Riches to Rags: Matrix Reloaded for The Family’s change of clothes

This article written by Shuaib Masters, who is a member of FTCKaplan’s London TOPCIMA subject specialist management and teaching team, provides an initial perspective and observations on the latest TOPCIMA pre-seen case scenario, assessment matrix and exam requirements.

Introduction

The Seagull Approach

The seagull approach to management is a derisive reference to casual, ill-informed and hasty decisions or comments made by outside authorities (particularly head office managers and management consultants) who lack an understanding of the local issues or a real understanding of the facts of a particular situation. The phrase is loosely derived from the behaviour of seagulls - to fly in, leave their droppings, and fly away. In writing this article, I was faced with the dilemma of performing my own detailed para by para plus overall analysis of the Kadgee pre-seen or alternatively, directing candidates (who will be facing an exam day unseen which is almost half the length of the pre-seen on their own) to the TOPCIMA exam requirements and the key issues to facilitate their own analysis as well as meet the needs of the exam assessment matrix.

Learn by doing

I have chosen the latter which effectively is a positive seagull approach, a strategic overview of the broad issues against the requirements of the assessment matrix, showing the candidate how to tackle the prey, rather than simply presenting a fish on a plate, to quote the Chinese proverb: “Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime”. There is, as always, going to be an abundance of published detailed analysis supported by detailed research (conceptual and industry) in the professional education and training provision marketplace. In my opinion, avoiding practicing to develop the ability to apply your own higher level analytical skills and raising your own ability to meet the specific Topcima exam requirements is fatal.

Pre-seen and Matrix Structure

A pattern emerges

The same case author, who has written about nine pre-seens, has retained her user-friendly case writing style, and pattern of contents for Kadgee: industry background; three pages on the management personnel; firm history and position in the market; firm’s shareholding structure; a range of external market issues and internal functional including staff issues; future challenges and prospects; and ending with basic financial statements for the last period. It is important from the outset to identify what is different in terms of the context (industry and firm stage of development) and the spread of marks across the assessment matrix criteria as both the context and matrix individual criterion marks tend to change for each sitting.
Comparing and contrasting with the last (May 2006) pre-seen and assessment matrix “Zubinos”, we see that:

- The pre-seen, including the covering page, is two pages shorter. This largely reflects the absence of discussion and forecast numerical analysis of future plans. Note that Kadgee’s cash position and cash flow is in dire straits.
- Both case organisations have a significant founding family ownership context and are not public listed companies. The criterion titled “Focus” (the need to select relevant important information instead of non-strategic aspects that are relatively unimportant) in the assessment matrix has been reduced by 5 marks to a total of 10 marks and “Judgement” (the need to recognise alternate solutions and exercise professional judgment) has been increased by 5 marks to a total of 20 marks.
- Zubinos is a young company operating at the end of the process and distribution value chain, directly retailing to the individual customer in a market that is still growing. Kadgee, on the other hand, is an established company operating at a stage earlier in the value chain - manufacturing for and distributing to a range of high street retailers rather than the end consumer in a complex market with both dynamic and mature characteristics.
- Some of the key issues in Zubinos arise from the tensions of managing its rapid growth and development – largely control issues; retaining a differentiation strategy whilst standardising for economies of scale; and making strategic decisions to achieve ambitious growth plans. Kadgee’s issues are focused on staying profitable; dealing with a poor cash position; dealing with problems of globalisation and changing technology on its industry and therefore the firm (including the people); grappling with location-based cost disadvantages; retaining powerful professional, industrial buyers; maintaining a differentiation strategy in a fashion market whilst competing with the global low-cost, high quality competitors in say China; and making strategic decisions to evolve from domestic, hierarchical (in-house) solutions to global and collaborative (strategic alliances and outsourcing) solutions.
- Kadgee pre-seen includes a cash flow statement for the last period.

