



## **Suggested Answers for Mini Mock Exam**

Management Case Study – November 2022 / February 2023

### REPORT

#### **Business risks associated with the potential launch of toys associated with the two TV programs and ways to mitigate them:**

##### *Old Age Mutant Samurai Frogs*

One of the main business risks associated with this program is the *product risk* – i.e. customers not catching on to the potential demand we are expecting. The fact that this program was about to be cut from the air begs the question of not only how strong this new demand surge is, but also how long it could be sustained. Moreover, as stated, a similar-looking generic toy from a small-scale online manufacturer is what has spurred the increased viewership. This again infers if this is range of toys would be profitable for Happy Playz to pursue. In order to overcome/mitigate this risk, I would recommend doing further analysis in trying to justify whether this demand will sustain. We will need to do as much digging as we can on blissfultoy.com in order to understand the unique selling point of the generic frog toys that managed to revive a TV program, and then try and work on purchasing the toys from a manufacturer that can meet those requirements and more.

Further, a possible *product reputation risk* could also come into play as we would be taking a chance by testing the waters with a similar generic product that the market has perceived to be related to the 'Old Age Mutant Samurai Frogs' program. This could open the door to potential legal action being taken against manufacturers (and even retailers like us). Moreover, it could also result in reputational damage, and waste of management time and organisational resources in the event we are also implicated in this issue. In order to overcome this, we could look at directly purchasing the toys from a licensed manufacturer and sell them without any legal or ethical issues. Since no other retailer has taken this up as of now, it would make sense to purchase and sell the licensed toys than risking the chance of legal and reputational impact on the Happy Playz brand.

##### *The Adventures of Laura the Explorer*

The first potential business risk that comes to mind is the *financial risk*. As per the business case, we are required to make a substantial down-payment to the manufacturer. Furthermore, we are locked in with a clause requiring us to purchase minimum quantities of the product over a period of 3 years regardless of whether the product is selling or not. If the product does not become popular with the target market, then Happy Playz will be faced with significant working capital and cash flow issues until the contract runs out. In order to overcome this risk, we will need to carry out due investment appraisals and

ascertain metrics such as the payback period, the net present value, sensitivity of variables, etc. to determine the financial viability of the investment, so that the management can determine if the project is financially worthwhile, and if it is not, then what can be done to make it financially viable.

Further, there may also exist *operational risks*. In the case of using a third-party warehouse that is said to be utilised by our competitor Gleetill. We will no doubt have to store the devices for at least a few months in advance in order to ensure smooth and efficient logistics to fulfill purchases placed by customers in our stores/online. A licensed product like 'The Adventures of Laura the Explorer' is likely to have sensitive release dates by the owners of the program, and hosting the inventory in a location that may risk giving our competitor a signal can disrupt sales. In order to overcome this, we can consider moving some of our traditional toys' stock to the third-party warehouse, so that we can free up space to store the video games in our own warehouse.

**Tutorial Note:** Candidates will not lose marks for not stating the types of business risks like we have (product risk, reputational risk, strategic risk, operational risks, etc.). However, candidates should understand that using information from the question and the pre-seen is what enables them to show the examiner their business skills which are crucial at the MCS level. Moreover, any other valid points may be granted marks on merit.

### **Appropriate pricing strategies for each of the potential toys associated with the two TV programs**

#### **Old Age Mutant Samurai Frogs**

For plush and action figure toys associated with the 'Old Age Mutant Samurai Frogs', if Happy Playz decides to go with the proposed strategy of testing the response of consumers by initially selling a limited range of action figures and plush toys, then I would recommend a *penetrative pricing strategy*. This strategy would coincide with the strategy of the TV program as well, which is to penetrate and reach a wider audience in Westaria, in addition to sustaining the current growth levels of viewership. As you know, generic toys are cheaper to manufacture and are usually made and sold in bulk, and the lower cost per unit usually results in retailers being able to charge low prices from customers. Moreover, alternatively, as I suggested earlier, we may be able to use leverage and work out a favourable deal in negotiating our own retailer margins, as the owners of the program will also be keen to ensure that generic manufacturers like blissfultoy.com do not solely reap

the benefits from their program. With barriers to entry low, we will be able to establish a dominant market position with our low prices which will in turn form a natural barrier for competitors to enter the market.

