May 2020 Examination

Apex Level
ICS – 501 Integrative Case Study
Scenario I

No. of Pages: 06
Instructions to all ICS students:

Please read carefully:

The primary objective of an 'Integrated Case Study' as the final course unit of this extended study program, is to give the candidates an opportunity to refresh, consolidate, co-ordinate, fine-tune and reinforce their knowledge and skills gained during this entire experience. During such an inclusive total program spanning over a period, the students are exposed to studying several multi- functional, multi- dimensional business-related academic disciplines, culminating with a capstone course unit dealing with business strategy and risk management. An integrated case consists of a practical business scenario where students are expected to actively participate and get acclimatized thoroughly, analyze the practicalities and complexities and apply their previously gained knowledge and skills to integrate such competencies in trying to come in to terms the challenges of such a live business situation.

Please note this must be beyond a class room experience and in fact be a genuine attempt to obtain the experience in the context of a comprehensive business case consider (more appropriate word in this particular context is 'given') this as an opportunity to apply previously gained knowledge and skills in relation to a living business situation. Using the previously accumulated knowledge and skills during the program you will be required to provide solutions to possible questions that might be tested during the exam. Hence, it will be necessary to visit the business sites and also explore possibilities of conducting interviews of accessible officials of the companies in the industry, in addition to analyse available from the secondary sources of information such as annual reports and web sites.

At the examination, often the role expected of you will be either as an employee, a director or as a consultant/advisor and for a successful examination experience it is imperative that the candidates get intimate knowledge of not only of the financial information but also the operational aspects, as well of the situation, because a value creating company largely evolves out of effective integration of financial and operational (including marketing and support functions) aspects.

It is also relevant to bear in mind that whichever the business we work for or happens to own, operates in a dynamic, practical world and the repertoire of theoretical concepts we learnt will help us to better understand the situation and formulate courses of action more effectively. However, we must take precautions not to have a 'straight jacket' solution approach merely based on theories only in case situations, without carefully considering the practical ramifications that confront each situation differently.
**Scenario I**

**Cargills Food City and Keells Super – Pillars of Sri Lankan Supermarket Industry**

**Sri Lankan Economic and Market landscape in the 70's and beyond: Supermarket industry.**

In the year 1977, Sri Lanka entered a new political era which introduced sweeping changes in the economic climate in particular, the adoption of open economic, trade and commercial practices. Emerging from a restrictive economic environment these developments brought about a host of sweeping changes in the market, socio-cultural and legal environments in the decade of 1980s and beyond. Import of non-essential goods that were hitherto severely discouraged found their way into Sri Lankan markets as much as many other luxury items.

One of such notable developments that came into effect in the late 80s and in the 1990 decade and was of somewhat novel to the Sri Lankan consumers was the advent of the concept of 'supermarkets' in the sphere of the retail industry. Basically a 'supermarket' is a shop offering a wide variety of food items, beverages and household products organized and selectively displayed under sections, and assistance available only when needed basis. In a supermarket environment the customers experience a more spacious and a convenient environment, usually air-conditioned, compared to a typical, and traditional grocery store having the luxury of making choices out of a wider range of merchandise. Yet another distinguishing feature is that it’s a self-serving experience with several checks-out counters; payments facilitated with the mode of a range of credit card options.

Initially operating only in the city of Colombo, the supermarket culture gradually entered the Sri Lankan retail industry. Serving among the high-income segments to begin with in some selected Colombo areas, supermarkets progressively invaded beyond the affluent into the middle-income markets in the major cities and surrounding areas of the country. By the advent of the first decade of the 21st century ‘Supermarkets’ were never meant only for ‘super’ and proliferating in to all city corners they are now an essential cog of day to day shopping and beyond, virtually for most, apart from those living interior areas still being served by brick and mortar shops. Emergence of the state sector supermarket version of ‘Sathosa’ in the late 1980s, currently branded and operating as ‘Lak Sathosa’, added further momentum to the growth of this industry as the household essentials were available at attractive prices. Perhaps the decade of 90’s is the period that supermarkets gained acceptance and currency at a national scale.
Keells Super and Cargills Food City as the dominant players in the industry.

Though the concept of a supermarket is attractive from the customer's perspective as it affords considerable benefits that fits in with the contemporary lifestyles of the modern-day consumer, operation and sustenance of this business model is considerably more difficult than it may generally appear. Probably this is the reason that several supermarkets such as ‘Cornels’ supermarket and ‘Anglo Asian’ supermarket that gained huge popularity at the incipient stage of this industry cycle could not sustain and continue withstanding emerging competition. These industry dynamics have led to the growth and success of the supermarket chains with financial and institutional backing of powerful groups in the like of ‘Keells’ and ‘Cargills’ brands along with the entrants such as ‘Laugfs’ and ‘Arpico’.