The value of the above exercise based on the pattern of the same case author is that, amongst other things, it helps to highlight the context of an organisation, Kadgee, operating in the middle of its industry’s value chain (the apparel pipeline) facing major problems threatening its very survival rather than simply being a successful company or at the evolutionary crossroads. The exercise also raises the profile of Kadgee’s cash position, need for financial planning, and a couple of areas in the matrix indicating that clear solutions based on commercial professional judgement are crucial to helping Kadgee go beyond pure survival mode.

Growth through collaboration

As highlighted above, from the outset, it is clear that Kadgee is a company in crisis caused by buyer power and global competition. The supposedly entrepreneurial owner-managers, and their board, have failed to embrace globalisation and relocate production to lower cost countries whilst retaining the quality and customer base. They have also failed to develop their own brand to market globally directly to end consumers. The question is, do they have the ability to do so? If they continue to treat the symptoms rather than carry out radical surgery to
change their strategy of retaining a purely Western European production base, and limiting their market, the inevitable result is liquidation. The warning signs erected by family owned competitors who have recently ceased to operate and those who have continued to operate by moving all or part of their processes to countries with a cheaper operating base are visible and need to be heeded. **The limited resource base including competences suggest that collaborative strategic alliancing is the logical means to achieve a speedy shift in strategy rather than organic growth or acquisition.**

However, the exam day unseen and requirement will expect you to engage a wider range of new and pre-seen strategic issues and proposals, albeit related to the above crisis.

*Arranging the toolbox for the context*

The context determines which technical tools (strategic analytical models), in addition to critical common sense, are most useful in identifying and applying “knowledge” as well as coming up with a range of alternative solutions. Most of these tools are covered within CIMA’s Strategic Level syllabi. The candidate needs to be conscious of the fact that the “knowledge” requirement specifically appears in the first three and the seventh criteria of the matrix which total 30 marks. “Ethics” can be treated as an additional “dead cert” knowledge area to score the separate 10 marks allocated to evaluating and advising on ethical dimensions and dilemmas. Very importantly, “Judgement” is now worth 20 marks – the need for demonstrating commercial and professional judgement. **Realistic clear discussions and recommendations are required that are commercially viable and professionally assessed.** Demonstrating higher level skills of critical analysis, practical application, synthesis and evaluation based on relevant and appropriate “knowledge” and “judgement” scores the bulk of the marks. It also underpins the credibility of discussions on the main issues and the quality of the ultimate, justified recommendations.

In management, you often get the right answer by starting with the right question. The following table poses a range of strategic questions, directs you to the broad pre-seen information relevant to each question and identifies a few key strategic analytical models and concepts which, if applied correctly, will provide an in-depth strategic analysis targeting most criteria of the matrix:

<table>
<thead>
<tr>
<th>The right question</th>
<th>Broad pre-seen dimensions</th>
<th>Some relevant analytical tools</th>
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</thead>
</table>
| *How does Kadgee compete?* | Kadgee differentiates by manufacturing clothing that emphasises top quality design and finishing. This is achieved by the technology of modern quality based process techniques, very sophisticated machinery and mainly the traditional family skills of a small team of machine operatives who put finishing touches by hand. | • Porter’s Generic Strategies  
• Johnson and Scholes’ Suitability, Acceptability and Feasibility evaluative analysis of the viability of a |
<table>
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<tr>
<th>Where does Kadgee compete in terms of markets and products?</th>
<th>Do it better or cheaper using a telescopic rifle or an AK 47? (an analogy drawn by Drucker). Kadgee has an “industrial” B2B (business to business) rather than direct “consumer” market selling to powerful European and international high street retailers with 86% of its total sales revenue coming from a base of only 5 customers. The derived demand targets mid to premium price paying customers who are loyal to reputable retail brands. Kadgee produces a range of ladies’ and girls’ clothes and a limited range of childrens’ clothes from 6 factories in Western Europe mainly to its narrow base of retailer customers in terms of their specifications and their own labels. Its mens’ clothing infrastructure was divested over 30 years ago. Product development plays an important part within Kadgee but market development has been neglected. Kadgee has not got involved in direct local or global selling (high street retail or internet based e-commerce) to the end consumer using its own brand. Also, it has not established manufacturing bases outside Europe to take advantage of lower production costs.</th>
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<tbody>
<tr>
<td>What broad means and methods did Kadgee use to finance its strategy?</td>
<td>Turnover is vanity, profit is sanity, cash is reality. Growth and subsequent consolidation has been organic. Kadgee is an unlisted private company with the 58% shareholding controlling interest held by Bruno Burnak and his son Andrin. Financing has been mainly through retained profits (no dividends have been paid for quite some time), and partly through loans and bank overdrafts for capital expenditure and working capital.</td>
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<tr>
<td></td>
<td>Concepts of:</td>
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<td></td>
<td>• Organic growth v. acquisition v. strategic alliances</td>
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<td></td>
<td>• Private ownership v. public listing</td>
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<td></td>
<td>• Equity v. debt and dividend policy</td>
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The environmental issues highlighted below make it difficult to sustain this strategy. Kadgee has avoided mass producing low cost clothing.

