

LEARNING UNIT 2: STRATEGY IMPLEMENTATION AND BUSINESS MODELS 1

Activities	Notional study hours
Prescribed reading	Chapters: 2 (19 minutes)
Learning unit content	42 minutes
Activities	Activities: 5 (5 hours and 26 minutes)
Total	6 hours and 27 minutes

This learning unit deals with the following topics: implementing strategy and building blocks of a business model as illustrated in figure 2.1.

Learning unit 1, “Strategic analysis and the strategy development process”, deals with the following topics:

- The strategy development process
- External and internal influences on an organisation’s strategy

Learning unit 2, “Business strategy and business models 1”, deals with the following topics:

- **Strategic analysis**
- **The building blocks of a business model**

Learning unit 3, “Business strategy and business models 2”, deals with the following topics:

- IT and data strategy
- Disruptive business models

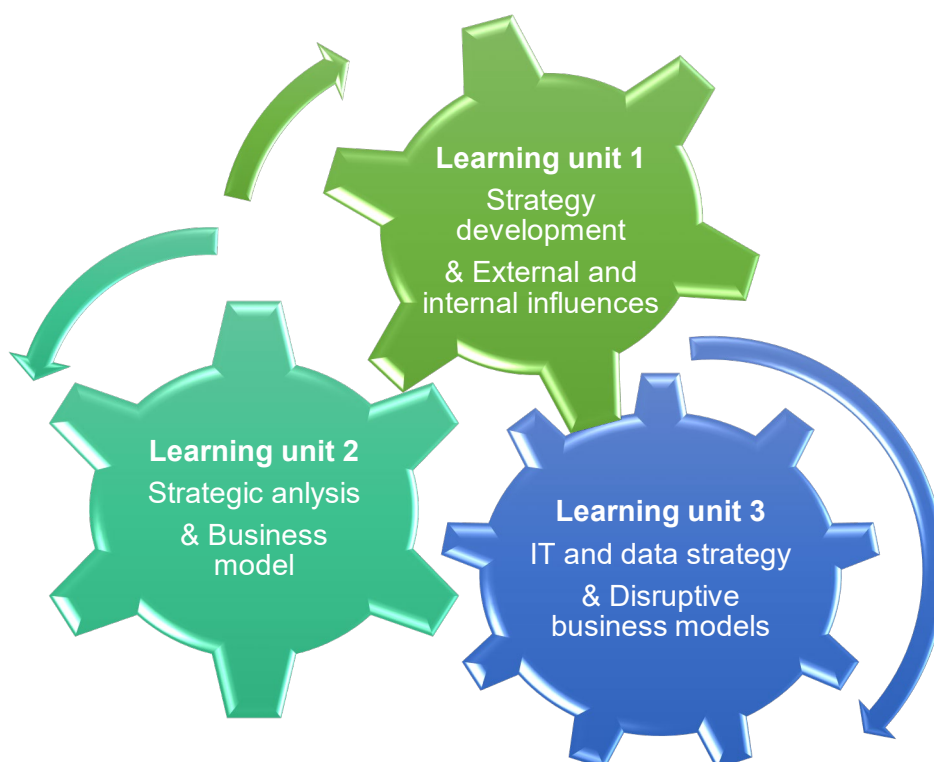


Figure 2.1: Strategy topic with Learning units



LEARNING OUTCOMES AND ASSESSMENT CRITERIA

Learning unit 2 is based on the following learning outcome and assessment criteria:

LEARNING OUTCOMES	ASSESSMENT CRITERIA	COMPETENCY AREA / LEVEL:
Evaluate the enterprise's strategic development plan in terms of its overall objective.	Discuss and critically review the strategic alignment of the financial function:	A2.3. Strategic Analysis
	Review context relevant models to appraise the organisation's capabilities to achieve the business strategy and purpose (A2.3a)	3
	Identify and evaluate significant business risks, strengths, weaknesses, opportunities and threats associated with the organisation's external and internal environments (A2.3b)	3
	Analyse the organisation's competitive environment by applying strategic analysis tools to identified external and internal factors (A2.3c)	2
	Assess the risk tolerance of the entity's stakeholders and its balance with opportunity (A2.3d)	2
	Identify priorities and actions either to mitigate critical risks or capitalise on opportunities (A2.3e)	2
	Formulate insights into the impact of future opportunities and risks (A2.3f)	2
	The ability to recognise the need for change and overseeing and facilitating change to ensure successful implementation which aligns with entity's strategic intent:	A3.3 Change management process
	Identify why and when change management is needed. (A3.3a)	1
	Identify internal and external triggers for change, e.g., changes in management, company reorganisation/restructuring, adoption of new technologies/systems, political, environmental, social, technological, economic and legal factors etc. (A3.3b)	1
	Understand the impact of change on the business's strategy, other strategic plans, business plans and functional plans. (A3.3c)	1
	Understand the impact of change on business processes, the performance of the business, divisions, teams/groups and individuals. (A3.3d)	1
	Recognise the challenges to implementing successful change initiatives. (A3.3e)	1
	Comment on the suitability of the business model of an entity in terms of the model's alignment with the entity's vision, mission, values, mandate and overall objective and the financial function:	A3.1 Building blocks of the business model
	Assess the business model of the organisation in terms of its key building blocks (A.3.1a)	2
	Consider and apply different perspectives to evaluate the organisation's business model (e.g., risk, innovation, investment, etc.) (A3.1b)	2
	Assess the organisation's business model as a vehicle for the implementation of its business strategy (A3.1c)	2
	Assess the organisation's business model as a vehicle for long-term value creation for stakeholders (A3.1d)	2

The **strategic analysis** forms part of SAICA’s technical competency framework: A2.3 Strategic analysis and A3.3 Change management process; and **the building blocks of a business model** forms part of SAICA’s technical competency framework: A3.1 Building blocks of the business model which are on the following competency levels:

- SAICA technical competency **level 1** refers to Foundational level of competence. At this level you will be expected to i) Identify and explain the significance and relevance of the subject matter and recognise the linkages with other subject matter(s) and ii) Recognise issues when encountered and seek further depth / guidance.
- SAICA technical competency **level 2** refers to Intermediate level of competence. At this level you will be expected to: (i) Apply the knowledge to non-complex routine situations; (ii) Identify and utilise the relevant knowledge within and across competency area(s) in a limited manner and (iii) Prepare or analyse solutions for specified problems and applying limited judgement.
- SAICA technical competency **level 3** refers to Advanced level of competence. At this level you will be expected to: (i) Apply the knowledge to complex routine situations; (ii) Evaluate and synthesise the knowledge within and across competency areas (Integrative thinking is required); and (iii) Evaluate or formulate solutions for specified and implicit problems – applying a high degree of rigour, and/or exercise sound judgement in making recommendations.
- Based on SAICA’s latest competency framework



2.1 ASSUMED PRIOR LEARNING

The first part of the assumed prior knowledge for learning units 1, 2 and 3 can be found in chapter 1, “The meaning of financial management” (see *Managerial Finance*, 10th edition), which introduces financial management and contains several key concepts is predominantly covered under the assumed prior learning of learning unit 1.

The second part of the assumed prior knowledge for these strategy-related learning units can be found in chapter 2, “Strategy and business models” (see *Managerial Finance*, 10th edition) of which majority of topics were covered in learning unit 1. For this learning unit’s assumed prior learning outcomes the following outcomes are pertinent:

Learning outcomes assumed to have been attained during prior learning Before you study this topic, you should be able to	<i>Managerial Finance</i> (10th edition), chapter 2
1. assess the business model of an organisation and ensure it is aligned with the organisation’s strategy	2.8.1 Aligning the business model with the strategy
2. describe and evaluate leadership and management approaches for effective change and performance management	2.9 Change management 2.9.1 Change is a constant 2.9.2 Management roles 2.9.3 Key concepts in management



2.2 PRESCRIBED READING FOR THIS LEARNING UNIT

After you have refreshed the knowledge you attained during prior learning, read the following sections of the prescribed textbook (*Managerial Finance*, 10th edition) in the outlined order:

Chapters	Sections	Estimated time
Chapter 1	1.3 Business model or value-creation model of an entity	6 minutes
Chapter 2	2.8.4 Implementing a strategy 2.9.4 Managing change	3 minutes 10 minutes



2.3 INTRODUCTION

Before implementing a strategy they should ensure that the organisation’s chosen strategy (phase two) is **suitable, viable** and **feasible** within its internal and external environments, as well as **acceptable** for its key stakeholders and sustainable in the long-term. As an organisation’s business model is derived from its strategy it is important to ensure that the business model is aligned with the implemented strategy (phase three). An organisation’s business model should be flexible to changes within a continuously evolving information technology (IT) environment and adaptable to the impact of disruptive business models that will be studied in learning unit 3.

In learning unit 2 you will learn about the importance of **strategy analysis** and aligning the strategy of an organisation with its **business model** and objectives. It is important to ensure that you are familiar with all the concepts illustrated in figure 2.2 as these concepts were addressed in your prior learning, otherwise you will need to first revisit your prior learning (see Topic Strategy).



The building blocks of strategy implementation and a business model can be linked to enabling competencies, particularly competencies that have to do with **business acumen** and **decision-making acumen**.

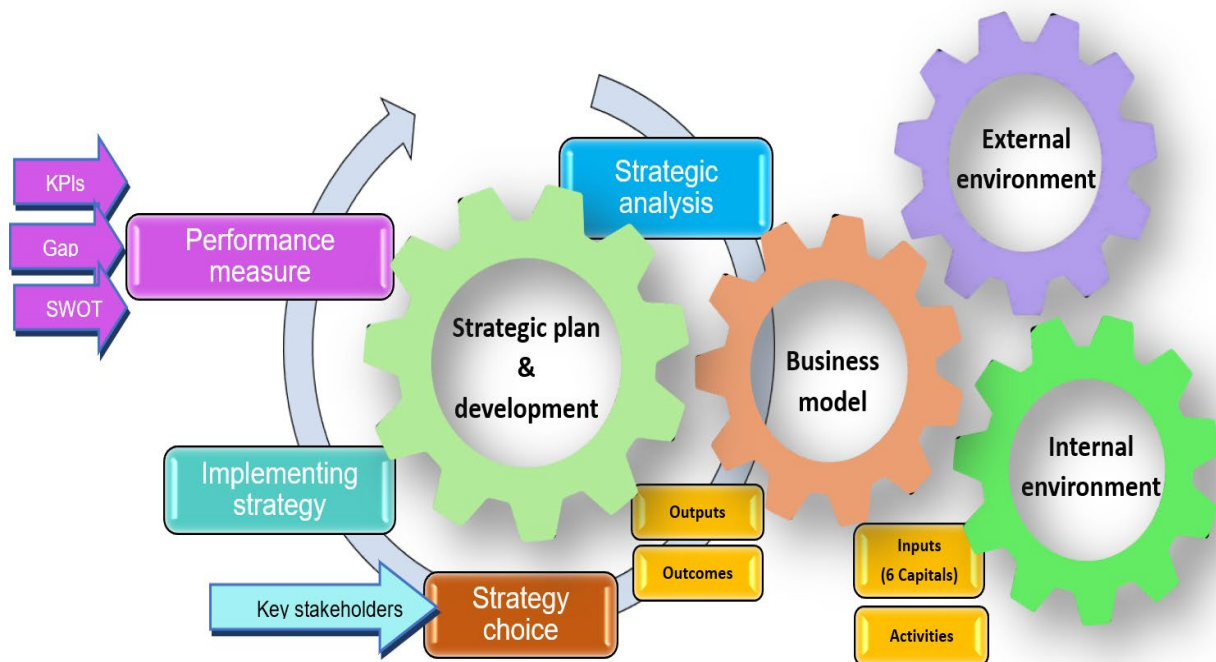


Figure 2.2: Implementing a strategy within a business model, Skae 2024 (used with permission)

2.3.1 STRATEGY IMPLEMENTATION

In learning unit 1 you learnt how to formulate and decided upon the best strategy for an organisation (phase two). Phase three of the deliberate or rational strategic approach will now focus on the implementation of the chosen strategy. Organisations use structures, systems and processes to allocate and manage resources with the aim of turning strategies and plans into actions and tasks and executing those actions and tasks to achieve their strategic objectives.

