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**KC5 – CORPORATE STRATEGY AND CONTEMPORARY ISSUES –  
FEBRUARY 2017**

***A*ssignment**

## **Impact of Global Developments to a Sri Lankan Corporate**

ABC Holdings PLC (ABC) is a diversified group with business interests in apparel, tyre, construction, trading and agriculture. The Group has grown steadily over the years and is one of the leading listed conglomerates in the country. Each of the above business segments are organised as separate Strategic Business Units (SBUs).

ABC has its roots in export-oriented apparel manufacturing with humble beginnings in the early 1980s. They commenced operations following the economic liberalisation in 1977. Today ABC is one of the largest players in apparel as well as tyre manufacturing in Sri Lanka. The contribution of each SBU to the overall Group business in terms of revenue for the financial year 2015/16 is given below.

<b>SBU</b>	<b>Contribution</b>
Apparel	40%
Tyre	25%
Construction	20%
Trading	10%
Agriculture	5%

### **Apparel SBU**

The apparel business of ABC has been thriving with the support of Mexican based joint venture partner, Sara John Limited (SJL). SJL is a mid-sized group with a strong retail distribution network in the US and Mexico. SJL has a range of well-established mid-market brands in North America. ABC has an exclusive arrangement with SJL where all exports to North America must be sold under SJL brands until 2021. North America accounts for nearly 60% of the apparel sales of ABC Group, of which 70% accounts for sales to the USA. Mexico acts as the hub for all exports to North America using the retail network of SJL. SJL has a dedicated central warehouse in Northern Mexico from where it delivers goods to all destinations in Mexico, the US and Canada. SJL sources products from several Asian manufacturers based in Sri Lanka, Bangladesh and Vietnam. ABC is the largest supplier to SJL accounting for nearly 30% of SJL's sourcing.

In early 2016, the apparel SBU came up with a new five-year business plan, whereby the SBU intends to further increase its presence in the US market taking advantage of the growing retail network of SJL there. According to the said business plan, the US will be the key export destination for apparel produced by the ABC Group thereby further consolidating its position in the US market. Accordingly, the board of directors approved an investment of USD 50 million to be made over the next 3 years commencing from 2017 in order to increase the manufacturing capacity mainly targeting the US market.

### **Tyre SBU**

The tyre business of the Group involves the manufacture of new pneumatic off-the-road tyres exclusively for the export market. The tyre SBU set up the manufacturing facility in 1991 as a joint venture with a European partner who brings in technical expertise. Backed by the European partner's strong research and development capabilities and

modern manufacturing techniques, the tyre business grew rapidly and the SBU established itself as a high quality, reliable supplier in the global market. The tyre SBU successfully penetrated the US market, which accounts for nearly 50% of sales, while the remaining sales are scattered across European and Asian countries.

### **Other SBUs**

The Group's wholly owned construction SBU engages in a variety of construction projects including the construction of buildings, roads and sanitation projects. This SBU also develops and sells real estate projects, mainly residential housing schemes.

The trading SBU of the Group mainly imports fast moving consumer goods from the EU and distributes them among local retailers. The agriculture SBU is a new addition to the group and is into farming of organic products. They are sold through the same channels as the imported consumer goods.

### **New business**

In April 2016, ABC negotiated a deal, with a leading New York headquartered global financial institution to outsource its finance function to a Business Process Outsourcing (BPO) unit which is to be set up in Colombo. The proposed BPO involves an investment of USD 4 million and would create over 500 employment opportunities for accounting professionals in the country. The detailed feasibility of this project indicates an attractive Internal Rate of Return (IRR) of 24%. The board is very enthusiastic about this project as it involves diversification into the human capital based service sector.

### **External global developments**

Two recent developments in the US have caught the attention of the board of directors and the senior management of ABC as they are likely to have a significant business impact.

1. Protectionist policies to be introduced by the new US president who assumed duties on 20 January 2017.
2. Imposition of countervailing duties from the US on imports of new pneumatic off-the-road tyres as per the final determination made by the US Department of Commerce on 4 January 2017. (The tyre exports of ABC to the US come under this category)

Against this backdrop, the board of ABC discussed at the last board meeting, the importance of assessing the implications of protectionist policies and the countervailing duties imposed by the US. The board is very concerned about the prospects of the Group given the heavy reliance on the US market by their key SBUs, the Mexican based distribution model of the apparel business and the new BPO venture. The board has now decided to suspend the proposed investment plans of USD 50 million and USD 4 million in the apparel SBU and new BPO venture respectively until the implications are properly assessed.

**Required:**

Assume you are the Group Chief Financial Officer (CFO) of ABC. The chairman has instructed you to **prepare** a comprehensive report on the implications of the new developments in the US and present it at the next board meeting.

Your report should highlight the following.

- (i) Impact on the Sri Lankan economy in general
- (ii) Impact on the Group's business activities
- (iii) Countermeasures that can be proposed at national level to the government via trade chambers in order to minimise the impact
- (iv) Corporate strategies to minimise the adverse impacts and any changes to the present business model of ABC

**Assessment criteria and marking scheme**

	Assessment criteria	Marks (%)
1	Understanding the issue	10
2	Analysing the issue with applicable macro and industry data and information	20
3	Application of technical knowledge	10
4	Strategies to counter the implications at national level and corporate level	40
5	Conclusion	10
6	Overall presentation	10