**strategy.**

- Porter’s Generic Strategies
- Ansoff’s Product/Market Growth matrix
- Kotler and Doyle on marketing strategy including Segmentation
- Concepts of globalisation, outsourcing and shifting production to low factor cost locations.
Kadgee does not seem to have considered listing at any point and the market conditions together with its deteriorating performance makes this unfeasible. The bank overdraft is likely to have become a permanent source of finance.

What are the priority issues in Kadgee’s external environment to deal with?

**Beware the 3 letter acronyms – The three C’s** 6 of the dynamic new business environment – customers (more demanding), competition (nature and intensity) and change (a constant).

- The loss of a key customer from August 2006, Forum, representing 22.6% of Kadgee’s total sales and €300,000 operating profit.
- The tremendous bargaining power enjoyed by the European retailers squeezing their suppliers’ (including Kadgee’s) prices and operating margins whilst demanding high quality fashion.
- The global competition from low cost yet high quality manufacturers, particularly in China and Kadgee’s domestic competitors’ relocating production to low factor cost countries in Eastern Europe and Asia.
- Reliance on a narrow customer base and the absence of direct sales to end consumers.
- The threat of liquidation.
- A dynamic industry in terms of changing fashion trends, changing as well as increasing intensity of global competitive forces, and changing technology (process technology, process techniques, and IT)

What are the priority issues within Kadgee’s internal environment to deal with?

**Cut the cloth to fit and change your clothes.**

- The negative impact on key staff morale and consequently TQM as well as supply chain efficiency owing to recent and impending redundancies

Emphasis on “O” (opportunities) and “T” (weaknesses) of SWOT analysis using

- PEST analysis
- Industry Life Cycle
- Porter’s five competitive forces
- Industry business awareness research
- Porter’s Diamond on location-based national competitive advantage
- External Stakeholder analysis
- Cima Topcima Study Guide 12 “Understanding the assessment matrix” section E on prioritisation
- Concepts of TQM (Total Quality Management); QFD (Quality Function Deployment); BPR (Business Process Reengineering; JIT (Just-in-Time)