Implementing a strategy involves turning a **strategic plan** into action. A strategy implementation plan includes several steps, including the following:

- Setting and defining SMART (specific, measurable, achievable, relevant and time-bound) objectives that align with the organisation’s vision and mission and that are incorporated within its key performance indicators (KPIs).
- Engaging with personnel (staff) by keeping them accountable and responsible through the KPIs.
- Allocating resources, such as finances and team capacity.
- Continuously monitoring progress.
- Adapting the organisation’s strategy and goals, if needed.
- Reflecting on and evaluating the success of the strategy implementation and learning from it.

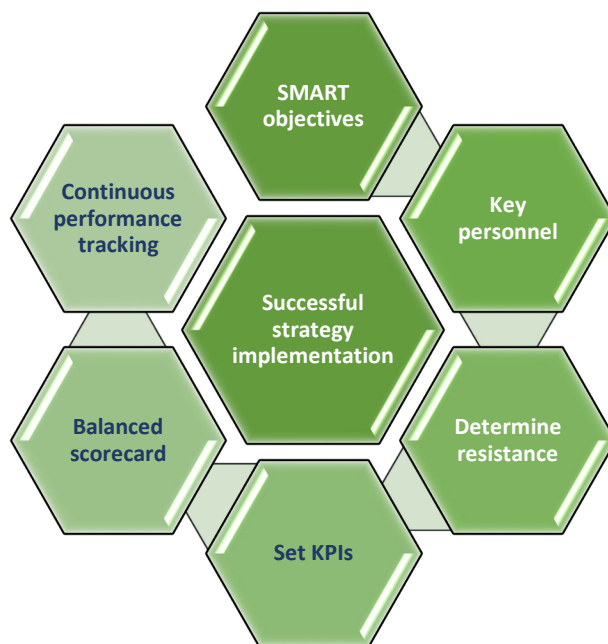


Figure 2.3: Successful strategy implementation

(Sources: Skae 2024; Venkatarama 2023)

It should be determined if change management processes are needed to ensure that staff embrace the strategy, especially if there is resistance from staff.

After a strategy has been implemented, it is vital to regularly assess the success of the chosen strategic plan on the basis of performance measures and KPIs. In learning unit 4 you will learn about the importance of aligning an organisation’s KPIs with its strategy since performance is analysed and assessed on the basis of KPI achievement as reported. These KPIs could be used to measure and motivate performance (see chapter 2, section 2.2.3.7, “Key performance indicators” of *Managerial Finance*, 10th edition). An organisation should continuously monitor and evaluate its strategy and implement the necessary changes (Venkataraman 2023).

The following decisions form part of decision-making and strategy implementation:

- Financing decisions
- Investing decisions
- Budgeting decisions
- Management decisions

In the past, the primary goal of most businesses was related to the maximisation of shareholder wealth. This was often linked to an increase in key financial measures, such as profitability, cash flow and market share. These measures are often driven by sales, operating costs and financing costs, further emphasising the importance placed on financial indicators. In recent years, these traditional measures of business success have been questioned and in many instances criticised for, among other things, being short-term and making provision for the needs of shareholders only and not all stakeholders. Consequently, there has been a shift in the manner in which the success of a business is assessed, in that emphasis is placed on **value creation for all key stakeholders**.

2.3.2 THE BUSINESS MODEL

The mechanism that entities can use to meet their objective of creating value is a business model. A **business model** is defined as an organisation's system of transforming inputs, through its business activities, into outputs and outcomes that are aimed at fulfilling the organisation's strategic purpose and creating value over the short, medium and long term (IIRC 2021). Based on this definition, an entity's business model should include the **six capitals** in the form of inputs, namely, financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital. An entity's business activities will then transform **inputs** into **outputs** and **outcomes** in a process through which **value is created, preserved or eroded**. Taking cognisance that value is created through an organisations business model, it is vital to note that value creation is dependant on organisations' internal and external environments, key stakeholders and the successful utilisation of its resources (six capitals).

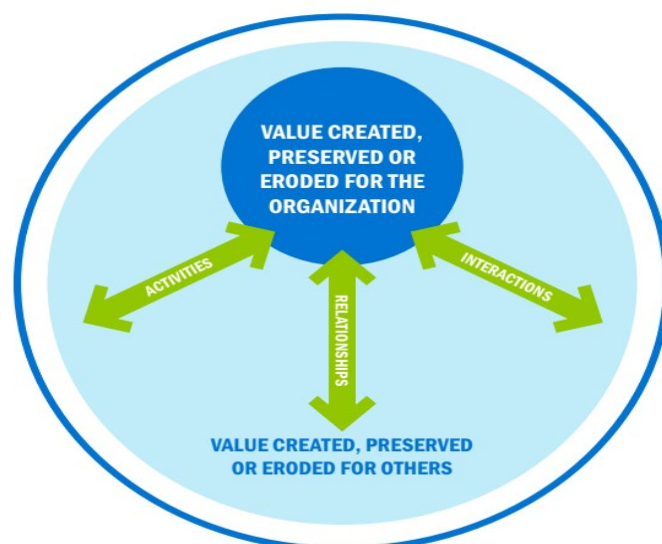


Figure 2.4: Value created, preserved or eroded for the organisation and for others

(Source: IFRS Foundation 2021:16)

The interconnectivity between the six capitals and an entity's activities and their influence on one another are continuous. Consideration of these six capitals and their connectivity allows for **integrated thinking**, a concept that is emphasised in the King IV report and by the International Integrated Reporting Council (IIRC). Refer to figure 2.4 below, which depicts the process through which value is created, preserved or eroded by an organisation.

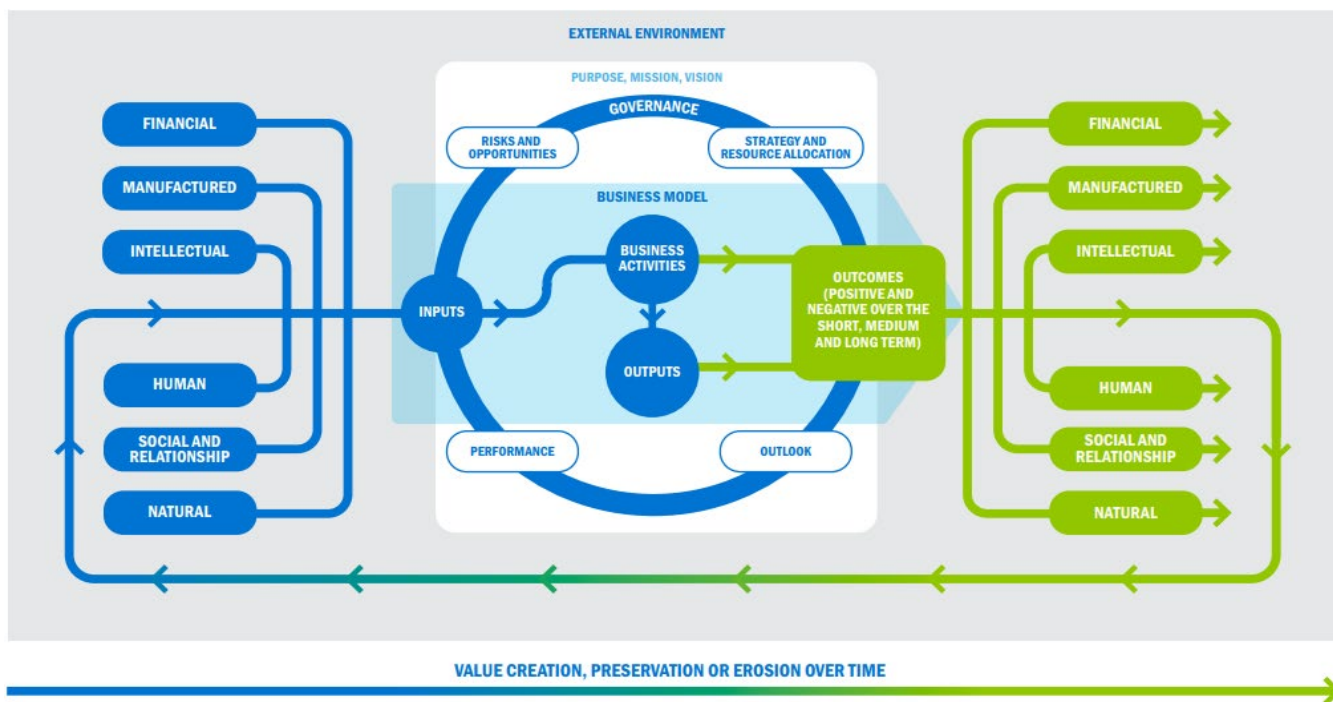


Figure 2.5: The value creation process, with the six capitals as inputs and outputs
 (Source: IFRS Foundation 2021)

Integrated thinking is defined as the active consideration by an organisation of the relationships between its various operational and functional units and the capitals that the organisation uses or effects (IIRC 2013:2). Furthermore, integrated thinking is one of the enabling competencies in the SAICA framework. Note the similarities between figure 2.5 above and figure 2.6 below. The latter is taken from SAICA's CA2025 competency framework. Both figures depict an organisation's value creation system, that is, its system of transforming **inputs** (the six capitals), through its business activities, into **outputs** and outcomes and show that a business model is at the heart of the CA2025 competency framework.

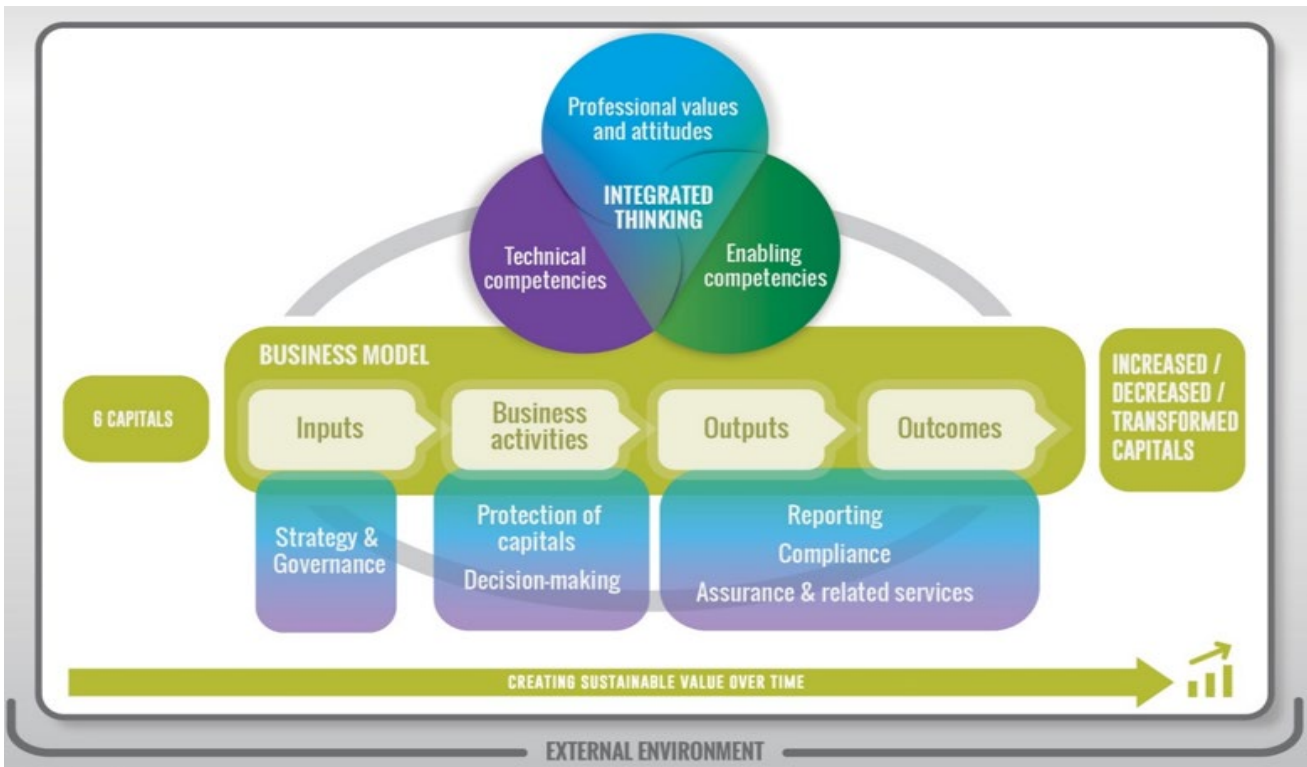


Figure 2.6: An organisation's value creation process (Source: SAICA 2023a:42)

