



## Individual Assignment Spring 2017

Module: **Strategic Management (BUSS 1009)**

Level: 6

Max. Marks:100  
(Scaled down to 40)

Duration: 4 weeks

ID NUMBER

--	--	--	--	--	--	--	--

### Instructions to Student:

- **Answer all questions. Generate a report – 100 marks.**
- **Submit the report through Moodle and Turnitin on week 10.**
- **Maximum number of words for the report 2000.**

The following information should be used when answering the Case study question.

### Introduction

Vasco Telcom was established almost twenty years ago at the beginning of the mobile telephone boom. It was formed by a dynamic Chief Executive Officer (CEO) who still remains a major shareholder of the company.

Vasco Telcom brought two new concepts to the market. Firstly, it established retail shops where customers could go and handle the products and discuss mobile phone options with trained sales people. Before Vasco Telcom, all mobile telephones were sold through the customer directly contacting the telephone network provider (like conventional home land line services) and were generally aimed at business rather than leisure users. Secondly, Vasco Telcom sold products and services from all the four major network providers licensed by the government to provide telecommunications services in the country. Previously, customers could only choose products and services from within one network provider's range. Vasco Telcom allowed customers to choose products and services across the range of the four providers and reflected this in the company's motto 'ethical advice: the customer's choice'.

In 1990, Vasco Telcom signed a thirty-year supply contract with each provider. Although the deals were on commercially favorable terms, the network providers were happy to agree these deals because none of them believed that mobile telephones could be successfully sold through retail

## CW 1–QP

shops. However, speaking in 2003, the managing director of one of the networks suggested ‘that Vasco Telcom had got away with incredible profit margins’ when they signed the deals in 1990. The four network providers themselves had re-signed twenty-five year license deals with the government in 1995. Under the terms of these deals, licenses will be restricted to the four current providers until their renewal date of 2020.

## Retail shops Division

Vasco Telcom currently has 415 shops around the country. To reduce costs most shops are on the edge of (but not in) the main shopping area of the town they serve. It is usual for Vasco Telcom to sign a fifty-year shop lease in return for low initial annual rental and a rent-free period at the start of the lease while the company fits out the shop to reflect Vasco Telcom corporate image. In 1997, Vasco Telcom floated on the country’s stock market to assist the funding of further shops and so continue its organic growth. The national coverage of its shops, the publicity generated by its CEO and a successful television advertising campaign culminated, in 2005, with it being rated by consumers as one of the top 20 brands in the country.

The CEO of Vasco Telcom established the retail shops along, in his words, ‘entrepreneurial lines’. He regards each shop as an independent business, having to achieve a profit target but without being closely monitored within these targets. He believes that the company is ‘about providing opportunity to its employees, providing them with autonomy and responsibility to achieve their goals. It is not about monitoring them every hour of the day, stifling creativity and enthusiasm.’ To support this approach, sales staff are given a relatively low basic salary with a substantial element of profit-related pay linked to the profit targets of the shop. Commission is also paid to sales staff who successfully sell mobile phone insurance to the customer. Each shop is relatively small, usually employing three or four people.

In recent years the CEO has been increasingly involved in television, sports promotion and charity work. At Vasco Telcom, they established a strategic planning committee of senior headquarters managers to develop and implement the company’s business strategy. This committee includes the two longest serving board directors. The strategy still continues to have at its heart the central business idea of giving independent and impartial advice to customers so that they can choose the best equipment and network for their needs.

## Marketplace trends

Since Vasco Telcom arrival into the market, two significant trends have emerged:

- (i) The licensed network providers have opened their own retail stores, usually in city centres. Vasco Telcom has reacted to the opening of these shops by stressing Vasco Telcom independence and impartiality. Only at Vasco Telcom can impartial advice be received on all four competing networks and their supporting services. The CEO now refers to this as ‘our central business idea’ and, as well as being core to their strategy, it is heavily emphasized in all their promotional material.

## CW 1–QP

- (ii) Mobile phones have become more sophisticated. Many now offer integrated cameras, mp3 players, web browsers and e-mail facilities. Vasco Telcom offers these products in both its shops and through its Internet operation. Mobile phones are either purchased outright or provided on monthly contracts. The minimum contract period with the network provider is usually twelve months.

Vasco Telcom has itself established its own Internet division, Vasco Digital, as a separate division within the group. It has also established an insurance division (Vasco Insure) offering insurance to cover loss or damage to mobile phones purchased from the company. Revenue earned from each division, analyzed by the age of the customer, is shown in table 1.