Emphasis on “S” (strengths) and “W” (weaknesses) of SWOT analysis using

- Porter’s Value Chain Analysis
| How does Kadgee implement its strategy? | Creating job insecurity and stress at all levels.  
- Marketing Director’s lack of success in identifying new customers  
- Discovery of a number of faults from recent production further eroding bargaining position with customers.  
- Substantial increase in stockholding and stock days tying up large amounts of cash. This increase in inventory is strange when sales are declining and clothing is made to customer specification against contract orders placed well in advance. Is Kadgee being made to hold finished stock by key customers or are there high levels of work-in-process as inefficiencies creep into the process cycle? Or worse, is Kadgee producing garments for speculative sales?  
- The Burnaks who own the controlling interest in Kadgee seem to have accepted a strategy of survival, and increased volumes but at eroding margins. Andrin Burnak, in his Chairman’s Statement at the end of March 2006, states that “…Kadgee has had another successful year…managed to retain all our customers…Kadgee is still trading profitably, which is a significant achievement…”.  
- The increasing dependency on renegotiated bank loans and extended credit arrangements with suppliers.  
- The need to sustain the investment in changing technology whilst maintaining the existing infrastructure. | Internal Stakeholder analysis  
- McKinsey 7S model of “hard” and “soft” components of management: strategy, structure, systems, staff, skills, style, shared values (culture)  
- Cima Topcima Study Guide 12 “Understanding the assessment matrix” section E on prioritisation.  
- Maslow and Herzberg on employee motivation | Functional strategies  
Concepts of:  
- CRM – Customer Relationship Management  
- CAP – Customer Account Profitability |
- Factory Operations: There has been a commitment to invest in and maintain sophisticated technology. However, the insecurity is harming the quality and efficiency of the operations.
- IT is used strategically throughout the value chain from design, through all production stages and customer relationship management to support TQM and remain competitive.
- Sales: The Sales Director has established excellent relationships with all customers but retaining customers and securing new sales contracts is a continuous challenge in the face of global competition and survival pricing by many local competitors. Kadgee is highly dependent on the sales Director.
- Marketing: The need for a marketing function at board level was recognised quite late but it has not yet progressed beyond marketing research.
- The board and management structure has all functions in place but does not have a change agent who will give Kadgee the ability to relocate operations and market its own brand.

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<th>How successful has Kadgee’s strategies been to date?</th>
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<tr>
<td>Whilst the strategies had created a successful company in the past:</td>
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<tr>
<td>- Established customer base with several contracts from 40 years back</td>
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<tr>
<td>- A reputation for quality and efficiency</td>
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<tr>
<td>- A positive staff-management culture</td>
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<tr>
<td>- Profitability</td>
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the dynamics of the new business environment have started to eroded all these strengths and every measure of performance (profitability; operating cycle; liquidity; gearing; and solvency; customer; staff; and operations) shows significant deterioration. Basic business valuations will reflect earnings values well below net asset values and the loss of the Forum contract will have dire consequences as the prospects of replacing it are slim.

Continuing with the current strategies of not establishing new manufacturing bases and not |

- Financial ratio analysis and interpretation of financial statements |
- Kaplan’s Balanced Scorecard of performance measures |
- Basic business valuations |
- Calculate the impact on the financial statements |
- Above strategic analysis |
moving forward in the supply chain, or alternatively becoming a narrow very high quality niche player, leaves one to suggest that liquidation may be the best option for Kadgee’s shareholders.

**Targeting the matrix**

An in-depth critical analysis of the pre-seen issues identified in the table above using the analytical tools indicated will generate a comprehensive SWOT analysis of Kadgee. According to Cima’s Topcima syllabus learning outcomes,” “Students will be required to go through the following stages to prepare for, and to answer, the requirement of the case, set within the TOPCIMA:

A - Preparatory to the TOPCIMA exam:
- analyse and identify the current position of the organisation;
- analyse and identify the relevant problems facing the organisation.

Note: Activities undertaken using published ‘pre-seen’ case study materials.”

Of course, at this point the focus is the pre-seen, and the syllabus learning outcomes go on to point out what is required in relation to the unseen on the exam day:

B - TOPCIMA exam:
- appraise possible feasible courses of action available;
- evaluate and then choose specific proposals;
- identify and evaluate priorities related to the proposals;
- recommend a course of action;
- prepare and present information in a format suitable for presentation to senior management.”