An organisation's **business model** should be derived from its strategy and should create, deliver and capture value through these **nine building blocks** (see section 2.8.3 of *Managerial Finance*, 10th edition):

1. Customer segments
2. Value propositions
3. Channels (ways to connect, distribute and sell)
4. Customer relationships
5. Revenue streams
6. Key resources
7. Key activities
8. Key partnerships
9. Cost structure

(Osterwalder and Pigneur 2010)



ADDITIONAL READING

To gain more insight into the nine building blocks of a business model by Osterwalder and Pigneur (2010), you can refer to this pocketbook4you: [Nine building blocks of a business model](#).

2.4 ACTIVITIES

After you have studied the above sections, revised your prior learning and read the prescribed material, you should complete the following activities:

Business model and strategy change



Activity 2.1: Kidzo (extracted and adapted)

(Source: SAICA 2023b)

Activity: Kidzo	Estimated time			
	Reading	Writing	Marking and review	Total
27 marks	24 minutes	40,5 minutes	18,5 minutes	1 hour 23 minutes



Below is an extract of the Kidzo scenario and question. The full version contains integration between subject fields such as management accounting (including topics covered in later learning units), financial accounting and taxation. This activity develops integrated thinking, analytical/critical thinking and integrative thinking. You can access an online copy of the full version of Kidzo here: [Kidzo \(SAICA 2023b\)](#).

Background

Kidzo (Pty) Ltd ('Kidzo') is a South African retailer of babies' and children's clothing. The company was founded in 1993 by Ms Jessica James CA(SA) and has a 31 December financial year end. Jessica attributes her success to basing her **business model** on three foundational pillars, namely, **education, care and sustainability**. These values form the cornerstone of the company's business **strategy** during its continued expansion in the local retail market.

For the last five years, the company has imported most of its manufactured clothing from XingXing, a company based in China. XingXing manufactures babies' and children's clothing for export and, due to lower manufacturing costs, has provided Kidzo with a pricing advantage. This cost advantage has, however, decreased in recent years because of the deterioration of the South African exchange rate relative to international currencies.

The trading environment has been particularly difficult in the last few years due to the entry of numerous competitors, and consumers who have become more price conscious as a result of the poor economic growth being experienced in South Africa. Growth in government debt levels over the past decade, driven by multiple factors that include the poor performance of the economy, has resulted in credit rating downgrades by international credit rating agencies, and higher taxes have further eroded consumers' disposable income. Kidzo's performance has also been impacted by frequent electricity load-shedding. Furthermore, the company has also seen significant economic and social disruption caused by a global public health pandemic, worsening the situation. The company has continued trading, but at lower sales levels, resulting in a deterioration of operating margins.

Despite the ongoing macro-economic challenges, sales of exclusive clothing lines similar to those of Kidzo have been more resilient due to their brand exclusivity, high fashion, quality, use of natural fibres and innovative designs. These lines have not been affected as severely as the lower-cost lines by either declining demand or pricing pressures.

Kidzo has a strong commitment to environmental neutrality, with a focus on reducing its carbon footprint to a carbon neutral status. Initiatives to achieve this included the requirements that XingXing should use only natural fibres that are manufactured by hand, coupled with a commitment

to not use child labour. Since XingXing was the only Chinese manufacturer willing to comply with these requirements, it insisted on an exclusive supplier agreement with guaranteed volumes, with only the price being subject to fluctuation.

Manufacturing

The imported clothing comprises basic garments that exclude the Kidzo branding, embroidered designs, buttons and labels. The company has a factory in Vereeniging that obtains the materials from local suppliers for detailing (which consists of adding small decorative features on a garment) and has a workforce that further customises the clothing. This includes adding custom details that may be requested by customers, such as incorporating family names into clothing designs. Customers pay separately for these custom details when they place such orders. Supplies for any personalisation items are hand-picked by Kidzo from responsible, sustainable sources.

The company strongly believes in local job creation and strives for a culture of engagement with all its employees.

Current environment

The company finds itself under extreme financial pressure, with difficult choices that need to be made, which include potential staff lay-offs, rationalisation of the cost base and an evaluation of the ability to continue as a going concern. The board therefore decided to undertake a strategic review of the business.

In most categories, the company has, in the last year, been forced by market pressures and slow sales to discount its clothing prices and to use markdowns to move stock. Input cost pressures have soared due to power outages that have disrupted both the manufacturing and retail aspects of the business, and the exchange rate has weakened further. In addition, transportation costs have risen, and the stores had to close completely during specified periods in line with the public health lockdown measures (implemented by the national and provincial governments) introduced at the onset of the pandemic.

The lockdown measures also halted imports, which resulted in the supply line from XingXing being cut off and all manufacturing having to close down. The company also received an e-mail from XingXing advising Kidzo that it was undergoing a restructuring process because it, too, had been subject to a prolonged lockdown period. XingXing also indicated it was in discussions with lenders about the continued future of the company.

The board discussed whether the retail store staff should either be placed on unpaid leave to enable them to claim from the Unemployment Insurance Fund (UIF) or be retrenched. The board also suggested that other investment opportunities ought to be investigated.

During a board meeting the financial director noted that Kidzo was likely to become factually insolvent and that drastic action would be required to avoid being pressured into liquidation proceedings by the company's creditors. The board agreed that continuing to operate should be the company's primary consideration.

E-mail

After the board meeting, Jessica sent the following e-mail to her fellow board members:

To: Board of directors mailing group

From: Jessica James

Date: 15 September 2023 09:50

Subject: Our future

Dear fellow directors

In this unprecedented situation in which we find ourselves, we need to realise that laws were not drafted for times such as these. When faced with the decisions to potentially retrench all of our staff, who have been with us for years, and to close down a thriving company due to a short-term event outside our control, I choose to apply the 'good for the self and good for others' principles and to not cause further harm to our people.

This will mean that we continue to operate although we are likely to become factually insolvent. While we may need to retrench some staff, we can select the worst performers and troublemakers and gradually work them out. The Labour Relations Act was not drafted with events such as these in mind. We need to do what is best for us, the company, the staff and our loyal customers.

Business rescue is not an option. We can send letters to the banks and our creditors to indicate that all is under control and that we have new opportunities on the horizon. This will at least buy us some time. Let us also watch our trade creditors, and if any of them are going to close down, make sure we do not pay them and dispute all debts we have with them. We can accuse them of delivering inferior stock that we are not prepared to pay for.

Please treat this as confidential; we will not record this in any minutes or draft any resolutions – we don't want any evidence trail.

I remind you that if we do not do this, our staff and their families could starve and/or die. Survival is key, and the end will justify the means.

Stay safe!

Jessica James CA(SA)

Chief Executive Officer, Kidzo (Pty) Ltd

Subsequent to the above e-mail, Jessica instructed the financial director to draft the letters to the banks and creditors to assure them of Kidzo's financial stability.

Future plans

Kidzo anticipates that demand for its products will remain under pressure for a few years, given low economic growth in the country. The board suggested that the company adapt by offering online sales, a trend that has been seen in the retail sector over recent years to try to attract new customers. The company does not have the necessary expertise to develop online sales in-house and therefore requested tenders from independent third-party service providers to assist with the design, development, implementation and hosting of a website to enable e-commerce. Various quotes have been obtained from external providers, and the process of comparing their knowledge skills base, independence, external references and service offerings has begun.

New investment opportunity

The manufacturing and financial directors proposed that Kidzo investigate the manufacture of a hand sanitiser, given that this was in high demand because of the outbreak of the pandemic. The manufacturing process was considered to be relatively simple, and staff who would otherwise have been retrenched could be employed in the manufacturing process following initial retraining. The company would make bulk volumes of hand sanitiser for sale to the general public, companies and retail stores (and possibly return to clothing manufacturing when the situation normalises).


Other information

- Kidzo currently has a debt-to-total-firm-value ratio of 75%, although its optimal capital structure is a debt-to-total-firm-value ratio of 50%.
- Kidzo's effective corporate rate of taxation is 27%, which is not expected to change in the foreseeable future.
- The current inflation rate in South Africa is 6%, and the inflation rate is expected to remain at this level in the foreseeable future.
- A trucking company, Truckit (Pty) Ltd, has been used to transport Kidzo's goods for some years.
- A clothing production supervisor will be required on the hand sanitiser factory floor. The present supervisor has been offered the option of staying on with the company, but due to the difficult financial climate, Kidzo can only afford 50% of his salary.

REQUIRED		MARKS
		Sub-total
(a)	Provide a critical discussion of the factors that Kidzo should consider before taking the strategic decision to shift from being a retailer of babies' and children's clothes to a manufacturer of hand sanitiser.	18
(b)	Critically evaluate Jessica's application of the 'good for the self and good for others' principles based on the content of her e-mail to the board of directors.	7
	<i>Y1: critical thinking</i>	1
	<i>Z2: Business Acumen</i>	1
Total		27



Solution

 Part (a)	
1.	The company is in distress , with supplier problems, demand issues, the competitive environment and exchange rate issues making the existing business unattractive.
2.	Consideration of an alternative use of resources at this time would make sense, given the severe restrictions on sourcing key inputs (which are currently imported).
3.	However, consideration has not been given to how competitors in the company's existing markets may respond. In addition, the planned expansion does not align with the company's core values and vision statement and could lead to a loss of focus .
4.	The company does not have expertise in the chemicals industry or in bottling plant maintenance, increasing the risk.
5.	The bottling plant, in particular, will require staff to be retrained since it will require skills that differ significantly from those related to clothing. Are employees, who may be specialists, willing to learn new skills, and will they have an aptitude for the tasks?
6.	Health and safety considerations are also significant when switching to a flammable product, and this aspect may have been underestimated.
7.	Special storage facilities and other measures would probably be necessary for the flammable base.
8.	The proposed shift represents a drastic change for the company, especially because it requires a large investment (the current manufacturing set-up would have to be changed) and is therefore likely to require shareholder (and potentially creditor) approval.
9.	There are low barriers to entry for the hand sanitiser market, and hand sanitiser is easy to make. There is therefore a risk that the envisaged market will be smaller because major competitors in this market might retaliate and charge lower prices since they already have the economies of scale advantage and can cut Kidzo out of the market in this manner.
10.	The change may also affect the company's reputation , its standing in the clothing industry, long-term growth, risk assessment and so on. It is a completely different industry the company will be trying to access.
11.	These changes will affect the company's weighted average cost of capital (WACC) as well, and it might have to rethink its optimal capital structure . Higher financial risk due to increased debt levels will take the company even further away from its target debt:equity ratio of 50:50.
12.	The chemical industry would have multiple compliance regulations of which the company may not be aware and therefore may contravene, and these regulations may be costly to implement. Products may need to be registered and comply with health care regulations.
13.	It is not clear how easy it will be to revert to the original business sector after a few years, given the loss of the key supplier, coupled with the potential costs of re-establishing market positioning once the business returns to clothing.

