



## **Mini Mock: Answer Plan**

Strategic Case Study – November 2023 / February 2024

## **Answer Planning Technique**

Please refer to the recorded version of Webinar “Answering Technique” for an in-depth guide on answer planning. Visit [https://www.studyattcs.com/product/scs\\_packages](https://www.studyattcs.com/product/scs_packages) and check out the “Free Content” tab to access the video tutorial.

Replicate the same technique when practicing the five mock exams & when attempting the real exam.

## **Steps to follow**

1. Read the scenario & reference material: 5 minutes.
2. Reiterate each requirement in your own words. Keep it simple.
3. Develop headings and sub-headings.
  - a. Headings: Bold & Underlined format
  - b. Subheadings: Bold format
4. Develop each answer plan on the answer screen: 25 minutes.
5. Type the final answer. Simply expand the answer plan: 30 minutes.

## **Reiterating the Requirements**

### **TASK 01**

- FA’s comments: Introducing cobots (25% = 12.5 marks)
- Director’s salary increments (25% = 12.5 marks)
- Recommendations to minimize the impact of carbon laws (50% = 25 marks)

### **TASK 02**

- How to respond to the data breach & the implications of each response (60% = 30 marks)
- Recommend objectives to be set for the Head of IT (40% = 20 marks)

### **TASK 03**

- How to finance the IS investments (50% = 25 marks)
- How to manage currency risks (50% = 25 marks)

### **FA's comment (12.5 Marks)**

- Diversification: Introducing cobots
  - Increased cashflows
    - High dividends can be paid
  - Increased profits
    - High share price
  - Initial cost of introducing cobots: High
  - Long run: Costs will decrease
    - Operational efficiency withing clients' WHs
  - Additional revs: new customer segment
    - Environmentally conscious customers
    - However, need to monitor additional operational costs: SW integration
  - Increase Beta
    - Current 0.91
      - Stock is less risky at present
      - Attracts risk averse investors
    - Beta increasing: Volatility of shares increases (riskier)
      - Short term: share price might dip
      - Increased ke
    - Long run
      - Reduced risk due to better profits and cashflows
  - Risks
    - Systematic/ Market risk
      - Economic downturn, regulatory changes, tech disruptions, political issues, environmental concerns
    - Specific risk
      - Risks associated with production, operation & upkeep of cobots
      - Should monitor & control each risk regularly

### **Director's Salaries (12.5 Marks)**

- Legitimate for directors to request higher salaries
  - Increased workload due to increased business risk (Beta is increasing)
- Directors should not decide
  - To avoid conflict of interest
- Should be set by the Remuneration Committee (RC)
  - Non-execs should dominate (We conform)
- Board responsibilities have increased
  - RC should benchmark with salaries paid by other WH automation companies
  - Objective: Attract and retain capable directors
  - Salaries should not be excessive
  - Appoint new Directors to handle workload? If so,
    - Nomination Committee (NC) should handle it
    - Non-execs should dominate (We do not conform)

## Managing the impact of carbon laws (25 Marks)

- Identify main stakeholders
  - Environmentalists
    - High interest low power
    - Can harness the power of the govt
    - Don't negotiate directly
      - Bad publicity
    - Use media to engage: Robobryce's narrative
  - Govt
    - High power high interest
      - Due to its election promises
    - Explain that the law affects other stakeholders adversely as well
    - Engage directly
      - How to change?
        - Highlight our belief of enhancing social wellbeing (Values)
        - Change internal dynamics if needed to fall in line
  - Major stakeholders: suppliers & logistics providers
    - Collaborate and try to reduce emissions in manufacturing & transportation
    - Ask them to support us change the law
    - Lobby
      - To save livelihoods of employees, shareholders & connected stakeholders
      - Should not be too excessive
  - Competitor (Pavrobot)
    - High interest. If both companies work together, power increases
  - General
    - Internal investigation: Is the article factual?
    - If yes,
      - Accept fault publicly
      - Inform about steps to mitigate
        - Media & our website

## TASK 02

### **Strategic Options: Data Breach (30 Marks)**

Do nothing

- Not too sure whether the Head of IT's findings are accurate
  - No direct evidence that user accounts have been compromised
- Can avoid an unnecessary controversy over Robobryce's online security
  - Clients were reckless to share their 3 digit CVVs
- If the findings are accurate, this strategy leads to bad reputation