The unseen material (almost half the length of the pre-seen) is an extended scenario “as well as the questions……a continuation of the pre-seen material but will provide a new angle on the organisation described.” The assessment matrix is also provided. The syllabus is effectively getting you to apply the main steps of the rational strategic management process model – strategic analysis, strategic choice and implementation. It is important to understand that this will require you produce a SWOT (current position) of Kadgee at the point of the exam day. For the 10 marks allocated to “Prioritisation”, you are required to prepare a separate section in your main report, early on, which lifts the top 5 or 6 issues from the SWOT and places them in a priority order with a clear detailed explanation of why they have been ranked in that order. A critical analysis of the unseen supported by your familiarity of the pre-seen provides the basis for a broad, in-depth, evaluative discussion of the issues which underpins the ultimate recommendations and a basis for meeting all the other criteria in the assessment matrix. The question requirement is likely to remain similar to the last few sittings: “You are the … appointed by … . Prepare a report that prioritises and discusses the issues facing Kadgee and makes appropriate recommendations.”

The Kadgee case author who is also the current Topcima Case Writer and Examiner has asked tutors, amongst other things, to “tell students to list the new topics (in the unseen) and identify which are the really critical key issues and then to prioritise them (there is a need to discuss the reasoning behind why they have ranked the issues in a
particular order), discuss them and make justified recommendations on them – then they should pass!” Expect 9-12 issues (problems and proposals) to arise in the unseen. All of these should appear in your SWOT analysis and prioritise 5-6 of these.

**Ethics, the “dead cert”**

A separate 10 marks in the matrix which justifies a separate section in your report (say, just before the recommendations section):
- Identifying a range of ethical issues (dimensions and dilemmas)
- Explaining why each of these issues is an ethical issue
- Discussing (critical analysis and evaluation) each issue
- Making recommendations on how the ethical dilemmas can be overcome.

In my opinion, doing the above perfectly for two issues would score you a “Pass” (three issues for a “Clear Pass”) for this criterion and all of the above can be dealt with within one section of your report. It goes without saying that this is one knowledge topic you should study well. It is important to stress that **recommendations are essential**, beyond just discussing the ethical issues, to earn pass marks.

**Business Awareness**

“I understand small business growth, I was one.” (President George W. Bush quoted in the New York Daily News, 19th February, 2000)

The previous syllabus matrix had business awareness as a separate, distinct criterion. Although this is no longer the case, you are required to understand the industry setting including the key players. Using this awareness to discuss the main issues will score marks in specifically within the “diversity” criterion and will enhance the quality of discussion in relation to all the other criteria. **Business awareness will also prevent you from making unrealistic comments and will enhance the commercial and professional judgement that you display throughout the report.**

I found that doing a search entering key words in the search engine Google produced some very useful industry information. It is interesting to note what Richard Jones⁵ has to say about the background environment influencing the U.K. apparel industry which strikes a certain resonance for any Western European clothing manufacturer including Kadgee:

“The review of the evolution of the textile pipeline....has produced the following conclusions about the role of apparel manufacturing in advanced economies and about the circumstances within which future development must occur:
- The industry is not a dominant partner in a pipeline which has long been characterised by adversarial relationships.
- That the industry does not occupy a strategic role in the UK or any developed economy.
- That the structure of the industry is most uniquely unfavourable to profit generation.
• That the global shift has been inevitable given the labour-intensive nature of apparel production. There is global overproduction (my note: but this only applies at the low cost end of the market and is not relevant to the market segments that Kadgee targets).
• That the possibility of relocation of production back to the developed world is virtually nil.
• That import penetration has risen strongly over the last decade and continues to rise.
• That the UK industry appears to be entering a period of contraction which is significantly different from that experienced over the last 20 years.”

You should focus on the role of globalisation, trade barriers and emerging markets, particularly China and you will find details on the internet of many major clothing manufacturers, listed and other significant players, who supply high street retailers or their own branded outlets. Their published financial statements, website information and news releases will give you an insight into the problems and dynamics they face in their market.

