Student Electronic Assignment Cover Sheet

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<thead>
<tr>
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</table>
Dear Investors,

I’m honored to join this organization as Chief Operating Officer and collaborate closely with Board of Directors to work together towards growth of the company.

As member of senior management, we are committed to implement new long-term strategies for success in business. One of the ways that we have identified for business growth is acquisition. This option is cost-effective from company’s point-of-view because company would require investing heavily to start a new broadcasting business. So as part of this initiative, we have identified a potential broadcasting company within the European Union (EU) for acquisition.

After going through the new company’s most recent financial statements and discussion with some of the investors, I have identified some key measures that will help you as well as management team to understand the importance of this decision. In the report below, is a summary of why and how this new acquisition will bring value to you as shareholders.

Thank you for your interest in our company.

Enozaze Emuze & Rajesh Tukdeo
1. Strategic Planning, Operational Planning and Monitoring and Control Processes in an Organisation

1.1. What is strategic planning?

A strategic plan is a company’s “game plan”. A company should have a plan if it must succeed. Strategic planning allows an organization to formulate a route or map to follow, in order to arrive at the goal, it has envisaged to achieve. Because goals are projected for future, strategic planning would require long-term objectives. (David, 2013, p. 35)

According to David (2013, p. 36), Strategic planning is:
1. Developing a vision and mission,
2. Identifying an organization’s external opportunities and threats,
3. Determining internal strengths and weaknesses,
4. Establishing long-term objectives,
5. Generating alternative strategies, and
6. Choosing particular strategies to pursue.

Strategic planning helps the strategist to make the following decisions:
1. Deciding what business to enter,
2. What business to abandon,
3. How to allocate resources,
4. Whether to expand operations or diversify
5. Whether to enter international markets,
6. Whether to merge or form a joint venture, and
7. How to avoid a hostile takeover? (David, 2013, p. 36)

(Management Guru, 2014)
1.2. What is Operational planning?

Once the strategic plan has been decided, the next phase is the operational plan. The operational plan is the action plan for the organization. It is a detailed plan of how the strategic plan will be carried out. It involves the use of the organization’s resources to implement the strategic plan. The operational plan could also be called strategy implementation. (David, 2013, p. 36)

Effective strategy implementation could be done by:
1. Developing a strategy-supportive culture
2. Creating an effective organizational structure
3. Redirecting marketing efforts
4. Preparing budgets
5. Developing and utilizing information systems and,
6. Linking employee compensation to organizational performance

(David, 2013, p. 36)

1.3. What is Monitoring and control process

Monitoring and control process can also be called strategy evaluation. In strategic management the third and last stage is known as strategy evaluation. This stage allows managers to check if the strategic plan is going as scheduled. (David, 2013, p. 36)

Strategy evaluation can be categorized into three activities:
1. Reviewing of internal and external factors which are the base for the current strategy.
2. Measuring performance
3. Taking corrective actions

For an organization to remain on top, as a leader of its industry, it must carry out strategy evaluation because every success story comes with its own challenges.

1.4. Benefits of Strategic planning to an organization

1. Strategic planning provides the organization the opportunity to be proactive rather than reactive thus, the organization can initiate and influence activities, instead of responding to them.

2. With Strategic planning, the goals or purpose of the organization is clearly stated and defined, which gives the organization a direction.

3. With the purpose of the organization clearly stated and defined, decisions can be made. The vision and mission of the organization help channel the thoughts of management and employees to make the right decisions and choose the kind of ideas that are not just good but align with the company’s goals.

4. Businesses need a solid foundation to remain relevant. The world and technology is changing, a company without focus and proper structure will not last long. With strategies in place and clearly written goals and mission, a company can reshape it strategy and objectives and technology changes and the business environment evolves.

5. Strategic planning takes into consideration the customer segment, the market condition and product and services that is better suited for the company’s purpose.
6. Strategic planning takes the company’s focus away from their competitors and gives the company a differentiation from other companies in the same industry.

7. A very discouraging factor for employees is not feeling fulfilled in their work. Strategic planning with effective communication from management to lower level employees creates a sense of belonging to the organization and builds morale and commitment to make things work. (Mitchell, 2007)

8. With strategic implementation, individual responsibilities and roles are defined or clarified.

9. Through strategy evaluation a company can develop a framework to improve coordination and control of activities.

10. Management could clearly identify challenges and weak areas in the organization while strategizing.

11. Through effective communication and aligned responsibility employees develop an attitude that embraces change. (David, 2013, p. 36)
2. Applying Strategic Management to Newly Acquired Company

2.1. Strategic Plan
Management would take the following steps to strategic planning:

- Business process would be redesigned to incorporate plan for new technology such as, digital and internet broadcasting.
- Strategies to improve the radio broadcasting would be put in place. Such strategies include equipment, training for staff and rebranding of radio channels.
- In-house programs are less expensive than purchased programs; hence strategies to improve quality of internally produced programs would be put in place.
- Staff would be encouraged to be committed and devoted to the long term objectives of the company.