Table 1: Analysis of Vasco Telcom Sales: 2007 (all figures in \$m)

		Age of customer					Total
		Under 15	15–25	26–40	41–60	Over 60	
Division	Vasco Telcom retail shops	5	90	60	120	65	340
	Vasco Digital	0	15	20	8	2	45
	Total sales of mobile phones						385
	VascoInsure	0	1	3	7	3	14
	Group total						399

Analysts agree that growth in the mobile phone business is slowing down and this is supported by the figures given in table 2 showing revenue from sales (both retail and Internet) for Vasco Telcom and its competitors, the four licensed network providers, for the period 2003–2007.

Table 2: Market Analysis (all figures in \$m) of sales of mobile phones

Company	2007	2006	2005	2004	2003
Vasco Telcom	385	377	367	340	320
Phone NetAG	350	348	345	340	305
9Netgen	390	388	380	365	350
PhoneLinex	315	315	315	305	300
YNetConnect	295	295	294	290	285
Total	1,735	1,723	1,701	1,640	1,560

However, while the Vasco Digital and VascoInsure divisions are prospering, there are increasing problems in the retail shops division. Profitability has been declining over the last few years (see table 3) and this has had a demoralising effect on shop employees. One shop manager commented, in his exit interview, that the profit targets were unattainable in the current market. 'They might have been appropriate in 1997, but they are not in 2007.' Staff are particularly demoralized by spending time explaining a particular product to a customer who then leaves the shop and buys the product cheaper on the Internet. They have to wait for it to be delivered (usually two or three days) but they are prepared to do this to gain the lower prices offered by the direct Internet-based companies, including Vasco Digital. It is also increasingly

**CW 1–QP**

common for customers who have bought from Vasco Digital to take their phones to Vasco Telcom retail shops for support and service. This activity is not recognised in the shop employee's reward package.

Vasco Telcom central city branch

Despite the overall decline in the profitability of the shops, one branch has continually met or exceeded its profitability targets and is held up by the CEO as an example of best practice – proof that the company's approach to mobile phone selling can still be profitably applied. This is the central city branch in one of the country's most prosperous cities.

The CEO arranged for three members of the strategic planning committee to visit the shop, posing as customers, to investigate the reasons for the shop's success. They found the staff very friendly and helpful. However, they also found that they were guided towards products and services which had higher profit margins. Further investigation showed this always to be the case and so customers were sold products which were profitable to the shop, rather than those best suited to the customer's needs. On receiving this information, Vasco Telcom board concluded that this was unethical as it compromised their central business idea which stressed impartial advice to guide the 'customer's choice'. The manager of the shop was reprimanded and asked to adhere to company policy. He resigned soon afterwards, followed by his two assistants. The shop is currently run by temporary staff and profitability has significantly dropped.

Future strategy

The two longest serving directors on the strategic planning committee are increasingly concerned about the company's decline in profitability. They have written an internal paper suggesting that the retail division should be sold off and that Vasco Telcom should re-position itself as an on-line retailer of phones. They believe that the retail shops business model is no longer appropriate. They argue that a company concentrating solely on Internet sales and insurance would be a 'smaller but more profitable and focused' business. The CEO is strongly opposed to this suggestion because it was the shop-based approach to selling mobile phones that formed the original business model of the company. He has a strong emotional attachment to the retail business. The two directors claim that this attachment is clouding his judgement and hence he is unable to see the logic of an 'economically justifiable exit from the retail businesses.

**Required:**

**Question 1:**

**Analyse the competitive environment of Vasco Telcom retail shops division using an appropriate model.**

(40 marks)

**Question 2:**

**CW 1–QP**

Vasco Telcom CEO wants to develop a rationale and a case for retaining the retail shops division.

**Develop a justifying case paper for the CEO highlighting (upto 5 key) reasons to submit to the strategy planning committee explaining why the retail shops division should continue to form a key part of Vasco Telcom future strategy.**

(30marks)

**Question 3:**

The Vasco Telcom retail shops division faces problems in retaining its original business idea of offering impartial advice to customers and developing an appropriate rewards system for its staff.

**Examine and discuss changes the Vasco Telcom retail sales division should consider making to both its business idea and Human resource approach and system to remain successful.**

(30 marks)

**(100 marks)**