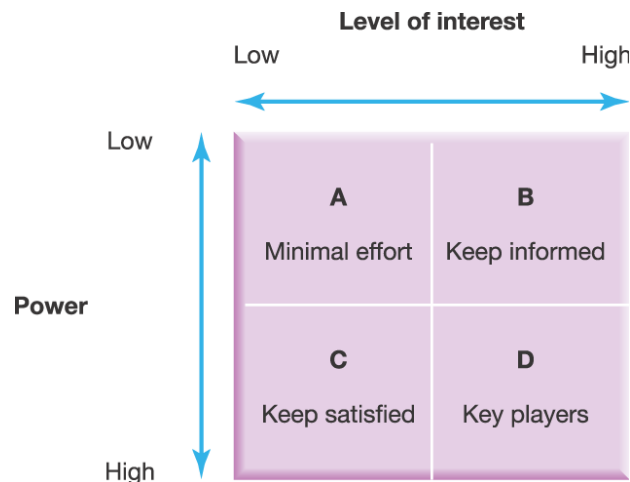
	Marks
Organic Growth	
• Explain nature of organic growth	2
• Assess four issues (benefits/concerns) relating to organic growth (4 x 2 marks)	8
• Issues must be applied and related to Tea Jays scenario	10
Franchise Based Growth	
• Explain nature of franchising	2
• Assess four issues (benefits/concerns) relating to franchising growth (4 x 2 marks)	8
• Issues must be applied and related to Tea Jays scenario	10
Recommend and justify your choice for organic or franchise strategy	
• Must be logical and clearly relate to previous analysis	5
• Recommendation should be logically justified	

[Total: 25 Marks]

SOLUTION 4

The report should include most of the following, or similar...

- (a) Decisions, and in particular strategic decisions, are never made in a vacuum. An organisation, its CEO and senior management can rarely do exactly what they believe is rationally necessary. Every decision involves compromise and the need to balance the interests of various stakeholders. The concerns of individuals, groups or organisations that can limit or slow down the implementation of a strategic decision need to be addressed as otherwise a decision may be taken but ultimately never implemented. Effective politics is integral to successful decision-making.



Stakeholder mapping allows the management of the organisation to identify the key stakeholders in any particular strategic decision. Management can then plan how to address the issues raised by the most relevant stakeholders. The mapping exercise identifies those stakeholders with the most influence and interest in a strategic decision – the “key players” - and therefore those stakeholders whose views and potential reactions management must carefully consider through the decision-making process. Similarly for example, the analysis should identify those stakeholders who may not be that directly affected and whose influence is relatively low: management will frequently effectively ignore these in coming to their decision.

In the case of Dooley Engineering Ltd, the main stakeholders, and their positions, could be mapped as shown below. In light of this analysis and mapping, the “Key Players” are the outside investors, the Dooley Family, and probably especially Thomas Dooley Jnr, and the employees who currently work in the factory and whose jobs are likely to be made redundant.

The outside investors

The outside investors hold 60 per cent of the shares in Dooley Engineering Ltd. They will have a considerable influence on the decision. It is likely that this is purely a financial investment for them - they are unlikely to have any an emotional investment in the firm or the outsourcing decision. An objective analysis of the cost implications of using the Polish firm and the marketing and sales consequences, if any, is likely to determine their attitude. The consequences for the employees or for the Tullamore area are unlikely to weigh heavily in their choice. That said, they seem to take a hands off approach to the business and therefore the attitude of Thomas Dooley Jnr and other senior management are likely to inform their decision also; they are unlikely to want to enter into a battle over this. This group will be integral to the decision.

Stakeholder Mapping

		Level of Interest	
		Low	High
Level of Power	Low		Tullamore Community and Businesses Polish Firm
	High	Other Dooley Employees Buyers of Pumps	Dooley Factory Employees Dooley Family Outside Investors

Dooley Family, Thomas Dooley Jnr

Although a minority shareholder, as Thomas Dooley Jnr manages the business day-to-day, the family will still have a considerable influence on the decision. Unlike the outside investors, the family are presumably emotionally as well as financially invested in the business: after all the business was originally started by Thomas Dooley, the grandfather. That said, for the business to have survived this long, the family and Thomas Dooley will have had to make some difficult decisions along the way. This is clearly the case when they sold a controlling stake in the business to keep it solvent. Similar to the outside investors, the Dooley Family are likely to be relatively objective, and conclude that it would be competitively beneficial to close the factory despite the impact on the employees and the local community.

Employees

There are two groups of relevant employees; those working in the factory and those working in other areas, for example, servicing, design, etc. If the outsourcing to the Polish firm goes ahead the employees in the factory, or the majority are likely to be made redundant. Their age profile is not available, but it is assumed that most are under fifty, it means that they will inevitably need to find other employment, which may be difficult in the locality of Tullamore. While this group have no legal means of stopping the closure, they could make it difficult, for example, through strike action, protests, "sit ins", etc. From an ethical perspective this group should be carefully and fairly managed. The attitude of the other employees may be ambivalent: they may feel closing the factory improves financial stability and therefore secures their roles, or alternatively that the closure may be the first step toward them losing their jobs.