2.2. Operational Plan
Management would carry out the following operations according to the strategic plan:

- New information systems will be implemented to support digital broadcasting and the use of internet as well. Information systems can only be designed based on the reviewed and improved business process (Laudon and Laudon, 2012, pg. 5).
- Reward system for performance would be introduced for staff and a special sum of money for ‘best staff’ annually.
- Advertisement fee would be charged according to viewing rates of programs.
- Budget should be focused on improving radio broadcasting, because industry average for revenue in radio broadcasting is much higher than television broadcasting.
- Budget should also be focussed on improving internally produced programs. The internally produced programs cost less than outsourced programs.

2.3. Monitoring and Control Processes
Management will take the following steps to ensure improvement in overall monitoring and control processes within the new acquisition:

- Observe status of product placement in the European Union.
- 10% of transmission time or the programming budget must be reserved for European works from independent producers.
- All advertisements will be monitored to prohibit advertisement of medicine prescriptions and other prohibited products.
- Programs within the European Market, programs will be freely available to other member states.
- Quality of internal production should be monitored, for improvement, because the internal programs cost less for production, so if improved, more revenue could be generated for both television and radio broadcasting.
3. Balanced Scorecard

3.1. Performance Balanced Scorecard of new acquisition

### Financial Measures

1. Revenue % by sector
2. Total sales
3. Lease Rental costs
4. Profit as % of Sales
5. Current Ratio

### Customer Measures

1. Customer Satisfaction
2. Customer Retention
3. Customer Relationship
4. Market Share

### Internal Process Measures

1. Continuous Improvement
2. Regulation Adherence
3. Community Involvement
4. Payback from new products

### Learning & Growth Measures

1. Employee Skills Development
2. Employee Retention
3. Employee Satisfaction
4. Innovations

3.2. Applying Balanced Scorecard to Acquisition company

3.2.1. Financial Perspective

Strategic objectives under financial perspective deal with shareholders. Questions that can be addressed in this perspective are

- What measures are linked with concerns of shareholders?
- How sustainable is business in long-term?

(Niven, 2006, p.148)

a. Revenue % by sector
   - Objective - Improve revenue share of radio broadcasting compared to TV broadcasting
   - Target – At least 50% revenue should be from radio broadcasting
   - Initiative – At present in 2014, TV broadcasting revenue is major portion of total revenue (62%) while industry trend is to have more revenue from radio rather than TV. One initiative is that company will buy radio programs that would target diverse audience throughout Europe which will bring more revenue from advertisers. Another initiative is to produce programs internally that would attract regional people which will increase audience.

b. Total sales
   - Objective - Increase total sales
Target – Target sales growth will be 4.5% over last year
Initiative – Sales has risen by 4.17% in 2014 as compared to industry average of 4.74% for same period.
One way to increase sales in broadcasting company is to attract more advertisers & get more sponsorship. To achieve this, company will produce as well as buy radio & TV programs having high quality and use them for prime time when more & more viewers & listeners will be available.

c. Lease Rental costs
Objective - Decrease lease rental costs
Target – Reduction in lease rental cost by 5% over next year
Initiative – Operating lease rental means a contract indicating renting an asset by company for short-term use. Lease rental costs have soared by 13% in 2014 in contrast to industry figures where rentals have gone down by almost 10%. This indicates that company has borrowed assets on recurring basis for short duration. To reduce rental expenses, we will first assess company’s existing assets as well as assets that are used frequently but not owned by company. If purchasing cost of such asset is comparatively less than lease rentals associated with them then company can buy them since these assets will serve for long term and will be utilized to generate more revenue. (Milano, 2012)

d. Profit as % of Sales
Objective – Increase net profit % of total revenue
Target – Target profit will be 18% of total sales
Initiative – As of now, profit has been in range of 15 to 16% of total sales while industry standard is above 20%. This is due to rise in costs in 2014. This cost has pushed profit % down compared to sales. Among costs, cost of internal programs as well as purchased programs will be controlled in order to raise net profit. Another cost that will has affected profit % is rise in staff cost.

e. Current Ratio
Objective – Improve Current ratio
Target – Current ratio will touch 1
Initiative – Current ratio is ratio between current assets & current liabilities. In broadcasting industry, this ratio is around 1.18 while company’s ratio is 0.8. This indicates that assets are less compared to liabilities. Even though company has managed to reduce liability by 8%, it is still on higher side compared to industry standard of 14%. After examining balance sheet, it has been observed that bank loans under current liabilities have increased instead of decreasing. That means company is spending a lot on short-term obligations. So company has to opt for minimum bank loan only as required.

