

QUESTION BANK

SECTION A

STRATEGIC POSITION

A

1. SWOT Analysis - Moonshine Corporation

In order to understand the emergence of Moonshine Corporation's current IT strategy as well as the environment in which new systems are under development, it is necessary to look at Moonshine Corporation and its market-place to establish some cogent terms of reference.

The company was formed in 1930 as a City life assurance office. Throughout the years Moonshine Corporation established itself as an innovative provider of life assurance, pensions and investment products, primarily through independent financial advice to customers. By the 1980s, the market had been opened up to increased competition as the government of the day sought to increase the private sector provision of financial services and decrease the reliance on state benefits. Product innovation saw Moonshine Corporation dominate the small self-administered pensions market-place in the 1980s and gain huge successes in the investment market with the establishment of the first distribution fund - a medium to low risk, balanced, investment bond.

A number of challenges arose from the late 1980s, which saw new business growth levels difficult to maintain and business profitability steadily declining. As well as unstable stock market conditions in the 1990s, compared to huge growth throughout the 1980s, the industry was also beset with massive regulation. Moonshine Corporation was therefore in a position where it had to fight harder for a share of a shrinking marketplace, just to stand still. This could be achieved in terms of product innovation, but market research indicated that areas of contention within the industry were those concerned with servicing the customer (policy holder or independent financial adviser) accurately and with greater speed. The customer had become 'king' and was more assertive and selective.

Moonshine Corporation can therefore be seen to have been product focused and, while this encouraged innovative product design, the mechanisms were not in place to provide adequate customer support in a way that could be seen as competitive. It was apparent that Moonshine Corporation would have to adapt its organisational structure (re-engineer) if it were to remain competitive within challenging market conditions.

The Customer Review Requirement study (CRR) conducted in 2001 identified a requirement to move from line processing departments into customer servicing teams. Currently Moonshine Corporation's organisational processes and its IT infrastructure are product focused, rather than customer focused; this results in a very bureaucratic process when providing customer service. The conclusions of the CRR study recommend the following objectives: to develop a flatter organisation structure, whilst providing speedy, accurate customer support. Teams will be made up of case managers, each of whom would be responsible for processing a case through to its conclusion. Customers would have one point of contact with the organisation with which to develop a customer/insurer relationship. Staff will become multi-faceted or cross-functional. The cross-functional nature of CRR work-roles, as well as the resulting flatter organisation structure should encourage a move away from some of the current very bureaucratic processes and structures within the organisation.

CRR is seen as a radical development within the industry and is viewed as a vital part of a successful vision of customer oriented change. This move to a customer centred focus is widely viewed within the financial sector as imperative in terms of future requirements, thus all of Moonshine Corporation's major competitors are considering ways to meet this requirement.

This change in business requirement cannot be supported by Moonshine Corporation's existing information systems, and the technical infrastructure, which have been developed. Moonshine Corporation's product focused mainframe information systems environment originated in the early 1970s. It was updated throughout the late '80s and early '90s with the purchase of several IBM mainframes. During this period Moonshine Corporation was viewed as one of the leaders within the financial sector with regard to technological innovation and support systems. Currently the mainframe environment is robust. Many of its original legacy systems are still in place. The system serves the product but is unable to serve the customer support centres. Several product databases exist with separate architectures and are updated by independent overnight batch runs. A product database may support several million customers. An outline feasibility study concluded that a move to a successful CRR solution would require the design and development of a Common Interfacing System (CIS).

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Such a system would allow case managers to interrogate the product databases using customer identifiers, which would enable the managers to receive full information on customer details. The existing IT personnel could not undertake a project of this proportion.

The historical development reflected an environment where management was hardware oriented (move to an IBM mainframe) and the software development was facilitated fortuitously as the result of a new hardware platform. The development environment was not always in tune with the business that deployed it, and can therefore be seen to display a technological determinist character. All the current hardware and communications infrastructure maintenance is outsourced to a local vendor. Two engineers are permanently on site.

