

Copyright Reserved



**KC5 – CORPORATE STRTEGY AND CONTEMPORARY ISSUES –
AUGUST 2016**

Assignment

Impact of exchange rate on import of passenger vehicles - Testing for relative importance

Prosperous Finance PLC (PFP) incorporated in 2008 is a finance company registered under the Companies Act No. 07 of 2007. It is listed on the Colombo Stock Exchange and regulated by the Central Bank of Sri Lanka (CBSL). Commonly referred to as being in the category of 'Licensed Finance Companies' (LFCs) the company currently operates five regional branches in addition to conducting business at its headquarters based in Negombo.

Lesly is a well-known importer of secondhand motor vehicles from Japan, marketing under the trade name 'Trouble-free Automobiles' (TA). An astute businessman with an obsession for growth, working closely with customers, Lesly was quite aware that finance was the major limiting factor for TA's growth. This was because most customers often found finance to be a constraint in making a purchase. Lesly was also becoming increasingly convinced that the corporate mission of TA needs to be expanded to include finance as a part of the company's marketing-mix. As a result he did not have any hesitation in purchasing a controlling interest of PFP in April 2016 when that opportunity was presented to him by a financial consultant. One of the major reasons that Lesly was willing to pay a heavy acquisition premium for the purchase was that the current composition of PFP's product portfolio mostly concentrated on the leasing and hire-purchase of a wide range of registered and new automobiles, and seemed to have avoided the financing of other types of vehicles such as busses, tractors etc. that usually form the product range of LFCs.

Following the acquisition by Lesly, PFP will continue to heavily rely on their current product lines as the preferred financial products due to them being closely associated with the traditional core-competencies of Lesly and his close-knit team having intimate knowledge of motor vehicles. Three-wheelers, another popular asset category heavily financed by the LFC industry, are unlikely to be a preferred financing option for PFP.

A renowned management consultant assisting PFP in formulating a realistic strategic plan feels that the income projections of the company will have to be based on a market segmentation of applicable segments such as new, registered secondhand (used/reconditioned) and imported secondhand automobiles.

Assume you are Asela, the management accountant appointed as the coordinator and analyst assisting the strategic planning steering committee of PFP, preparing their strategic plan from 1 October 2016.

Required:

Prepare a report to the steering committee including the following;

- (a) Carry out necessary studies and present your findings that will help with the understanding of the impact of 'exchange rates' on the demand for imported used/reconditioned vehicles in the non-luxury segment in Sri Lanka.
- (b) Assess the relative importance of exchange rate, amongst any other major drivers of demand that you may consider important.

(Hint: Select a vehicle of a popular model from the applicable market segment. Ascertain the market behaviour of this model and test for their correlation with the exchange rate, for a period spanning a reasonable time line in order to depict the current trend. Additionally perform a multiple regression analysis using 'Excel' or any other econometric package to ascertain the impact of other major influences, making any reasonable assumptions that you may consider relevant.)

(Total: 20 marks)

Assignment marking scheme:

	Criteria	Marks (%)
(a)	Understanding the issue	10
(b)	Illustration of the issue with applicable facts	20
(c)	Analysis of the issue	30
(d)	Use of relevant technical knowledge	15
(e)	Limitations of the study	5
(f)	Conclusion	10
(g)	Overall presentation	10