14.	The Kidzo brand is not known in the hand sanitiser market, and no provision is made for marketing – what would give Kidzo a competitive edge?
15.	Can Kidzo not simultaneously produce both sanitiser and clothing? Should it consider making a smaller initial investment in hand sanitiser while retaining the existing clothing business?
16.	How would the proposed shift in business model impact (detract, remain the same or enhance) Kidzo's social responsibility (e.g., retaining jobs/environmental impact)?
17.	How reliable are the forecasts? Consider using sensitivity analysis. Consider the use of consultants/specialists to assist in analysing the cash flow forecast.
18.	Can Kidzo use the same delivery trucks (through Truckit) for deliveries, or must special trucks (e.g., with cooling facilities) be acquired/contracted?
19.	Will the supervisor be willing to work at 50% of his existing salary (especially since he will have to supervise a production line he does not know) or will he prefer to leave? Can the company survive without a supervisor, especially when staff also do not know the processes?
20.	What about a generator? Electricity load-shedding will equally affect the production of hand sanitiser.
21.	The company should consider other potential costs such as decommissioning costs of the plant.
22.	The tone from the top is important, especially considering the ethics of the CEO and her potential to put pressure on decisions, which will make the project a perceived success.
23.	Kidzo will have to gain access to suppliers of the sanitiser components (e.g., alcohol). Will it be easy to get reliable suppliers of these components? There is a timing consideration related to when suppliers will be able to deliver the components and, consequently, when Kidzo will be able to commence manufacturing.
24.	The sustainability of future demand for hand sanitiser has to be taken into account. Heightened demand is linked only to the pandemic. This is not a long-term business. Once the pandemic risk decreases, so, too, will the demand for hand sanitiser, which means that the cash flow forecast is potentially over-optimistic. Break-even consideration
25.	Consideration could be given to alternative markets outside hand sanitiser, for instance, any other uses for the plant such as the manufacturing of face masks or protective clothing, or any other use that is more closely aligned to Kidzo's core business .
26.	Will Kidzo have access to sufficient funding for the venture? (The investment in working capital, for example, will need to be funded, too.)
Conclusion: The risk of diversification into hand sanitiser is very high since Kidzo does not have the necessary knowledge of the new product or its market.	

Available: 27
Maximum: 18



Diversification is when an organisation (in this case, Kidzo) in a specific market (retail clothing) expands into a different market with a different product range (hand sanitiser). This is usually done when an organisation has a strong brand, can achieve high returns, has excess cash available, operates in a saturated market and has the potential to utilise economies of scale or improved internal processes or to create synergies. This is not the case for Kidzo, and diversification may not be the optimal strategy for Kidzo to implement (see section 2.7 of *Managerial Finance*, 10th edition). This question requires you to consider Kidzo's internal and external environment and the impact of changing from its current operation as retailer of babies' and children's clothes to a manufacturer of hand sanitiser.




Part (b)


1.	When considering whether a decision is good for oneself and others, one needs to consider and act in the best interest of all relevant stakeholders (including suppliers and financiers) .
Good (bad) for self	
2.	Jessica not only disregards labour laws and regulations but is also in breach of the Companies Act and Regulations (e.g., business rescue, reckless trading), which could lead to the following:
	<ul style="list-style-type: none">• Directors could be held liable in their personal capacity.• Potential penalties and fines could place further pressure on the company's financial position (placing the going concern ability of the company under further pressure).• The company could suffer reputational damage and lose clients, resulting in further financial pressure.• Jessica suggests being dishonest with banking institutions, which could result in difficulties to obtain future finance when the company needs it (for example, financing of the hand sanitiser plant).• Not having a proper trail of decision-making (i.e., inappropriate documenting of decisions) will not be good for the company.
Good (bad) for others	
3.	Deceiving banks/creditors, rather than renegotiating terms , could contribute to financial difficulties for, or even the downfall of, these banks and creditors.
4.	No consideration is given to the employees who work at these institutions/companies or their families.
5.	Not paying creditors who are about to close down and accusing them of inferior stock will be both untruthful and unfair towards those creditors who would receive less in a liquidation process.
6.	South Africa's economy is weak and at a low point, and refusing to consider business rescue when it may be needed would not be conducive to the economy, creditors or banks.

7.	Jessica suggests that, in instances where retrenchments are necessary, underperformers and troublemakers should be retrenched, which is not a fair and transparent process . It is also contradictory to the company's " strive for a culture of engagement with all its employees ".
8.	By continuing to operate the business, the going concern ability of the company will be at risk and therefore all staff at Kidzo may ultimately lose their employment. Hence, in the long run, the decision is not good for staff.
9.	Not all the relevant "other" stakeholders (groups) are considered by Jessica (e.g., the focus is mostly limited to the employees /the impact on the profession is not considered). Other stakeholders to consider are shareholders, customers, suppliers, financiers (banks), society, the government and so on.
10.	Kidzo's business model is based on education, care and sustainability . Therefore, closing the business will result in the social responsibility of the company being lost and the positive impact that the company has on education , as well as the environment , being diminished.
11.	Jessica's application of the 'good for the self and good for others' principles does not promote the achievement of this objective as her actions go against ethical principles .

Available: 18
Maximum: 7

	Z2: Business acumen: Business external environment Z2(a): Comprehensive consideration to the impact on the internal and external business environment if Kidzo should implement the proposed change	1
Y1: Critical thinking (Analytical thinking) Considered all the relevant information carefully and reflected on specific implications that it would have for Kidzo Source, select and manage information provided on Kidzo (quantitative as well as qualitative) from multiple sources and perspectives through analysis, synthesis and integration - present arguments why information is used.		1

MAX part a and b): 27

	In the Kidzo scenario, employees, financial institutions, shareholders, customers, suppliers, society, the government and the natural environment should be considered as key stakeholders. In learning unit 1 the strategic development process, which includes the key stakeholder principle, was covered as part of prior learning (see section 1.4 of <i>Managerial Finance</i> , 10th edition).
---	---



This question requires the application of business acumen, specifically the comprehensive consideration of the impact of the proposed change on both the internal and external business environment of Kidzo.

The six capitals, changing a business model, and data and IT strategy.



Activity 2.2: Imfundo (extracted and adapted)

(Source: SAICA 2023c)

Activity: Imfundo 49 marks	Estimated time			
	Reading	Writing	Marking and review	Total
	27 minutes	73,5 minutes	39,5 minutes	2 hours 20 minutes

PART A

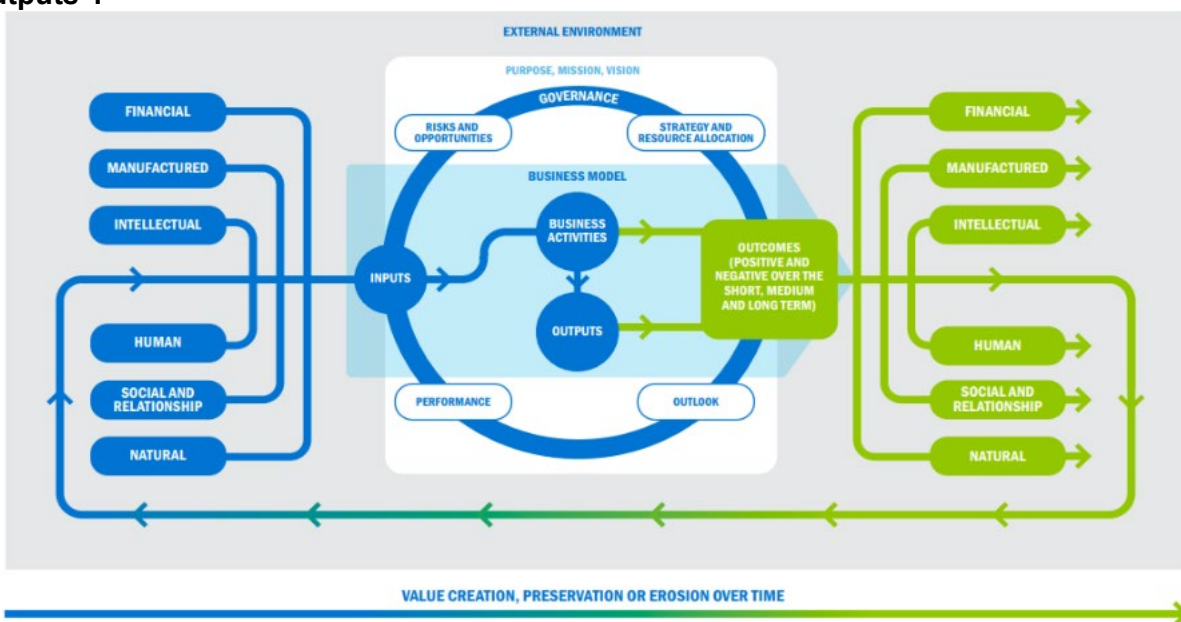
Background

Imfundo (Pty) Ltd ('Imfundo') is a company based in South Africa that offers high-quality short courses to both companies and individuals. Imfundo's **vision and mission** are to build sustainable education models that will contribute positively towards taking the country forward during the digital transformation brought about by the Fourth Industrial Revolution (4IR).

Imfundo offers courses on, among other things, coding, artificial intelligence (AI) and big data analysis. The courses are delivered in high-tech lecture venues.

You are the newly appointed junior business advisor at Imfundo and you are assisting the management team with various strategic decisions that need to be made. You have determined that Imfundo uses the **six capitals** identified by the International Integrated Reporting Council (IIRC) as inputs for its business model. The six capitals are identified in the diagram below. Imfundo focuses on producing intellectual capital and human capital. Imfundo has a 31 December financial year end. Its financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Refer to figure 2.1.3, "The value creation process, with the six capitals as inputs and outputs".



Imfundo experienced a decline in the number of attendees in FY2020 because of the effects of the Covid-19 pandemic, such as lockdown restrictions, fear of face-to-face classes and restrictions on class sizes. However, Imfundo was already reporting a decline in its short course programme revenue and overall profits as a result of increasing competition in the market even before the lockdowns.

Imfundo applied for a loan during the financial year ended 31 December 2020 (FY2020) in terms of the Covid-19 loan guarantee scheme that was implemented by National Treasury. The proceeds from the loan enabled Imfundo to cover operating expenses, as revenue declined significantly in FY2020.

The board of directors is concerned about cost management, the company’s revenue model and the business strategy and has realised that a radical change is needed to ensure that the company returns to profitability. The board is considering two alternatives in this regard.

Alternative 1: Online courses

The majority of Imfundo’s competitors transitioned to online courses during Covid-19 to remain profitable. If this alternative is adopted, Imfundo will transition fully to online courses. Management is of the view that this will result in significant cost savings for the company.