### *The Adventures of Laura the Explorer*

For the handheld gaming device and complementary cartridge/cartridges associated with 'The Adventures of Laura the Explorer', a *loss leader pricing strategy* might be suitable considering that the gaming device cannot be played without the cartridges. This is a suitable strategy as the long-term intent is to get customers to add on to the central product (i.e. the handheld gaming device) in future, giving us the opportunity to initially price the device low enough to get customers to buy the device thus enabling us to make up in revenues and profits via a higher price for the cartridges. Given the fact that the show is largely watched by young kids coming from upper-middle class families, it would be safe to assume that there would be price inelasticity even if the prices of subsequent cartridges are a little high, provided the product lives up to its expectations.

Finance Manager

**Tutorial Note:** Candidates should ensure that they are familiar with all kinds of pricing strategies as well as being able to critically apply them to the given scenario!



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### REPORT

#### **How big data analytics in the context of online sales can help in the process of adding value to the Happy Playz business model.**

Consumer data derived from mere accessing/browsing all the way up to online purchases via our website can help gain insight into consumer buying habits, and also identify patterns of preference. Employing advanced big data analytics can help us compare and correlate this data to a multitude of variables that would have otherwise been time-consuming to look at via more manual means.

As you are aware, a huge part of Happy Playz's business model is that we are heavily dependent on the buying department to identify popular toys at an early stage of their development. It is a very sensitive issue in the toy industry as retailers need to ensure they don't jump the gun and load up inventory levels with toys that don't turn out with sales as intended or miss out on offering popular toys by being too overcautious.

With the use of big data, Happy Playz will be able to make more accurate and informed decisions when it comes to various functions such as buying the right toys. Moreover, big data can also help Happy Playz draw comparisons between consumer markets beyond Westaria, as websites can be accessed by anyone around the world. This can help in contextualizing products and markets, as well as preempting trends that may take off locally. Accurate buying decisions would aid in the *creation of value*, whereby consumers will be able to bank more on Happy Playz having a wide range of products desired by children across all age groups.

Big data can also help in managing inventory levels with better levels of control, and better inventory management through decisions taken by big data analysis will refine/enhance the *delivering value* aspect of our business model which would add to the sophistication of our existing inventory management system. This would also aid in the aspect of *capturing residual value* where we will be able to exercise more enhanced cost control through operational efficiencies in our storage facilities and logistics.

Big data can also help in enhancing the customer's online experience - for example through advanced automated customer query dealing, customer complaints, etc. which could be automated to a larger degree provided the processes in place are

comprehensive. This too would contribute to the *capturing residual value* segment, as usually online orders are usually placed by buyers for convenience more than any other aspect.

**Tutorial Note:** As you can see, the answers do not waste much time explaining theories such as big data and business models, rather they jump straight into relating it to the context of the question. Although the two are learnt separately in E2 and P2 (big data and business models), candidates should be able to write answers like this that combine knowledge from all three pillars!

### **How adopting integrated reporting may help portray a perception beyond merely financial value to Happy Playz stakeholders**

An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. Moreover, its primary purpose is to explain to providers of financial capital how an organisation creates, preserves, or erodes value over time. It therefore contains relevant information, both financial and other. This would cater perfectly to what our shareholders are requesting.

The International Integrated Reporting Council (IIRC) has classified the broad range of resources and relationships used and affected by the organisation in its business activities. Traditional business decision making would have focused on the financial aspects – tangible assets and liabilities. But increasingly value creation has relied on intangible factors such as intellectual, human, social and relationships and, of course, we are all more aware now of the importance of considering continuing access to essential natural resources.

For instance the relationships/deals Happy Playz has with manufacturers can be considered as part of *social and relationship capital* under the integrated reporting framework. A comprehensive briefing to stakeholders on the nature of deals we negotiate for the company as well as the standards and policies we have when selecting a manufacturer could give a good insight into how valuable our negotiation and networking skills are.

We could also showcase to our stakeholders our *human capital* i.e. people's competencies, capabilities and experience, and their motivations to innovate. Happy Playz employs all different kinds of staff – from head office employees to retail outlet staff who

deal directly with customers. For example, we could showcase to our stakeholder's the value a friendly, educated, and energetic shop manager/sales assistant has on the overall brand of the company.

Finally our *manufactured capital* can also be showcased to shareholders. In the case of Happy Playz we could emphasise on how our stores and infrastructure in particular have been conveniently located with ample parking in out-of-town retail parks that have many other retail shops so that customers can have a full and diversified shopping experience.

**Tutorial Note:** An area that is tested many times by the examiner. Make sure you are fully familiar with the concept of integrated reporting – its purpose, the six capitals, the whole lot!

Finance Manager



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