Cargills Food City

The legendary brand ‘Cargills’, undoubtedly, is one of the most valuable and coveted Sri Lankan brands that was in existence from the 19th century and celebrating a record 175 years during the year 2019. The famous Cargills building in Colombo Fort is amongst the most iconic and revered commercial sites of the country that has stood tall over generations amidst all modern developments. In fact, the brand is so powerful that Cargills and its associated brand Millers, is somewhat synonymous with exquisite quality and there was a time ‘Cargills/Millers’ as generic brand names implying high quality. Perhaps there is no better case to understand the invisible power of a brand as much as ‘Cargills’ in the field of strategic marketing.

The Cargills Food City is the country’s largest super marketer with an outlet strength of 380 as per the financial statements of the group for the year 2018/19, having commenced operations in 1983 with the opening of its inaugural store at Colombo’s staples street that is still considered as the chains premier location. Pages 176-178 of the annual report of the ‘Cargills Ceylon Plc’ provides an overview, summary financial results and information of the segmental composition of the group’s financial statements.

Keells Super

John Keells Holdings Plc (JKH), logically organized and structured at its corporate level into different sectors, the chain of supermarkets branded under ‘Keells Super’ is grouped under the ‘retail sector’ together with its ‘office automation’ business. The sector review incorporating external environmental and operational review for the year ended 31st March 2019 in respect of this retail sector is covered under pages 98-107 of the JKH Annual Report 2018/19. Keells Super outlets strength as for these financials amounted to ninety).
The following parts of the respective annual reports for the year ended 31st March 2019 of these companies extensively discuss their respective supermarket operations and students are advised to treat these areas as integral parts of their study material relevant to this case study.

**Cargills Ceylon Plc Annual Report 2018/2019: (Annexure 01)**
- Pages 08 -13 (Group Structure, Financial Highlights, Non-Financial Highlights and Our Businesses)
- Pages 22-23 (Management and Financial review –Retail Operations)
- Pages 67-73 (Sustainability report)
- Pages 176-177 (Notes to the Financial Statements –Segmental Information)

**JKH Annual Report 2018/2019: (Annexure 02)**
- Pages -63-69 (Group Consolidated Review –Strategy, Resource Allocation and Portfolio Management)
- Pages 98 -107 (Industry Group Review –Retail)
- Page 306 (Economic Value Statement)

**Intensifying Industry Competition**
At one of the recent board meetings of Cargills (Ceylon) Plc, one issue that received much attention was the increasing competitive threats emerging from different corners that even included an entry by another industry giant ‘Ceylon Biscuits’ with their version of ‘SPAR’ supermarkets. This noticeably is also a valuable international brand of supermarket chains. ‘ARPICO’ too is a formidable group that aims to further spread their wings in this line of business.

-End of Scenario I-

Cargills Ceylon Plc Annual Report 2018/2019

Annexure 01- Extracts relevant to the scenario- Cargills Ceylon Plc Annual Report 2018/2019

JKH Annual Report 2018/19:

Annexure 02- Extracts relevant to the scenario - JKH
<table>
<thead>
<tr>
<th>Evaluation</th>
<th>W*</th>
<th>Exceptional</th>
<th>Very Good</th>
<th>Good</th>
<th>Satisfactorily</th>
<th>Low</th>
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<tr>
<td>2. Application</td>
<td>Application of diverse theories and depth of learnings clearly in an analytical and practical manner.</td>
<td>Ability to apply diverse theories and depth of learnings clearly.</td>
<td>Ability to apply diverse theories and depth of learnings clearly.</td>
<td>Ability to apply theories and learnings.</td>
<td>Ability to apply theories &amp; learnings.</td>
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<td>5. Decision</td>
<td>Present feasible decision with realistic recommendations in a comprehensive manner</td>
<td>Presentation of feasible decision.</td>
<td>Presentation of feasible decision.</td>
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<td>6. Presentation</td>
<td>Ability to structure answer clearly and legibly.</td>
<td>Ability to structure answer clearly and legibly.</td>
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<td>Ability to structure answer clearly and legibly.</td>
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<td><strong>4-6</strong></td>
<td><strong>2-3</strong></td>
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W* = Weightage

ICS - May 2020 Examination – Marking Grid