To facilitate the potential move to the provision of online courses, Imfundo would need to develop and create an online portal. A detailed investigation would have to be undertaken to confirm management’s view on such a transition. Management has noted that FY2020 cannot be used as the starting point for estimating profits from online courses because of FY2020’s ‘abnormal’ circumstances. Rather, FY2019 should be used as the base year for the analysis. The following financial information is available for the analysis:

Extract from the management accounts for the year ended 31 December			
	Notes	2019	2020
		R’000	R’000
Course fees	1	24 000	1 600
Subsidies and grants	2	10 000	667
Interest and dividends		600	500
Rental income	3	550	350
		35 150	3 117
Invigilation costs	4	(150)	(50)
Employee costs – facilitators	5	(6 750)	(6 750)
Employee costs – administration	6	(4 800)	(4 800)
Finance costs – including Covid-19 loan guarantee scheme		(100)	(350)
Head office building costs	7	(500)	(500)
Lecture venue building costs	7	(1 000)	(1 000)
Software – amortisation		(50)	(50)
Other costs	8	(100)	(30)
Net profit/(loss)		21 700	(10 413)

Notes

1 The following course fees were received from candidates who had registered for Imfundo’s courses:

	2019	2020
Average course fee	R8 000	R8 000
Number of candidates	3 000	200

It is estimated that, if Imfundo moves to the delivery of online courses, it could offer a discount of 30% on the average course fee to candidates as a result of cost savings. The number of candidates is forecast to increase to 2 000 in FY2021. Although the online environment would also provide opportunities for candidates outside South Africa to register for Imfundo’s courses, this possibility has not been incorporated in the forecasts.

Imfundo currently offers courses that conclude with a final written assessment as proof of successful completion of a course. There is only one assessment per course. The duration of all assessments is two hours.

Imfundo is considering two other offerings for its courses in the event that it moves to the delivery of online courses:

- A fee that **excludes** the cost associated with writing a final assessment, to provide flexibility for candidates who want to complete a course and not necessarily write the assessment immediately; or
- a fee for a **final assessment** as a stand-alone component for candidates who are not successful in their first attempt of an assessment.

If a multiple pricing model is followed, the following numbers of enrolments are anticipated for FY2021, together with the proposed course fees:

Pricing model	Price	Numbers of enrolments
Course and assessment	R5 500	1 500
Course only	R5 000	900
Assessment only	R800	500

- 2 Subsidy funding from the Department of Higher Education and Training is based on the number of candidates who not only enrolled for courses but also passed an assessment on their first attempt (throughput percentage). The throughput percentage is expected to remain the same despite the decreasing enrolments of candidates. The subsidy funding would consequently reduce in the same proportion as the anticipated decline in the candidate numbers.
- 3 An insignificant portion of the lecture venue building is let to various small vendors. The vendors sell a range of products, including stationery, textbooks and snacks, to employees and candidates who visit the premises. If Imfundo transitions to an entirely online course offering, the lecture venue building will be sold at the end of FY2020.
- 4 In order to obtain a course certificate, each candidate is required to complete and pass an assessment at the end of each course. At present, candidates write assessments in a venue in which invigilators are present to physically monitor candidate behaviour. The invigilation costs in FY2020 and FY2019 relate to the fees paid to these invigilators.

If Imfundo decides to switch to online courses, it will no longer require invigilators. However, it will have to invest in proctoring/invigilation software in addition to the existing software that is used for other functions. The proctoring software is needed to manage the risk of dishonesty when candidates write assessments online since there are no invigilators to monitor behaviour online. Proctoring software confirms a candidate's identity and identifies any suspicious behaviour of candidates during an assessment. It locks the computer and the web browser of a candidate so that the candidate cannot open new tabs, applications (apps), Windows programs and so on while an assessment is being written. The software provides a detailed candidate behaviour report after each assessment.

A third-party proctoring provider has provided the following quote:

Number of candidates for proctoring	Charge per hour
	R
The first 1 000 candidates	68
For candidate 1 001 to candidate 2 500	50
For candidate 2 501 and above	45

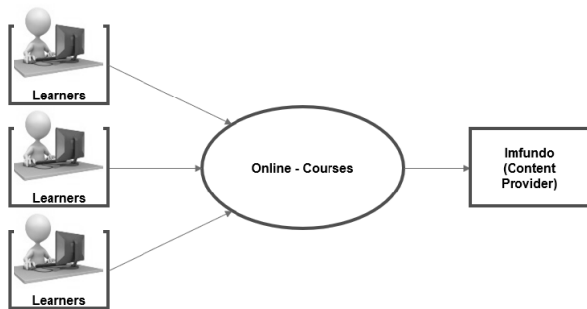
- 5 Imfundo's team consists of 15 well-trained facilitators. These facilitators provide resources, monitor progress and support students in the acquisition, retention and application of knowledge and skills. All 15 facilitators will be retained if Imfundo switches to the online delivery of courses.
- 6 The company has 50 permanent employees based at its head office. These employees include a marketing team, an administration (admin) team (applications and registrations), a material development team, an assessment team (administering and marking of assessments and capturing of marks), an operations and finance team, and an information technology team. Imfundo management has been considering whether a reduction in the number of employees would result in cost savings, given the change in business model to the delivery of online courses. The employees have been engaged at length regarding the proposal to retrench some admin staff. The majority agreed that all staff would take a salary cut of 20% rather than some of the staff being retrenched. The board approved the salary cut and views this measure as an interim solution to assist in returning Imfundo to profitability.
- 7 The costs for the buildings include depreciation, maintenance, cleaning and security costs.
- 8 Variable printing costs related to course content are included in other costs. Imfundo will not incur these printing costs if it moves to online course delivery because candidates will receive digital copies of the material. The remaining costs are fixed and expected to remain the same.
- 9 All costs and income that are not specifically referred to in the notes will remain consistent with FY2019 levels.
- 10 Material prepared for the venue-based delivery method **cannot be directly converted to a digital format** since the material may be summarised and may require additional explanation. An online education specialist would need to be contracted to redesign the material content to suit the online environment. The specialist will charge R1 800 per hour and will need 40 hours to review the material.
- 11 Imfundo is considering the **development of an app** that can be downloaded to mobile devices by users as part of its online offering. The app would make it easier for candidates to access the material and to interact with their peers and facilitators. Imfundo has not yet determined what such an app would cost.

Alternative 2: Starting a platform business

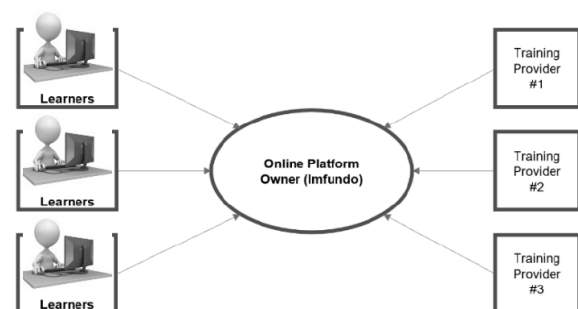
The board of directors would like to explore one of the platform business models followed by companies such as Airbnb, Uber and Taxify. The company would then create a platform that connects candidates with a wider range of digital content providers. They are unsure how this would compare to the online course delivery strategy and whether this would bring about more risks than opportunities for Imfundo.

The chief financial officer (CFO) of Imfundo, Lili Meinhart CA(SA), agreed to undertake research on this type of business model and to provide some more insight to the board. Lili has prepared the following diagram on differences between the online model and the platform business model:

Online model*



Platform business**



* For the online model, Imfundo would have to move its current business model from a venue-based person-to-person course delivery system to an online delivery system of courses.

** In the case of the platform business model, Imfundo will own and administer the platform and connect candidates with multiple content providers and it will earn a fee for providing this service.

Lili found the following information on the internet after doing some research on platform businesses:

“So, what is a platform business?”

What we mean with a platform business is a **business model** (not a technology infrastructure) that focuses on helping to facilitate interactions across a large number of participants.

The role of the platform business is to provide a governance structure and a set of standards that facilitate interactions on a much larger scale.

Traditional training businesses own and deliver the content to learners. The platform training business model does not own the content, but rather creates and facilitates the connection between the learners and content providers/owners.”

Lili has also come across research that shows the complexity of a platform business and warns against the current hype. She read the following in a media report:

“It’s really easy to look at companies like Uber and say, ‘Look at these wildly successful businesses!’ but forget all the people who tried to do similar things and failed. New rules and legislation are increasing as platform companies are using anti-competitive tactics to maintain and extend monopolies. Few platform businesses have fully considered how the growing regulatory risks could impact their business models and potentially derail their businesses.”

PART B

Senza owns a database, used in managing its loyalty scheme, which captures information on customer demographics (gender, age and race), home address, contact details, product preferences and past buying patterns. This database stores the information in the cloud. The database cannot be sold or licensed due to regulatory laws. The fair value of the database was R500 000 as at 30 September 2021.

REQUIRED		MARKS	
		Sub-total	Total
(a)	In relation to each of the following capitals, describe the impact of alternative 1 on the creation of value in Imfundo: 1. human capital, 2. intellectual capital, 3. social and relationship capital and 4. manufactured capital. <i>Z2: Business external environment</i> <i>X1: Communication skills</i>	20 1 1	 22
(b)	Describe the key business risks and potential opportunities arising from the initiative to start a platform business (alternative 2) that the Imfundo board of directors should consider in evaluating this potential business strategy . <i>Y1: Critical thinking</i> <i>Y3: Problem solving</i> <i>X1: Communication skills</i>	9 1 1 1	 12
Total part A			34

REQUIRED		MARKS	
		Sub-total	Total
(c)	Prepare a brief report to the CEO of Senza in which you set out the following considerations with regard to the customer database that Senza owns: (i) Identify and discuss any three risks that Senza should be aware of with regard to collecting and storing customer data . (ii) Identify and discuss any four business opportunities that Senza could explore in relation to the current customer database and how Senza would go about using the data to generate revenue. <i>X1: Relational acumen – layout and structure</i>	6 8 1	 15
Total part B			15




The above information is an extract of the Imfundo scenario and question. The full version contains integration between subject fields such as management accounting (including topics covered in later learning units linking **risks and opportunity with strategy**, as well as **relevant costing**), financial accounting and ethics. The activity develops integrated thinking, analytical/critical thinking and integrative thinking. You can access an online copy of the full version of Imfundo here: [Imfundo \(SAICA 2023c\)](#).



Solution

PART A

(a)	In relation to each of the following capitals, describe the impact of alternative 1 on the creation of value in Imfundo: 1. human capital, 2. intellectual capital, 3. social and relationship capital and 4. manufactured capital.	22
	Z2: Business external environment - Describe how an organisation creates value through the business model.	1
	X1: Relational acumen: Communication skills - Including inputs and outputs as per Diagram	1



Before attempting this question you should revise the **business model** and know what each of the capitals are.

These **six capital** inputs are used within Imfundo's business model to derive outcomes and outputs ultimately to create value.

You are NOT required to split these capitals between inputs or outcomes. It is only demonstrated to enhance your understanding.



1. Manufactured capital: *are tangible assets like buildings, machinery and equipment (theory)*

Inputs	Outputs or outcomes
<ul style="list-style-type: none"> The new business structure and operational process will include fixed assets such as property and equipment and digital assets such as information technology (IT) online systems, which will provide the framework and mechanics for its value creation. The website will have to be well-designed, reliable and user-friendly. However, Imfundo may still require premises for its head office (admin and finance) staff. Alternately, these staff members will have to be provided with equipment to enable them to work from home. 	<ul style="list-style-type: none"> The online platform could attract more customers within South Africa who would traditionally not have been able to attend the training due to their geographical location. Online delivery offers greater scalability than classroom delivery (the number of candidates is limited in the case of classroom delivery). Online offerings can accommodate significantly higher numbers of candidates. Depending on the duration of the courses, Imfundo may also want to consider more frequent commencement dates to create additional revenue opportunities, thereby creating more financial capital. Online material allows for increased scalability since it can be used in new courses or to attract more students with courses that have staggered start dates (staggered starts) – but this could influence facilitator capacity. However, the online offering may also reduce Imfundo's client base (financial capital). Not all students want an online offering. Many students, especially those who may potentially struggle, will prefer the personal nature of face-to-face classes.