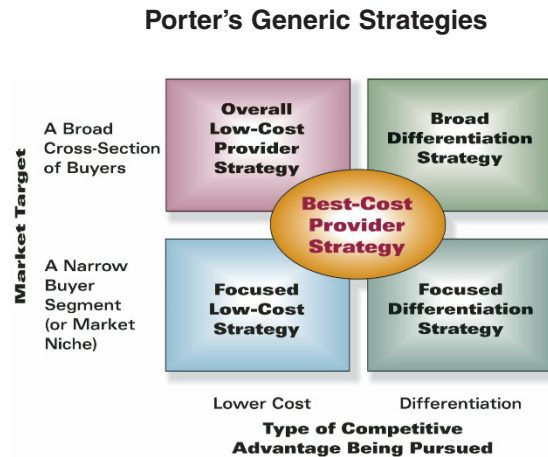
The Polish Firm

The Polish firm are obviously interested in the decision in terms of increased business. Their influence in the decision comes from the concessions and terms of any supply contract that they agree with Dooley Engineering Ltd. In addition, their ability to deliver pumps to the quality and technical specifications, and deliver in a timely manner, are key considerations in the decision.

People and businesses in Tullamore

People and businesses in Tullamore have no real direct influence in the decision, although the partial closure of one of the largest local employers would be a concern to the community in general and local politicians in particular. It is likely that if a closure is announced Dooley Engineering Ltd and Thomas Dooley in particular will face lobbying and pressure from local politicians and groups.

- (b) A competitive strategy is the method by which a firm achieves a competitive advantage over its rivals. A competitive strategy is the combination of competitive weapons a firm employs to attract customers. A popular model to understand the nature of competitive strategy is Porter's categorisation of "Generic Strategies".



The categories are distinguished by whether the firm intends to target a niche, specialised market or the broad, general market and whether the firm intends to base its competitiveness on cost and pricing or on delivering a differentiated product or service. For example, using a cost leadership strategy, a firm will seek to sell an average, basic product to a broad cross section of the population. Alternatively, a smaller firm might focus on a narrow buyer segment, for example, Dublin City, and try to compete by selling a higher priced product that really addresses those customers' requirements very closely – a focussed differentiation strategy.

In the case of Dooley Engineering Ltd they seem to be using a differentiation strategy to compete. They are selling to the broad marketplace (around Europe), and differentiating there submersible pumping products using

- Design and manufacturing excellence
- Technical specifications
- Speed and flexibility

If they were implementing their differentiation strategy effectively Dooley Engineering Ltd should be able to charge premium prices and build brand loyalty for their pumps. Given however that the manufacturing unit has become a drag on overall business, it would seem that the cost base is too high for the level of perceived differentiation that Dooley Engineering Ltd are able to achieve. Innovation and marketing are central to effective differentiation, so perhaps these are areas that the firm can also assess.

In looking at the differentiating factors, manufacturing competences would seem to be key to their effective leveraging in the marketplace. There are several potential benefits for Dooley Engineering Ltd outsourcing manufacturing to the Polish firm, not least of which is the cost reductions of up to 40 per cent. This is a huge incentive for Dooley Engineering Ltd and while we are not given the figures, it is likely that such saving would lead to submersible pumps being profitable again. In addition, Dooley Engineering Ltd may be able to leverage the experience, knowledge and research of the Polish firm to improve the design or technical specifications, and therefore actually improve the product offering. A last major benefit is that Poland is geographically closer to most of Dooley Engineering Ltd's main markets and can perhaps serve them more efficiently from Poland than Dooley Engineering Ltd can from Tullamore.

However, there is a significant risk in outsourcing such a core element of the business, and something that the firm is so identified with: manufacturing pumps. Firstly, there is the issue of trust and whether Dooley Engineering Ltd can rely on a supplier for such an important activity, especially as Dooley Engineering Ltd does not seem to have any previous history with the Polish firm. Related obviously is the ability of the Polish firm to deliver to the quality, technical specifications and timeliness that Dooley Engineering Ltd currently achieves. The Polish firm seems to have a good reputation but Dooley Engineering Ltd will be vulnerable if something goes wrong, which it may very well do as production is transferred and the Polish firm is learning how to best produce the pumps. Finally, effective differentiation is closely linked to the perceived image of the firm and the product, it is not clear if Dooley Engineering Ltd has completed market research to determine if its customers would react negatively to having manufacturing outsourced.

Recommendation

If Dooley Engineering Ltd can be reassured about the ability of the Polish firm to deliver to the quality, technical specifications and timeliness that Dooley Engineering Ltd currently achieves, and if the firm is reassured by buyers that they will continue to buy from Dooley Engineering Ltd so long as the quality etc remains, then Dooley Engineering Ltd should outsource to the Polish firm.

That said, they should initially trial the arrangement by using the Polish firm to manufacture the more basic, easier to manufacture pumps, and assuming that is successful, incrementally move the remainder of the production. This approach provides the opportunity for Dooley Engineering Ltd to “test” the Polish firm capabilities, and manage customers’ reactions. It will also allow the factory to wind down in stages, which may be easier to “sell” to employees and the local community. Lastly, Dooley Engineering Ltd should be as generous as possible with the redundancy package and treat each of the workers individually and dignity and respect.

Indicative Marking Scheme for Question Four

	Marks
(a) Position of key stakeholders	
• Explain importance of stakeholders in strategic decisions	3
• Discuss five key stakeholders in Dooley’s outsourcing decision (5 x 2 marks)	10
• Conclusion	2
	15
(b) Implications for sustainability of differentiation strategy	
• Explain nature of Dooley’s differentiation strategy	2
• Discuss three implications of outsourcing for Dooley’s differentiation strategy (3 x 2 marks)	6
• Conclusion	2
	10

[Total: 25 Marks]