Inform major credit card companies about the data breach

- Proactive response, minimizing public exposure
- However, cannot release identities of affected clients due to data protection laws
  - Should seek permission from clients to share info
  - Sharing data when faced with data breaches should be part of company's standard terms of business

Suspend all services until IT issues are resolved

- Can investigate fully
- Prevents further data losses and hacks
- Can upgrade defense mechanisms
- Clients will be happy to know Robobryce picks data security over continuing business operations
- However, will cause significant service disruptions, even for clients who were not affected by the breach
  - Negative reputation
  - Lower competitiveness
  - Goes against the vision: enhance efficiency provided to customers

Public admission of the data breach

- Issue a press release and post on social media
  - Should be immediate and effective
  - Focus on maintaining Robobryce's reputation
- The move minimizes the probability of future data breaches
  - Alert users to contact their credit card companies & banks
  - Serves as a warning about suspicious requests for data
- Should highlight all info about the data breach & mitigatory action sought

**Objectives: Head of IT (20 Marks)**

Head of IT should reach a tentative conclusion about the cause of the incident

- Board should share a set of questions to be answered by the Head of IT

Head of It should determine;

- The time taken to identify affected clients
- The type of data compromised
  - Can inform clients to take mitigatory action (cancelling credit cards)
- If info cannot be released immediately;
  - Head of IT should determine a deadline as to when facts will be made available
  - Head of IT should strictly adhere to the deadline

Head of It should prepare a report highlighting;

- The nature of the attack
- The methods used by hackers
- Board should set a criteria for evidence gathering
- If hackers are identified, the report should spell out the criteria for criminal prosecution

Head of It should prepare a plan for preventing recurrences

- Quality of the plan should be vetted by an independent expert based on;
  - Effectiveness of responses
  - Cost-effectiveness of each response
- Head of IT should accept responsibility for the plan

## TASK 03

### **Funding Options (25 Marks)**

Total investment: C\$ 500 million or T\$ 1,500 million

#### **Hardware & Setup**

- Investment: C\$ 300 million or T\$ 900 million
- Options:
  - Long term loan
  - Issuing equity

#### ***Raising loan finance***

- Opting for loans: Effect on Gearing
  - Pre investment Gearing: 49%
  - Post investment Gearing: 51%
    - Gearing increases beyond 50%
    - Robobryce will be portrayed as risky in the eyes of lenders
    - Lenders will charge higher interest rates: Increases finance costs
- Securing a loan of T\$ 900 m
  - Difficult due to the nature of assets acquired
    - Investing on peripherals used for scanning & communication
    - The value will depreciate rapidly
      - No secondhand value
      - Most peripherals will be tailored for Robobryce's needs
      - Bad collateral
  - SW setup costs
    - Negligible resale value
    - Bad collateral
- Current debt of Robobryce
  - Higher than PPE
  - Cannot secure additional debt against existing assets



### ***Raising equity finance***

- Opting for a rights issue
  - Raising money by selling shares at a discount to existing shareholders
  - Decreases Gearing
  - Success depends on how shareholders are convinced
    - WMS upgrade is a significant enhancement of core operations

### **Annual Licensing Fee**

- Investment: C\$ 200 million or T\$ 600 million
  - Recurring expense
- Can be financed via working capital
  - No impact on Gearing
  - Robobryce's Net Assets: T\$ 3,069 million
    - Has enough net assets to finance this
- Can be financed via a short-term loan
  - No impact on Gearing
  - Can easily negotiate by presenting cashflow forecasts to lenders
  - Also, the interest cover is 3:1
    - Has enough operating profits to cover loan interest

### **Currency Risk (25 Marks)**

- Forward Contracts
  - Fixing exchange rates for future C\$ payments
  - Does not irradicate currency risk
  - Yet, offers certainty about future payments made in C\$
- Leading & lagging
  - Timing payments to capitalize on favourable forex movements
  - Paying an advance when the exchange rate is in Robobryce's favour
    - Cesco will prefer early settlements
    - However, Robobryce should consider the opportunity cost of early payments
    - Should monitor forex movements & forecasts to benefit from this strategy
- Communicate chosen plan to shareholders