2. Intellectual capital: the intangible assets an organisation possesses, including knowledge, skills, relationships, and innovations such as software and patents and organisational knowledge (*theory*)

Inputs	Outputs or outcomes
<ul style="list-style-type: none"> • Imfundo's intellectual assets include its brand, reputation, innovation capacity, knowledge and expertise. • Imfundo will require an electronic learning platform (or website) from which students can access electronic content. • Imfundo did not originally design its courses around the online environment, and there is a risk that courses cannot be effectively switched to an online environment. 	<ul style="list-style-type: none"> • Course material that has been specially designed for online delivery by the education specialist will belong to Imfundo. • Imfundo's intellectual capital would be at risk of operational and fraud losses due to data breaches.
<ul style="list-style-type: none"> • Imfundo will rely heavily on the educational specialist (overreliance on the educational specialist) – if the specialist cannot deliver course material on time, it would have an impact on Imfundo's ability to successfully launch a course. There is also a risk that the quality of course material might not be appropriate. (<i>Also human capital</i>) 	<ul style="list-style-type: none"> • The ability of facilitators to switch to online lecturing is a risk since online delivery requires a different skill set and far more technical know-how.
<ul style="list-style-type: none"> • The product offering is highly technological, which creates risk around the content exclusivity (patent and copyright) of course material. 	<ul style="list-style-type: none"> • A conflict of interest could arise if the education specialist shares the company's intellectual property in other ventures or competitors. A restraint of trade agreement could be considered.
<ul style="list-style-type: none"> • The reliability of the proctoring software, which would have immense repercussions if compromised, should be investigated since this will be a vital aspect of Imfundo's service. 	<ul style="list-style-type: none"> • Any breaches would damage Imfundo's reputation and devalue its qualifications.
<ul style="list-style-type: none"> • Any delays in online site development would delay the launch of the online courses. 	<ul style="list-style-type: none"> • Delays in launching the online courses will reduce revenue (financial capital).

3. Human capital: collective knowledge, skills, abilities, and experience of an organization's workforce, including their health and well-being (*theory*)

Inputs	Outputs or outcomes
<ul style="list-style-type: none"> • Imfundo's culture and employees and their collective knowledge, skills and experience will enable innovation and competitiveness. • There is a possibility that the lecturers (facilitators) would not want to be a part of only an online offering due to less job satisfaction. They may want to experience the interaction of lecturing face to face. 	<ul style="list-style-type: none"> • Student numbers can be significantly increased using an alternative business model where most of the lectures are pre-recorded. Consequently, Imfundo will require the services of the facilitators on a reduced basis, offering an opportunity for cost savings. • This will make it easier for Imfundo to launch several courses during the year, without incurring additional costs/allow the facilitators to focus on assessments and to generate more revenue with a larger number of assessments.

<ul style="list-style-type: none"> • If lectures are recorded, fewer staff members may be required over time. • A transition to a fully online model could result in some admin staff becoming redundant. • Issues could arise relating to the job security of the lecturers; they may opt to leave the company for better employment security. 	<ul style="list-style-type: none"> • Imfundo may be able to save costs on the new model in respect of admin functions that are no longer required. • Salary reductions may have the effect of reducing human and social capital, especially if staff go on strike or labour unions need to intervene. • Imfundo can further create human capital by retraining its admin staff to perform functions such as tracking candidates' progress, monitoring queries and maintaining the online platform.
<ul style="list-style-type: none"> • Imfundo might underestimate the amount of work that goes into keeping candidates engaged in an online environment and could end up being significantly understaffed. 	

4. Social and relationship capital: an organization's relationships with its stakeholders, including communities, groups, and networks, and their ability to exchange information and foster collective well-being (*theory*)

Inputs	Outputs or outcomes
<ul style="list-style-type: none"> Imfundo, as a tertiary education institution, plays an important role in the community in which it operates and has a responsibility towards society by providing education that could lead to entry into the labour force. 	<ul style="list-style-type: none"> Social capital can be created by having an app. An app would allow Imfundo to capture a market that is younger/from poorer households.
<ul style="list-style-type: none"> The multiple fee structure provides greater flexibility to candidates who are not successful in their first attempt of an assessment. 	<ul style="list-style-type: none"> Such candidates might opt to not repeat the relevant course due to the high fee but could enrol to write the assessment only. This unique offering could give Imfundo a competitive advantage. This fee structure could offer the company more revenue streams from which it can earn money.
	<ul style="list-style-type: none"> However, this offering could cannibalise Imfundo's current offerings – students who may have paid the full fee for a course could elect the assessment option only. Students may be unhappy that each course offers only one assessment opportunity – this implies a delay before they will be able to sit for an assessment again to complete their qualifications. Such a delay could potentially delay students' entrance to the labour force.
<ul style="list-style-type: none"> The aim of Imfundo's business model is to create human and intellectual capital that is 4IR ready. 	<ul style="list-style-type: none"> Adopting an online model could lead to a reduction in social and relational capital because candidates will not be able to meet face to face and form relationships with their peers and lecturers.
<ul style="list-style-type: none"> Most of the staff have agreed to take a reduction in their salary as an alternative to having some of the staff retrenched. This shows that there is a sense of community among the employees. 	<ul style="list-style-type: none"> The salary reductions may have the effect of reducing social capital, especially if staff go on strike or labour unions need to intervene.

Conclusion:

- Overall, it appears that the transition to a fully online mode of delivery will require more manufactured and intellectual capital. Human capital will need to be managed so as not to destroy social and relationship capital.
- On the output side, social capital may be reduced because students cannot interact with one another and their lecturers in person in the case of a fully online mode of delivery. However, the scalability of an online model has the potential to increase human and intellectual capital.



Feedback

In the Imfundo activity you had to describe how Imfundo **creates value** from four of its **six capitals** through its **business model**. You will notice that some of the capitals are interrelated and that one capital could form part of another capital. Similarly, one input capital could lead to another output capital. For example, education has a large impact on society at large, and enhancing educational services through intellectual capital derived from human capital (input) could lead to increased customer satisfaction, ultimately leading to increased financial capital (output). In learning unit 4 an integrated example illustrates integrated thinking through the incorporation of the six capitals (see chapter 8, section 8.2.1, “The six capitals”, and section 8.2.3, “The 8 content elements for a practical example of the business model”).

Z2:1

X1:1

MAX:22

(b)	Describe the key business risks and potential opportunities arising from the initiative to start a platform business (alternative 2) that the Imfundo board of directors should consider in evaluating this potential business strategy .	12
-----	---	----

	Y1: Critical thinking Conceptualise, apply, analyse, synthesize, and evaluate information gathered Discussing risks that are relevant to the platform business. Opportunities are likely to be practically feasible.	1
	Y3(a) Problem solving Demonstrate flexibility, creativity and innovation in generating solutions and identifying new opportunities	1
	X1 Communication skills – Communicate using clear and concise messaging in a professional manner	1



1. **Risk:** Imfundo is new to the platform business model and might not have **the relevant expertise with regard to the selection of the appropriate infrastructure and continued maintenance** to ensure that it can handle the anticipated users and content providers.

This could lead to **suboptimal decisions being made due to a lack of understanding by management, resulting in reputational damage and the demise of the platform.**

2. **Risk:** Legal risks related to accreditations and educational reporting and increasing rules and regulations in the sector could pose a threat to the success of the business.

3. **Risk:** Starting a platform business coincides with an increased risk relating to data privacy and security (POPIA), specifically in respect of candidates and training providers.

4. **Risk:** Inappropriate pricing strategies related to the use of the platform, as well as content providers’ pricing strategies, pose a risk.

- If Imfundo’s pricing is excessive relative to that of its competition, it could lead to few training providers signing up to the platform, which could lead to lower candidate enrolments.

5. **Risk:** Additionally, if the content providers load up their prices to cover the fees charged by Imfundo, candidates could be discouraged from signing up directly with Imfundo; they might sign up with the content providers instead. This presents a further risk in that Imfundo might invest in the marketing of the content providers’ programmes without seeing value.


6. Risk: It is stated that the majority of Imfundo's competitors transitioned to online courses during Covid-19 to remain profitable. Imfundo is therefore behind the competition , making the business opportunity potentially less viable since the anticipated demand could be lower.
8. Risk: Imfundo is purely an intermediary; it does not own learning content (easily displaced with low barriers to entry). <ul style="list-style-type: none"> • If training providers deliver inferior-quality courses, it could affect Imfundo's reputation. • If training providers deliver inferior-quality courses, depending on the agreement with candidates/content providers, Imfundo might be liable to refund the course fees, which could have an adverse liquidity impact on the company. • Training providers could build up a database of candidates and target them directly in the future, bypassing Imfundo. • Training providers could provide their content on various platforms (no exclusivity).
9. Opportunity: Imfundo could leverage the large masses of under-served users (especially in South Africa) and data to build great products and services for candidates and training providers. For example: Imfundo could specifically target unemployed people to 'upskill' themselves in their 'downtime'.
10. Risk: Demand might not be appropriately estimated, and there is a risk that training providers might not want to share their content with another provider (intellectual property considerations). Consequently, training providers would not make use of the platform.
11. Risk: Imfundo will move away from its core function of being a training provider and will therefore no longer be fulfilling its mission and vision. Shareholders and creditors might not give their approval for the restructuring.
12. Risk: This move will most likely lead to job losses (retrenchments): how will this affect Imfundo's reputation?
13. Risk: If Imfundo decides to also be a training provider, then hosting other providers on its site/app would decrease its potential revenues and profits. OR Opportunity: If Imfundo decides to also be a training provider, then additional revenues may be generated, thereby increasing its potential revenues and profits (e.g., Amazon hosts sellers on its marketplace but also sells directly to customers; the same principle applies in the case of Microsoft's Game Pass platform).
14. Risk: This alternative would require a massive upfront investment in the form of platform development costs and continued maintenance of the platform. Given Imfundo's current struggles, there is a risk that the company will not be able to acquire the funding necessary to implement this option.
15. Risk: The time taken to develop the platform is uncertain, and the platform may not be ready in time to meet the needs of the training providers.
16. Risk: The impact of load-shedding on operations/costs is a risk, given that the whole operation will be online. Load-shedding could have an impact on company operations since students who need to be online may not be able to engage with fellow students and lecturers and training providers may not be able to present lectures if load-shedding occurs. The impact of load-shedding on assessment and proctoring is also a risk since electronic proctoring cannot take place in the event of power outages that affect students' networks or the company's network.

17. Risk: In education, copyright is a risk, and material can be duplicated. Consider whether there are any measures that can be put in place to minimise this risk. Consider an accredited certificate where the value lies in the certification rather than the content.
18. Opportunity: <ul style="list-style-type: none"> • Imfundo could collaborate exclusively with leading global training providers that provide better-quality courses. • Imfundo could consider offering related services as revenue streams (e.g., access to employment agencies, who would want access to students in order to market them to prospective employers).
19. Opportunity: <ul style="list-style-type: none"> • Imfundo could save on programme development costs and capital outlay since training providers will have already borne these costs, thus allowing Imfundo to move to an online platform without putting further strain on cash flows. • Training providers may have their own customer base. This customer base could make use of Imfundo’s services, thus broadening Imfundo’s market share.