3.2.2. Customer Perspective
Strategic objectives under customer perspective deal with customers. Questions that can be addressed in this perspective are
– Who are our customers?
– How are we addressing customer issues?
– What measures should we take to retain existing customers? (Niven, 2006, p.154)

a. Customer Satisfaction
Objective - Improve customer satisfaction
Target – Positive feedback about services from satisfied customers
Initiative – Due to technical advances like internet, customers now have more options in radio & TV industry in Europe. Also under EU licensing terms, TV programs should be broadcasted in all regions freely irrespective of boundaries. So contents should be more region specific based on factors like language, culture etc. This will help customers to have good ROI on the investment they have made in our company.
b. Customer Retention
✓ Objective – Retain existing customers
✓ Target – After acquisition, customer should be still with the company
✓ Initiative – Even a single customer is valuable to business. So every effort should be made to keep customers happy after acquisition. For this, company has to offer better business value to its customers that they were getting before acquisition. Due to competitive market, customers have wide choices available. So TV & radio contents must be of high quality. High value & loyal customers will be offered discount in their sponsorship during popular TV & radio programs to retain them.

c. Customer relationship
✓ Objective – Enhance customer relationship
✓ Target – Better customer intimacy
✓ Initiative – To keep revenues flowing is necessary for business survival and one way is to maintain better relationship with customers. It helps to understand their needs better and improves customer intimacy.

   A survey about this will be undertaken with existing as well as new clients to know their expectations and suggestions. Similarly, feedback on social media like Facebook & Twitter will be monitored to know public opinion about company & quality.

d. Market Share
✓ Objective – Improve market share compared to current
✓ Target – More market penetration with respect to radio broadcasting
✓ Initiative – Currently company earns less than 40% of revenue from radio broadcasting. It indicates that it has failed to capture share in radio audience market which is causing revenue not growing compared to industry.

   In order to capture more market share, company has to cater linguistically & culturally diverse public. Same program may not be necessarily accepted everywhere. Company will utilize 10% of broadcasting quota from independent producers to target different groups & communities.

   Another way to increase market share is to introduce programs for wider audience i.e. international. This is possible due to record-and-playback devices and internet.

3.2.3. Internal Process Perspective

   Strategic objectives under internal process perspective deal with operations & its associated processes in the business. Questions that can be addressed in this perspective are
   – Which existing processes need to be improved?
   – Which regulations/rules to be followed strictly?
   – What measures should we take to improve quality? (Niven, 2006, p.156)

a. Continuous improvement
✓ Objective – Improve quality of internal programs
✓ Target – Internally produced programs should generate more revenue compared to purchased
✓ Initiative – For the company, it is cheaper to produce broadcasting programs on their own instead of buying from outside production companies. Even though purchased programs are generating good revenue, it is not effective since company has to pay higher cost to producers. To counter this, company will keep check on quality of internal program contents to make sure that they also appeal the audience as well as customers.

b. Regulation Adherence
✓ Objective – Keep strict check on rules & regulations
Target – Program contents must pass regulations to avoid licensing fines

Initiative – Licenses are most important intangible assets in this industry since it has comparatively long life. License alone makes almost 75% of total assets. But there are many regulations for companies to follow and failure to comply these regulations results in penalties or cancelation.

Here are regulations that company will follow to avoid fines –

- TV programs of EU broadcasting companies must be available in all states freely under TWF license agreement.
- 10% broadcasting quota will be reserved for independent producers
- Contents will be screened for any adult contents if the programs are targeted for minors

Community Involvement

- Objective – Broadcast programs that can involve communities
- Target – Programs will be more customized to suit regional communities in EU
- Initiative – When purchasing programs from production companies, its contents will be screened thoroughly to make sure that they will appeal to diverse group of people rather than concentrating on single group. This will be done sports programs also which will target only those areas in EU where it is expected to receive more followers.

Payback from new products

- Objective – Make effective use of product placement
- Target – Company will use product placement to generate good IIR for customers
- Initiative – Product placement for customers can also generate revenue. Even though some European members don’t consider it legal, company can produce programs with product placements and transmit them only in those states where it is legal.

This will definitely help to get payback from product placement since companies would use our programs to promote their products & services in these regions. To achieve this, programs having products as part of contents will be scrutinized for any impact on program quality.

