Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click Next to start the test.
This examination is structured as follows:

<table>
<thead>
<tr>
<th>Section number</th>
<th>Number of tasks</th>
<th>Time for section (minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>45</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>45</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>45</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>45</td>
</tr>
</tbody>
</table>

The time available for each section is for reading, planning and writing your answer(s).

This information will be available for you to access during the examination by clicking on the Pre-seen button.
David Guy calls you to a meeting.

"Thanks for coming. I know you are busy with the monthly management information but I'm under pressure from the board to look into funding. Roger told the board at last month's meeting that he would like to retire in three years' time and it's no secret that none of his family are interested in taking over the company. The business has shown significant growth recently and we'd like to capitalise on that, so we are looking at floating Grapple on the Zedland stock exchange. Not only does this give Roger an exit route but it will also provide some funds that will be used for some exciting new projects in the future.

We are confident that if we set a sensible price we will issue sufficient new shares to upgrade the pressing machines in the fruit juice production line leaving Z$30 million for other investment opportunities. The board is considering four projects. I have prepared a spreadsheet showing the amount needed for each, the estimated net present value based on our existing weighted average cost of capital (WACC) of 8% and the profitability index (Pi).

Unfortunately, the total investment is more than Z$30m and I think I should have used a revised figure for WACC but did not have time to do this. None of the projects are mutually exclusive.

Taking all of the above into account, I need you to do two things for me:

Firstly, assuming the flotation is successful, please explain, with reasons, how much of the total investment should be allocated to each of the projects. Also include any non-financial factors that we should consider.

Secondly, explain whether WACC would remain at 8% now that there are more shares in issue. I'm also wondering whether I should use the cost of equity rather than WACC to appraise this project now that we are funding it through a share issue. Please let me know what you think.

Thanks
David"

The spreadsheet referred to can be found by clicking on the Reference Material button above.
Projects:

1. Upgrading the bottling plant to include a new facility to use recycled Grapple bottles;
2. Implementation of integrated information system, including new big data management and analytics system for the marketing department;
3. Build a visitor and education centre; 'The Grapple Experience' to raise brand awareness; and
4. Introduce a 'Cycle to Work' scheme and build an onsite gym.

<table>
<thead>
<tr>
<th>Project number</th>
<th>Investment (Z$m)</th>
<th>Net present value (Z$m)</th>
<th>Profitability index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>21</td>
<td>5.6</td>
<td>0.27</td>
</tr>
<tr>
<td>2</td>
<td>14</td>
<td>3.0</td>
<td>0.21</td>
</tr>
<tr>
<td>3</td>
<td>12</td>
<td>3.0</td>
<td>0.25</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>(0.4)</td>
<td>(0.4)</td>
</tr>
</tbody>
</table>
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Thanks
David"

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Provide your response to David’s requests in the box below.
Some months later, the listing of Grapple is well under way. Although the final value available for investment is not yet fully known, it has been decided to go ahead with planning the integrated information system and big data project, with a great focus on the implementation of a new management and analytics system for the marketing department. This has been driven largely by Li Ying, who will act as the project manager for the project. You have received the following email:

From: Li Ying, Sales and Marketing Director  
To: Finance Manager  
Subject: big data

I am excited to project manage the proposed big data sub-project, within the larger information system project. As you know this will involve intense collection of data from many sources, including social media. Each time a Grapple product is scanned, either at a distribution centre, or at a retail outlet, we will receive the information accessible at the point of scanning. Every time a social media post mentions one of ours or our competitors' products, we will capture and store that information. This is just the tip of the iceberg. It is a huge, ongoing project which should bring great benefits.

I am familiar with the technology required for a big data system but have no experience in project management. Therefore, I need you to provide some guidance on the stages of this project and what I should consider during each of them.

I'm also aware that I am somewhat biased towards the project and may not fully consider the risks associated with big data. You will be aware of the new data protection initiative from the Government. Please write me a report that highlights the risks for Grapple associated with using big data, and suggests ways to mitigate those risks.

Li Ying  
Sales and Marketing Director
Reply to Li Ying’s email in the box below.

From: Financial Manager
To: Li Ying, Sales and Marketing Director
Subject: RE: big data
The proposed project is causing some excitement amongst the board, and the senior managers. One Monday, during the weekly planning meeting, it was a major topic of discussion and you were tasked with three key actions as a result. The relevant extract from the minutes is below:

<table>
<thead>
<tr>
<th>Discussion</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthew Jones, Production Director, stated that it was unfair for production managers to be assessed on profitability figures alone. He had heard of a balanced scorecard approach and thought this would be possible with enhanced data, available as a result of the project, and this would be of benefit to Grapple.</td>
<td>Finance Manager to provide a briefing paper on the Balanced Scorecard, including examples of suitable measures, and how it can improve upon traditional performance measurement in Grapple.</td>
</tr>
<tr>
<td>Li Ying, Sales and Marketing Director, stated that there are other issues with performance measurement on the whole, and a balanced scorecard is unlikely to resolve them. Currently there is no formal appraisal system; it has always been carried out as an informal, ad-hoc, process between managers and their teams, so a new performance measurement system will have little effect if there is no performance control system aligned with it. Yulia is currently working on another project and is not available.</td>
<td>Finance Manager to look into this and provide brief notes on developing an effective appraisal system for performance control.</td>
</tr>
<tr>
<td>David Guy, Finance Director, informed the meeting that he had been considering the idea of benchmarking, and felt that access to enhanced data could make that a possibility. He informed the meeting that he would send draft notes on competitive benchmarking, and how Grapple could benefit.</td>
<td>Finance Manager to draft notes on competitive benchmarking and the specific aspects of Grapple’s business that we can apply it to.</td>
</tr>
</tbody>
</table>
Provide your response to each of the actions in the box below.
The flotation of Grapple was a success and it is now listed on Zedland stock exchange with a buoyant trade in its shares. The board have decided to introduce a share option scheme to employees to reward loyal service. The proposed scheme will grant options to all employees after they have completed two years of continuous service with Grapple. The options allow them to acquire Grapple equity shares three years after the grant date for Z$1.50. The current market price of the shares is Z$1.75 and it is expected to rise in the future.

David Guy comes to your desk for a brief meeting.

"It's been a while since I studied IAS 33 Earning Per Share (EPS) and I am trying to finalise the management report for this month's board meeting. Grapple is now required to report its EPS on the face of the statement of profit or loss. I have attached some draft figures for this accounting period and last year. Roger Grapple is preparing his presentation for the Annual General Meeting (AGM) and would like a brief explanation as to what this ratio tells our shareholders about how we have performed this year. He is a little concerned about the effect the new employee share option scheme will have on the calculation and disclosure of the EPS. Please draft him some notes just in case the shareholders ask any awkward questions.

Secondly, whilst we're on that topic, we are going to have to communicate with our shareholders, as well as other external parties, now that we are listed. Therefore, I need you to draft some notes on who we will need to communicate with and the nature of our relationship with them, and I'd like some idea of how important it is to have good-quality data for those communications."

The Earnings per share figures referred to can be found by clicking on the Reference Material button above.
### Earnings per share

<table>
<thead>
<tr>
<th>Date</th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>22.5 cents</td>
<td>15.8 cents</td>
<td></td>
</tr>
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</table>
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Provide the responses requested by David in the box below.
Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.