Y1:1
Y3:1
X1:1
MAX:12

PART B

(c)	Prepare a brief report to the CEO of Senza in which you set out the following considerations with regard to the customer database that Senza owns: <ul style="list-style-type: none"> (i) Identify and discuss any three risks that Senza should be aware of with regard to collecting and storing customer data. (ii) Identify and discuss any four business opportunities that Senza could explore in relation to the current customer database and how Senza would go about using the data to generate revenue.
-----	---

	X1(e): Relational acumen: Communication skills <i>Appropriate layout and structured answer, i.e., report format and well laid out response by the candidate.</i> Report format	1
---	--	---



(i) **Senza needs to be aware of the following risks in relation to the customer database:**

1. Senza needs to ensure that the company complies with all laws and regulations relating to collecting and storing personal customer data. The **Protection of Personal Information Act (POPI Act)** needs to be adhered to since non-adherence could result in fines and penalties for Senza.
2. **Data privacy** controls need to be understood to ensure that Senza has adequate security controls in place to ensure that the data is encrypted and protected.
3. **Cyber-attacks and malware**, which could lead to data breaches and data loss, pose a significant threat to companies who store their customer data in the cloud. Senza could consider taking out **cyber-insurance**.
4. If the information is not backed up regularly, it could result in **sudden data loss**, which would impact Senza **reputationally**.
5. **Data manipulation** by internal/external staff will compromise the quality and integrity of the data.

Available: 6
X1: 1
Maximum: 7

(ii) Senza could explore the following business opportunities in relation to the current database that it owns:

1. Senza has details with regard to its customers' product preferences and past buying patterns and will have the ability to **market similar products** to its customers over time/provide **discounts on products** that its customers may like.
2. Buying-pattern data is extremely valuable since Senza could either sell this data to a **financial institution** or use it to start providing customers with **credit to purchase home DIY equipment**.
3. Senza could **potentially offer a rent-to-own business model** with regard to some of the more expensive DIY equipment, making it more accessible to a broader reach of customers.
4. Senza has data with regard to customers' home addresses and locations and **could expand its product offering** to include solar systems/JoJo tanks to **improve the value of customers' homes**.
5. Senza could use **machine learning/AI to segment the data** and start to create customer personas for the different genders and age groups within the database population. It could also use this segmented data to understand specific age groups and gender product preferences to market its product offering. Senza could create an **educational content page** on its website to educate its customers on what they can do to add value to their homes and guidance on when they may be overcapitalising.
6. Senza should perform a more **detailed customer survey** to understand customers' current pain points with regard to their homes and customise product listings for customers (customer entrenchment and stickiness).

Available: 8
Maximum: 8



In the Imfundo activity you need to be aware of the risk that is associated with a **customer database**. **Risk identification** is vital for determining an organisation's **IT and data strategy**. In learning unit 3 you will review and analyse an organisation's overall IT and data strategy, which includes its data quality, accessibility, interoperability (compatibility) and compliance. Your analysis will allow you to formulate recommendations on the organisation's existing IT and data strategy.

(Source: SAICA ITC 2022, adapted, 2023)

Building blocks of a business model



Activity 2.3: Fashion House (FH)

Activity: FH	Estimated time			Total
	Reading	Writing	Marking and review	
9 marks	3 minutes	13,5 minutes	5,5 minutes	22 minutes


Fashion House (FH) is a company that sells clothing for teenage and young adult males and females via a chain of retail clothing stores in South Africa. The company started as a small fashion outlet in Cape Town in the 1990s. From its small beginnings, the company gradually expanded to its current state.

The success of FH is mainly attributed to its consistent endeavours to satisfy its young customers by supplying trendy clothing that is in line with global fashion trends. Stores change stock consistently to ensure that new, fresh lines of fashion are available on a regular basis. Over the past few years, FH has begun utilising various social media platforms to advertise and to obtain feedback from its customers.

REQUIRED		Marks
(a)	<p>Osterwalder and Pigneur's Business Model Canvas sets out the nine building blocks of a business model.</p> <p>Discuss each of the following three building blocks and evaluate the business model of Fashion House in relation to these blocks:</p> <ul style="list-style-type: none"> • Customer segments • Value proposition • Channels <p>Use the information in the scenario, as well as your general knowledge of the industry, in your evaluation.</p> <p><i>Z2: Business external environment</i></p>	<p>3</p> <p>3</p> <p>2</p> <p>1</p>



Solution

 <p>Z2: Business external environment Apply FH's position in the market as part of the candidate's consideration to three of the nine building blocks.</p>	1
---	---



Customer segments

- This building block relates to the **different groups of people** that a **company aims to reach and serve**. (1)
- Companies should **group** their **customers** into **segments** with **common needs, behaviours or other attributes**. (1)
- Therefore, FH's customer segments comprise the following:
 - ✓ Teenage males (½)
 - ✓ Teenage females (½)
 - ✓ Young adult males (½)
 - ✓ Young adult females (½)
- FH's **customer segments are quite limited** since the company **only caters** for **young people**, thereby **excluding a large share of the market**, that is, **children, middle-aged people and older people**. (1)
- Furthermore, by **focusing on young people** who do not necessarily have access to a lot of funds, FH is **limiting its market share**. (1)

Value proposition


- This building block relates to the **benefits** that a **company offers its customers**. (1)
- This could be the **reason** why **customers choose one company over another**. (1)
- FH's **value proposition** is that it **caters specifically for the younger generation**, ensuring their **fashion needs are met by providing fresh, trendy clothing** that is in line with international fashion trends. (1)
- Since FH **changes stock so frequently**, it faces the **risk of stock obsolescence**. (1)
- FH's **business model** excludes a large market share by only focusing on younger people, but this **allows the company to really focus on the specific needs of a smaller customer base**, thereby **enabling it to meet the needs of its customers better**. (1)

Channels

- This building block relates to the **communication, distribution and sales channels** that are used by the company. (1)
- While FH **sells its products via its stores** throughout the country, (1)
- it uses **various social media platforms** to **communicate** with its **customers**. (1)
- Given the **rapid increase in the use of social media** platforms by companies, **coupled with the age group** of FH's **customer segment**, it is likely that this form of communication is **effective**. (1)
- FH should, however, **consider providing** its customers with the **option of purchasing online**. (1)

Z2:1

Maximum: 9

	<p>Feedback</p> <p>This question focuses on only three of the nine building blocks. The advantages, disadvantages, characteristics and integration of the building blocks are discussed.</p>
---	---

Strategic objectives



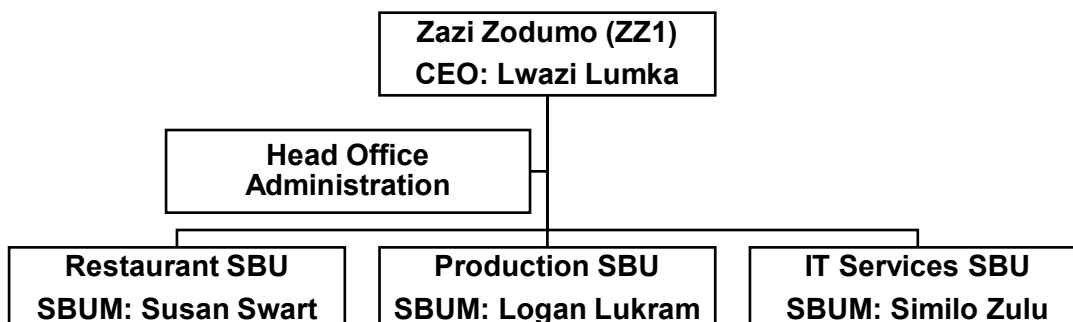
Activity 2.4: Zazi Zodumo Group Ltd (ZZ1)

Activity: ZZ1	Estimated time			Total
	Reading	Writing	Marking and review	
18 marks	12 minutes	27 minutes	9 minutes	48 minutes

1. Background

Zazi Zodumo Group Ltd ('ZZ1') is a holding company that is listed on the Johannesburg Stock Exchange (JSE). The company has interests in the hospitality, production and information technology service sectors in Gauteng, South Africa. ZZ1 was formed 11 years ago when the current chief executive officer (CEO), Lwazi Lumka, resigned as CEO at a listed company to pursue entrepreneurial ventures. Lumka used his pension fund and personal savings to form ZZ1. He then went on to acquire potential high-growth companies in the first year of starting ZZ1. The company was listed on the JSE seven years after inception. The company structure, strategic business units (SBUs) and SBU managers (SBUMs) are presented in the organogram below.

Company structure



Each SBU comprises one company that was acquired by ZZ1. The previous owners of each of these companies were given shares in ZZ1 in exchange for their shares in their respective companies. The owners were also employed by ZZ1 as SBUMs of the companies they sold. The fourth division (Head Office Administration) was created by Lwazi Lumka to help relieve the administrative burden of the strategic business units, by performing the following corporate administrative functions for the group: strategy, risk management and governance, human resource administration, accounting and finance, and sales and marketing.

1.1 Strategic objectives

The following strategic objectives have been developed for ZZ1 and its SBUs:

- Expand into a well-diversified conglomerate that operates in multiple industries and economies through acquisitions.
- Achieve an annual return on total assets of at least 3% above the weighted average cost of capital (WACC) of **16,99%**.

1.3 Performance and performance reward system

Financials

Extracts of ZZ1's financial statements for the year ended 30 September 2022 are presented below.

2022 Financial statements excerpts	Restaurant SBU	Production SBU	IT Services SBU	ZZ1
	R'000	R'000	R'000	R'000
Revenue	76 485	428 965	99 215	604 665
Cost of revenue	(29 263)	(225 207)	(15 418)	(269 888)
Gross profit	47 222	203 758	83 797	334 777
Other operating expenses	(26 020)	(126 545)	(41 898)	(194 463)
Head Office Administration expenses ^a	(16 217)	(16 217)	(16 217)	(48 652)
EBIT: Operating profit before bonus	4 985	60 996	25 682	91 662
Current assets	7 649	42 897	1 562	52 107
Non-current assets	55 695	458 065	33 502	547 262
<i>Intangible assets</i>	28	9 161	30 152	39 341
<i>Tangible assets</i>	55 667	448 904	3 350	507 921
TOTAL ASSETS	63 344	500 962	35 064	599 369
EBIT margin before bonus	6,52%	14,22%	25,88%	15,16%
<i>Number of employees</i>	289	1 986	32	2 359 ^b
<i>Revenue per employee (rand)</i>	264 654	215 994	3 100 469	256 323
<i>Operating profit per employee (rand)</i>	17 249	30 713	802 563	38 856

^a The total costs incurred by the Head Office Administration division are allocated equally among the SBUs.

^b Total ZZ1 employees include 52 employees of the Head Office Administration division.

- ZZ1's current debt ratio, based on market values, is 15,00% and comprises a bank loan with a market-related variable pre-tax interest rate of 13,70% per annum.


New performance reward system (bonus)

To reward the SBU managers and employees, a new performance reward system has been set up by ZZ1 management and will be applied for the first time to calculate annual performance bonuses for the year ended 30 September 2022. The bonus pool (i.e., the total amount to be paid as a bonus) is determined at 15% of ZZ1's total operating profit before the bonus. Each of the three SBUs gets an equal share of this bonus pool. The bonus has not been allocated to the Head Office Administration division.

REQUIRED		MARKS	
		Sub-total	Total
(a)	Assess whether ZZ1 has achieved its strategic objectives in the 2022 financial year. Comment on your assessment results and recommend key initiatives that can be employed to assist the company in achieving its strategic objectives.	17	
	<i>X1: Communication – clarity of expression</i>	1	18



Solution

	X1: Communication skills <i>Clarity of expression (use of correct technical and sub-technical vocabulary)</i>	1
---	---	---



Strategic objective 1

Expand into a well-diversified conglomerate that operates in multiple industries and economies through acquisitions.