One consequence of the purchase of the IBM Mainframe in the mid 1980s was the introduction of IBM PCs into the user environment. Many within the 'user community' began to see benefits of using the stand-alone capacity of desktop PCs. Word processing and basic graphics packages enabled reports, memos and customer service letters to be presented in a more effective format. The use of stand-alone PCs in user departments had a twofold impact.

- (i) A considerable amount of data redundancy within the Moonshine Corporation. This situation emerged as departments were encouraged to be profit centres, responsible for their own budgets and in competition over output, turnover and bonus rates.
- (ii) In terms of the delivery of these applications to the user, i.e. the hardware and communications environment. As user locations' data requirements were expressed and expanded, access to localised databases and applications became an issue.

A number of locations were equipped with LANs on IBM Token Ring networks, which led to an expansion in the number of PCs as servicing areas went towards a workstation environment. This enables users to access the mainframe and use graphics/spreadsheet/word-processing applications, whilst interrogating shared local data, such as policy tracking systems and other MIS applications. These requirements meant that desktop machines required more memory, more disk space and better processing speed. Moonshine Corporation was therefore committed to reacting to these localised business requirements, as well as trying to achieve a corporate hardware and software policy.

This corporate reaction to the business channels in the provision of hardware and software can be seen as adopting an organisational choice perspective. This is because technology was being seen as a useful tool that could be manipulated to carry out business requirements. What was required was a vision of where the business was headed and what distributed systems and hardware could support this. In hindsight, senior management believe that the systems infrastructure should have been considered along with business applications requirements so that technology could have been future-proofed to some degree, instead of continually reacting to the business requirements, thus incurring costs.

An IT Strategy Study began in 2000 with the aims of providing sufficient data to support large scale technology developments, as well as setting up corporate criteria of requirements for any systems development for approval by General Management. This would therefore link strategic business objectives with strategic IT objectives. One important offshoot of the strategy study was in the way in which business and systems elements were to be united. In order to understand the way in which strategic systems were to fulfil business requirements, technologists were required to understand, at the highest level, cost benefit analysis and the markets that Moonshine Corporation were in or were moving towards. At the same time, General Management needed to understand the important transaction processes and data requirements in order to direct the annual budgeting of expenditure. This has been reflected in a corporate trend in systems development being controlled at top-level management, whilst IS managers take a more prominent role within the business.

In terms of the overall requirements for systems development, it was agreed that systems development must fulfil the following requirements. Firstly that system must be flexible in order to support a changing business environment. The second requirement identified was that there be an annual budgeting basis of expenditure. The study concluded that IT projects would therefore need to be kept small, with a maximum duration of two years and hitting specific business targets.

The IT Division is currently looking at devolving its roles and responsibilities into the business areas in order to provide closer service to the customer. One possibility is that the division is divided into business system centres within customer service and distribution areas. Within its remit is the possible development of customer call centres and the expansion of electronic data interchange. An important aspect is ensuring that the business process provides the best customer service in the most profitable way. The technology must therefore be flexible enough to support these objectives.

Currently a self-employed sales force services ninety per cent of customers. There is a current business plan that will enable the sales force to purchase, rent or hire a laptop computer from Moonshine Corporation. These laptops will enable the sales force to provide the customer with instant information concerning policy, investments etc. when they are considering purchasing any of the company's products. The initial project suggests the latest product information will be downloaded periodically on to the laptops. On a daily basis new customer information, details, and amendments will be uploaded on to the company's mainframe from the sales personnel.

Required:

- (a) Construct a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis of Moonshine Corporation's position with regard to the Customer Review Requirement (CRR) study. (8 marks)
- (b) With reference to the CRR study, why is a SWOT analysis useful in developing an IS strategy in conjunction with a business strategy? (10 marks)
- (c) Explain the problems that Moonshine Corporation might face while conducting a SWOT analysis with regard to the CRR study? (7 marks)

(25 marks)

(Adapted from Paper 3.4 December 2002)

2. Benchmarking – McGeorge Holdings Plc

McGeorge Holdings plc is a large, international consumer goods company specialising in household cleaning products and toiletries. It has many manufacturing and sales facilities throughout the world. Over several years it has offered an increasingly wide range of products appealing to differing market segments based on both socio-demographic and geographic criteria. However this product spread has not only resulted in increased sales volume but production, marketing and distribution costs have also increased disproportionately. McGeorge's costs are now about 20% higher than those of its nearest competitors. In such a competitive market it is difficult to pass on these extra costs to the customer.

