

WEEK 8_3_WS (PRE-TEST)

Question 1

The developing country of Newtopia is rich in deposits of bauxite, the raw ore used to make aluminium. With the involvement of overseas governments and multi-national corporations, the country now has a thriving aluminium industry. The main product of the industry is aluminium roofing sheets that are used in the building of housing and industrial and commercial buildings. The production of the roofing sheets involves five stages, each of which is undertaken by a different company. The process, cost and revenue data related to each stage are detailed below.

- A. The bauxite ore is mined by the Global Mining Corporation, a UK-based multi-national. The company owns all of the mineral exploitation rights in Newtopia and therefore incurs no raw material cost. Mining costs of €5 per tonne of extracted ore are incurred and the company sells the ore for €12,40 per tonne.
- B. Glimri Metals, an Icelandic multi-national, buys the ore from the mining company and refines it to produce aluminium in slab form. There is only a 22% yield from this process which has conversion costs of €252,5 per tonne of aluminium produced. The aluminium slab is sold at €550 per tonne.
- C. ISAL Incorporated, a French multi-national, buys the aluminium slab from Glimri Metals and converts it into coiled strip form. There is no loss of material during this process. The conversion cost for this stage is €150 per tonne of aluminium strip which is sold at €880 per tonne.
- D. The Newtopia Sheeting Company, which is 100% state owned, buys the coiled strip and manufactures the roofing sheets from it. From each 1.1 tonne of strip, one tonne of roofing sheets is made. The conversion cost is €42,5 per tonne of sheets which are sold at €1.027.
- E. The roofing sheets are bought by the locally owned Builders Plc. which incurs storage and other costs of €29 per tonne. The sheets sell at €1.078 per tonne.

Although Newtopia ceased to be a colony more than three decades ago, it is only in the past year the government has felt confident enough to start reviewing its development strategy, particularly with regard to the involvement of overseas corporations. As part of this process, the government wishes to review the aluminium industry, particularly with regard to the position of the Newtopia Sheeting Company, which does not appear to be as profitable as the other companies in the industry.

Required:

- a) Prepare an analysis of the industry's value chain to assist the Newtopia Government in their deliberations. You can use table provided on next page to assist you in your presentation of your calculations.

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- b) Based on your answer to (a), briefly discuss the strategic options available to the Government.

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Table to be used with part a)

Stage	Purchase cost	Conversion cost	Total cost	Selling value	Added value	Value: Conv. ratio
Mining						
Refining						
Rolling						
Manufacture						
Building Supplies						

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Question 2

Big & Beautiful Fashion Ltd is a manufacturer of oversized women's clothing with three product ranges; casual, workwear and evening wear. The company sells its products to retail stores across Northern Europe. The company's management wishes to introduce a balanced scorecard to monitor the company's strategic progress. The following data for the past three financial years have been extracted from the company's systems.

	2005	2006	2007
Sales revenue by product range (£M)			
- Casual	8	15	22
- Workwear	52	48	42
- Evening wear	15	32	64
Number of customers at beginning of year	386	542	765
Average stock value for year (£M)	5	6	14
Total women's oversized clothing market in Northern Europe (£M)	800	1.020	1.280
Number of despatches made during year	6.200	8.950	13.600
Number of employees at the beginning of the year	299	340	562
Number of new products introduced during year	111	201	230
Number of products at beginning of year	512	572	732
Number of products discontinued during year	100	50	20
Gross profit margin by product range (%):			
- Rainwear	30	32	27
- Sportswear	20	21	22
- Skiing suits	5	6	5
Number of despatches made within 48 hours of receiving order	5.850	8.590	11.560
Number of garments sold	750.000	1.120.000	1.829.000
Number of garments returned	2.100	3.260	7.260
Delivery cost per despatch (£)	450	495	525
Overheads for the year (£M)	6.40	7.30	7.80

Required:

- Prepare a balanced scorecard using the provided data
- Suggest some other performance measures that could be included in the scorecard provided the necessary data were available.