No acquisitions have been made in the current year; the SBUs acquired at inception are still the same today.

ZZ1 still only **operates in Gauteng, South African** (one economy). Therefore, this **objective is not being achieved in the current year**.

A lack of funds, as shown by the low levels of current assets and profits generated, could explain why acquisitions have not been made.

Recommendations regarding strategic objective 1

Consider raising funds by **issuing shares or issuing share options** to fund acquisitions.

Increase debt leverage (a debt ratio of 15% is low) by **issuing debentures and corporate bonds or acquiring business loans** (i.e., source debt capital funds) to make investments/acquisitions in different industries/economies.

Seek small firms (**identify business opportunities**) in **different industries and economies** that could be acquired using the same financing strategy (**acquisition via share exchange**) that was used previously to acquire the existing SBUs.

Consider developing a KPI (such as number or value of acquisitions, or new sectors/economies in which ZZ1 has acquired businesses) **for this strategic objective** in order to have a clear target to pursue and to be able to measure performance objectively.

Calculation 1:

Bonus pool

$$15\% \times 91\,662 = 13\,749$$

Calculation 2:

	ZZ1 R'000
EBIT: operating profit before bonus	91 662
Less: bonus	(13 749)
EBIT: operating profit	77 913
Total assets	599 369
Less: bonus payment	(13 749)
Total assets	585 620
Return on total assets	13,30%
Less: WACC	(16,99%)
ROA – WACC	(3,69%)

Calculations: 5

Strategic objective 2

Achieve an annual return on total assets of at least 3% above the WACC.
This strategic objective has not been achieved ; the return on assets (ROA) is 3,69% lower than the WACC .
The ROA is lower due to the low ROA in the Production and Restaurant SBUs .
The EBIT achieved by these SBUs is low for the large asset base they hold .
Only the IT Services SBU managed to achieve an ROA rate that is above the WACC due to its low asset base and higher EBIT margin .

Recommendations regarding strategic objective 2
Amend the performance reward system to include this strategic objective as a key metric in determining the bonus in order to encourage the SBUs to improve their performance.
Devise a cost transformation programme that involves monitoring and managing operating costs and reducing inefficiencies to increase EBIT margins.
Devise sales and marketing strategies and tactics to increase sales/revenues .
Identify and sell non-core assets and invest the proceeds in profitable projects in order to reduce the low-performing asset base and increase EBIT.
Consider providing for accelerated depreciation on the Production SBU's machinery to reduce the asset base (the assets not generating enough returns is a sign of possible impairment).
Consider leasing assets in the future, when it is cheaper to do so, rather than purchasing them.
Consider revising this strategic objective KPI to a measure or measures that are easier to target and measure (e.g., EVA, ROI, ROE).



The ZZ1 activity requires you to assess if the company's strategic objectives were achieved. If the strategic objectives were **not** achieved, you should apply your knowledge to construct recommendations that will assist the company in achieving its strategic objectives. For example, a recommendation could be to incorporate the strategic objectives within the KPIs, which should also be used to assess management's performance.

X1:1
Max: 18

Business model and strategy



Activity 2.5: Ocean link

	Estimated time			Total
	Reading	Writing	Marking and review	
10 marks	6 minutes	15 minutes	12 minutes	33 minutes

1. Background

OceanLink Holdings Ltd (OceanLink) is a South African, JSE-listed marine services company, established in 1997. It has been one of the top three marine logistics providers in Sub-Saharan Africa and has a financial year-end (FYE) of 31 July.

OceanLink's head office is in Cape Town, and it carries out its operations using two main divisions: Shipping & Freight (SF Division), and Marine Engineering & Infrastructure (MEI Division). The SF Division provides cargo transport services, and the MEI Division provides dry dock services and offshore platform refurbishments. Expanding its service offerings through the implementation of a new Tourism Division (to operate coastal ferries, eco-tourism cruises, and water-based charter services) as an additional income stream is currently on hold without a substantial reason.



Source: Transnet

Despite OceanLink’s historical prominence in the South African ocean economy, its investor confidence has weakened. The company has recently underperformed against industry peers, with declining share prices and increased operational risk. While OceanLink has strong technical capabilities, it’s facing strategic and operational challenges, including rising fuel costs, operational inefficiencies, growing stakeholder expectations related to Environmental, Social, and Governance (ESG) aspects and environmental compliance pressures.

OceanLink’s latest integrated report lacks comprehensive risk disclosures and fails to reflect alignment with King IV principles. Internally, each division operates in silos, and there is limited use of non-financial indicators in strategic decision-making. Its stakeholders, including environmental NGOs (non-governmental organisations dedicated to environmental protection and conservation), coastal municipalities, and port authorities, are demanding greater transparency, accountability, and ethical management of marine resources. Coastal communities have criticised OceanLink’s lack of local employment, disregard for marine pollution, and limited community engagement. Subsequently, institutional investors (legal entities, such as banks and pension funds that participate in trading in the financial markets) have called for

REQUIRED		Marks	
		Sub-Total	Total
(a)	Using the information provided in the “Background” section of the scenario as well as your understanding of the South African economy: <ul style="list-style-type: none"> i. Critically assess whether OceanLink’s business model is aligned with their stakeholder expectations (for the institutional investors and coastal communities only); and ii. Recommend TWO strategic interventions that could enhance OceanLink’s long-term competitiveness and environmental sustainability. Justify your recommendations. 	5	
		4	
	<i>Y2: Integrative thinking</i>	1	10




Solution

(a)	Using the information provided in the “Background” section of the scenario as well as your understanding of the South African economy: i. Critically assess whether OceanLink’s business model is aligned with their stakeholder expectations (for the institutional investors and coastal communities only)	5
-----	---	---



Do not merely re-write sentences from the scenario without further explanation to indicate understanding and application.

	Institutional investor expectations:	
1.	Investor confidence has weakened , its operational risk has increased, it is underperforming compared to its peers, therefore leading to a decline in its share price .	1d
2.	OceanLink's limited ESG reporting (limited use of non-financial indicators) and lack of a sustainable strategy undermine its attractiveness to ESG-sensitive investors.	1d
3.	Lack of risk disclosure in terms of King IV weakens investor confidence.	1d
4.	Divisions are operating in silos which results in a lack of synergy .	1d
5.	Operational inefficiencies signal poor capital productivity / asset utilisation , further weakening investor confidence.	1d

Coastal community expectations:	
6.	Communities in regions where OceanLink operates expect employment opportunities, which OceanLink is not providing.
7.	Tourism services have untapped potential to support inclusive revenue growth and employment for the local community but the Tourism Division’s implementation is currently delayed.
8.	Complaints about marine pollution highlight an increasing risk to OceanLink’s operational credibility and minimal environmental impact expectations.
9.	Limited community engagement highlight an increasing risk and dissatisfaction within the community.

<p>Conclusion: From OceanLinks investors’ perspective, the business model does not meet their expectations i.t.o. profitability, risk mitigation and ESG performance.</p> <p>OR</p> <p>While OceanLink’s technical capabilities are strong, its business model lacks alignment with the two stakeholder matters around environmental accountability, social development, and long-term profitability.</p>	1d
---	----



Feedback:

OceanLinks' business model must be evaluated not only on profitability, but also on how well it aligns with stakeholder expectations around governance, risk management, ESG performance, and social impact. It also highlights the importance of applying economic context (such as South Africa's unemployment and sustainability challenges) when critically assessing corporate strategy.

Available [10] / Max [5]

(a)	(ii)	Recommend TWO strategic interventions that could enhance OceanLink's long-term competitiveness and environmental sustainability. Justify your recommendations.	4
			<i>Y2: Integrative thinking</i>
			1

	Y2: Integrative thinking: Formulate an intervention plan to enhance its competitiveness and environmental sustainability	1
--	---	---

		Competitiveness:	
	1.	OceanLink operates in multiple coastal regions but is increasingly criticised by local communities for pollution, lack of inclusion in economic benefits, and minimal job creation. OceanLink can establish training academies in partnership with TVET colleges, local municipalities, and industry bodies to build a sustainable pipeline of skilled labour ,	1d
	2.	improve BEE score and social licence to operate.	1d
	3.	Invest in AI-powered logistics platforms, real-time cargo tracking, and digital inventory controls.	1d
	4.	This can reduce port congestion, and improve customer responsiveness.	1d
	5.	Reposition the Tourism Division as an ESG flagship using carbon-free tours, ocean education and community-based tour experiences . This may attract high-margin international tourists and align with global demand for responsible tourism.	1d
	6.	Establish a dry dock asset sharing partnership , to share assets when underutilised and outsource in peak demand. Provides short-term capacity relief and cost management for the company with minimal capital investment required.	1d
		Environmental sustainability.	
	7.	OceanLink faces increasing pressure to reduce its environmental footprint and recently had gaps in environmental compliance. Fuel costs went up significantly. Therefore:	
	a.	introduce fuel-efficient propulsion systems (<u>cargo ship</u> fleet upgrade), or lower carbon emissions from idle ships, to reduce long-term operational costs	1d
	b.	Invest in cleaner and low-emission dry dock operations to improve compliance with reporting requirements.	1d
	c.	Adopt carbon tracking software to monitor and reduce emissions and waste.	1d
	8.	Implement a program to clean up marine pollution and thus improve ESG compliance.	1d
	9.	Implement a sustainability committee to increase reporting transparency and accountability as recommended by King IV.	1d
	10.	Any other valid point (max 1)	1d

Available [12] / Max [4] + 1 PVAA = Total [5]

**Feedback:**

By recommending strategic interventions for OceanLink, teaches you how to apply integrative thinking by linking competitiveness, sustainability, governance, and social impact into practical, strategic recommendations rather than treating them as separate issues. It also develops your ability to justify interventions in terms of long-term value creation, ESG compliance, and operational efficiency within a real-world business context.



2.5 BIBLIOGRAPHY AND ADDITIONAL READING

IFRS Foundation. 2021. International <IR> Framework. Available from:

http://www.integratedreporting.org/wp-content/uploads/2022/08/IntegratedReportingFramework_081922.pdf (accessed on 18 September 2023).

Osterwalder, A & Pigneur, Y. 2010. Pocketbook4you. Business model generation. Available from: [https://voicebucketvoitto.s3.amazonaws.com/pdf/ingles/\[ENG\]20Business20Model20Generation20-%20Alexander20Osterwalder20e20Yves20Pigneur.pdf](https://voicebucketvoitto.s3.amazonaws.com/pdf/ingles/[ENG]20Business20Model20Generation20-%20Alexander20Osterwalder20e20Yves20Pigneur.pdf) (accessed on 10 December 2023).

Skae, FO. 2024. *Managerial Finance*. 10th edition. Johannesburg: LexisNexis.

South African Institute of Chartered Accountants (SAICA). 2023a. *Competency framework: detailed guidance for the academic programme*. Johannesburg: SAICA. [Competency-Framework-2021-Guidance-to-the-Academic-Programme.pdf \(windows.net\)](#)

SAICA. 2023b. Initial Test of Competence (April 2021; Paper 3), revised and adapted. Kidzo. Johannesburg: SAICA.

SAICA. 2023c. Initial Test of Competence (June 2022; Paper 4), revised and adapted. Imfundo. Johannesburg: SAICA.

Venkataraman, R. 2023. How to improve your strategy implementation skills. Available from: <https://www.fm-magazine.com/news/2023/may/how-to-improve-your-strategy-implementation-skills.html> (accessed on 10 December 2023).