The Crystal Ball - Potential problems and proposals in the unseen

It would be prudent to, amongst other things, be prepared to engage the following potential matters that could arise in the unseen material:
• The impact of the Forum contract not replaced by new contracts and other major customers threaten to cancel their contracts because of continuing quality and delivery performance problems or switching to suppliers abroad.
• Winning a major new large contract.
• The problem of cash, managing the cash position and related cash flow forecasting and working capital management.
• Loss of skilled employees and key top level managers.
• A strategic alliance with, for example, a low-cost high-quality manufacturer in China.
• Setting up a manufacturing plant in a low factor cost country – organically, or by acquisition or by strategic alliance.
• Related diversification, say direct retailing including developing a brand for Kadgee and e-commerce – organically, or by acquisition or by strategic alliance.
• Analysing plans, financial forecasts and budgets including cash flow.
• Advising on exit routes for key investors.
• An offer to acquire Kadgee.
• Withdrawal of overdraft facilities.
• New product and market development for different market segments.
• Becoming a high quality, design focused, narrow niche player.
• Evaluating and advising on changes in the composition of the board or top management structure and improvements in management.
• Evaluation and advice on ethical dilemmas in relation to, for example, longer working hours; unfair labour practices abroad; staff redundancies; board level governance; environmental, social responsibility and professional ethics issues.
• The threat of liquidation.
• Investment appraisal using DCF techniques; ratio analysis; basic valuations; and cost-volume-profit analysis.

**Strategic competencies plus practice plus technique equals confidence to pass**

The Examiner has advised tutors to “give students the confidence to come into the exam hall and to be able to adapt (or discard) ideas and pre-prepared material if it is no longer relevant”.

Between now and the exam, due diligence dictates that you should:

• Familiarise yourself thoroughly with all the Topcima Study Guides found at [www.cimaglobal.com](http://www.cimaglobal.com). These documents are comprehensive, simple and clear giving you extensive detailed guidance on all the key elements of Topcima discussed in this article and more (please refer to the Reference section below)

• Familiarise yourself with the Examiner’s past PEG (Post Exam Guidance) reports found at [www.cimaglobal.com](http://www.cimaglobal.com) which include the recommendation of working through 2 past cases to help you prepare.

• Familiarise yourself with the Kadgee pre-seen by analysis towards a SWOT and outcome as explained earlier in this article. This familiarisation should include the Kadgee matrix, researching the industry setting, analysing the numbers and summarising your information.

• Fill your gaps on strategic level technical knowledge, techniques, very basic industry research approach, and learn how to write and format reports (including prioritisation statements of key issues) in terms of the Topcima guides and generic report writing skills. Practice your technique (including planning and time management) and higher level skills by writing full answers within the prescribed time constraints on about three past cases and a minimum of three Kadgee “mock” unseen exams.

• Get a professional marker or a Topcima expert tutor to mark your practice reports and action the recommendations provided by the constructive feedback in relation to all the criteria of the matrix.

• Look out for relevant articles published by CIMA, student journals and magazines, the business press, professional journals and on tuition providers’ websites.

• Use the learning material published by the various tuition providers and CIMA.

Someone said that luck is the residue of due diligence – Good Luck!

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me her entrepreneurial insights and “gut instinct” from her knowledge of the “fashion rag trade”. If I have left out anyone, it may be deliberate – just teasing!

References

1 Wikipedia online encyclopaedia
3 CIMA Topcima Guide 12 “Understanding the Assessment Matrix” at www.cimaglobal.com
4 Topcima article by Adrian Sims, A Bridge Too Far, for the November 2005 Domusco case scenario at www.cimaglobal.com

Cima Student Support Guide S15 “Sitting the TOPCIMA Exam on Computer”.

Paper 10 – TOPCIMA Summary of Guidance notes following the first two TOPCIMA exams at www.cimaglobal.com

Advice to students from the Examiner was received at the last CIMA Lecturer’s Conference.