In order to regain a competitive position, Adrian Reed, the Managing Director of McGeorge Holdings, has been advised to reduce the range of products and the product lines. Advisors have suggested that a cut back in the product mix by about 20% could increase profits by at least 40%. Reed is keen to implement such a product divestment strategy but he fears that this cutting back could alienate customers. He needs to know which products need to be removed and which products are important to the survival of the company. He is unhappy about the overall performance of his company's activities. Benchmarking has been recommended as a method of assessing how his company's performance compares with that of his competitors.

Required:

- (a) Using the product life cycle model, discuss how Adrian Reed might select the products to be removed from the portfolio as part of his product divestment strategy. (6 marks)
- (b) Explain how benchmarking can be carried out and discuss its limitations. (15 marks)
- (c) Describe competitive benchmarking. How can Reed apply it? (4 marks)

(25 marks)

(Adapted from Paper 3.5 June 2003)

3. Distribution channel – Helen's cake

Helen Bradshaw, a recent graduate with a degree in catering management, has spotted a market opportunity during her first job with a large supermarket chain. She knows there is a growing market for distinctive, quality cakes in the bakery sections of the supermarket chains, as well as in supplying independent individual premium cake shops, and also for catering wholesalers supplying restaurants and hotels.

Helen is very determined to set up her own business under the brand name of 'Helen's cakes', and has bought some equipment - industrial food mixers, ovens, cake moulds - and also rented a small industrial unit to make the cakes. Helen has created three sets of recipes - one for the premium cake shop market, one for the supermarkets and one for the catering wholesalers but is uncertain which market to enter first.

Each channel of distribution offers a different set of challenges. The premium cake shop market consists of a large number of independent cake shops spread through the region, each looking for daily deliveries, a wide product range and low volumes. The supermarkets are demanding good quality, competitive prices and early development of a product range under their own brand name. The catering wholesalers require large volumes, medium quality and low prices.

Helen has learnt that you are a consultant specialising in start-up enterprises and is looking to you for advice.

Required:

(a) Acting as a consultant, prepare a short report for Helen advising her on the advantages and disadvantages each channel offers and the implications for a successful start-up.

(15 marks)

(b) How might the marketing mix vary between the three channels Helen is considering using?

(10 marks)

(25 marks)

(Adapted from Paper 3.5 June 2005)

4. Business process re-engineering and supply chain - ABC

ABC has a chain of twenty supermarkets. When stock items reach their re-order level in a supermarket, the in-store computerised inventory system informs the stock clerk. The clerk then raises a daily request to the ABC central warehouse for the replenishment of stocks via fax or e-mail. If the local warehouse has available stock, it is forwarded to the supermarket within twenty-four hours of receiving the request. If the local warehouse cannot replenish the stock from its inventory holding then it raises a purchase order to one of its suppliers. The supplier delivers the stock to the warehouse and the warehouse then delivers the required stock to the supermarkets within the area. The ABC area warehouse staff conducts all business communication with suppliers.

ABC recently contracted an IT consultant to analyse and make recommendations concerning its current supply chain, briefly described above. Following the initial investigation, the consultant reported on this.

To enable an established traditional company like ABC to develop a Virtual Supply Chain system, it may be necessary to employ a Business Process Re-engineering (BPR) approach.

Required:

(a) Discuss the possible improvements to the current ordering process followed by ABC. Use the business process flow chart shown below. You are not required to draw the new suggested chart.

(10 marks)

(b) Discuss the main components of the value chain in the case of a supermarket such as ABC. Discuss the impact of the Internet on Porter's value chain. Also discuss in general terms how the five forces model can enable an organisation to develop an information systems strategy that will enable the organisation to gain a competitive advantage.

(15 marks)