Learning & Growth Perspective

Strategic objectives under learning & growth perspective deal with employees, IS capabilities & motivation in the business. Questions that can be addressed in this perspective are

- How can we learn and continue to improve?
- What measures to take to improve employee satisfaction?
- What measures should we take to develop leadership? (Niven, 2006, p.162)

Employee Skills Development

- Objective – Enhance employee skills among staff
- Target – Budget for training & development will be increased by 5%
- Initiative –
  - Lectures/workshops of prominent people well-known for their ideas will be arranged so that they can share their knowledge and provide guidance to staff
  - Production staff will also learn new techniques about styles & formats from broadcasting industry experts
  - Presenter staff will be encouraged to participate in forums/seminars on broadcasting so that they can exchange ideas & learn from other presenters and also help to promote company brand

Employee Retention

- Objective – Improve employee retention ratio
- Target – Reduce employee attrition by 5%
✓ Initiative – It is commonly observed that employees tend to become paranoid after acquisition due to uncertain future and decide to change their job. Management will listen to employee grievances about policies, remuneration, working conditions, career etc. and will address them in shortest possible time. This will help employees to think about their long-term future. (Retaining your best people, 2006, pp.46-60)

c. Employee Satisfaction
✓ Objective – Enhance employee satisfaction
✓ Target – Company’s rank in employee satisfaction should go by 2 positions
✓ Initiative – Broadcasting industry is competitive so it always looks for talent which causes employees switching from one company to another. So it is utmost essential for management to keep employees satisfied because their morale is directly associated with productivity. (Retaining your best people, 2006, pp.70-80)

d. Innovations
✓ Objective – Learn new technologies & adopt them for better growth
✓ Target – At least 50% of current staff will be familiar with challenges due to new technologies and upgrade their knowledge
✓ Initiative – Due to rapid changes & new inventions in digital technologies, broadcasting industry has become more challenging. Some of the digital innovations that have changed industry are Internet, digital recorders and on-demand programs for viewers/listeners. Company will invest heavily on adopting these innovations not just to sustain in this competitive market but also to stay ahead of competitors. (Tencer, 2014)

3.3. Strategy Map based on scorecard
3.4. Broadcasting Industry analysis using Porter’s 5 Forces model

Threat of new entrants -
Licencing in broadcasting industry is subject to several mandates from regulatory bodies. So it is not easy to acquire license for a new company wishing to enter in the market. Because of these conditions, threat of new entrants is LOW.

Threat of substitute products -
Due to technology, many alternatives to radio & TV are now available for consumers. They include tablets, mobiles, websites providing online songs, video channels which are driven, easy internet access. So threat from substitutes is HIGH.

Competitive rivalry -
Customers always demand quality contents in this sector and due to high bargaining power of consumers, market is very competitive. Also the industry focuses on TV & radio broadcasts only. So rivalry among them is equally HIGH.

Bargaining power of suppliers -
For broadcasting companies, independent program production companies are major suppliers of contents. Even though there are high entry barriers and many established companies, bargaining power of suppliers is still LOW since there are many production houses in the market.

Bargaining power of customers -
Customers of broadcasting industry are listeners/viewers and advertising companies. There are many established companies in this industry. So customers do have many options available to choose from which makes bargaining power of customers HIGH.

(Lin, 2015)
4. Costing

<table>
<thead>
<tr>
<th>Variable Cost</th>
<th>Fixed Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of units produced</strong></td>
<td>100</td>
</tr>
<tr>
<td><strong>Fixed cost</strong></td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Cost per unit</strong></td>
<td>1,000</td>
</tr>
</tbody>
</table>

(Cost Behavior, 2014)

Importance of costing in business –
- Helps to control cost of material which forms major part of a product
- Helps to control cost of labor
- Keeps check on overhead or indirect costs like admin charges, depreciation cost etc.
- Facilitates management to come up with selling price of products & services
- Helps management in budget allocation

Limitations of cost accounting –
- Less accurate since based on estimation
- Less reliable in terms of producing results
- Need participation of many departments (Drury, 2008, pp. 28-32)

Traditional vs Activity Based Costing –

(Mcbee, 2015)
4.1. Traditional Costing

In case of traditional costing, overhead costs are allocated by departments as cost centers. It is mostly based on direct labor and machine hours that results in no. of units produced because it is based on assumption that labour & machine costs should be considered as primary overhead allocation policy. Output volume is secondary important in this method. (Akyol, Tuncel and Bayhan, 2007)

For example, a fictitious company requires machines to produce two jobs – J1 & J2. Job J1 requires 4 hours of machine while J2 requires 8 machine hours.

Week 1 - Assume there is an overhead of €180 which has to be distributed between these jobs. In normal allocation method, this overhead will be divided based on machine hours.

Week 2 - Now imagine that job J2 is now done on new machine which has reduced machine hours for J2 from 8 to 2 and new overhead is €240. In traditional method, total overhead will be again divided as per machine hours.

<table>
<thead>
<tr>
<th>Week</th>
<th>Total Overhead</th>
<th>Job J1 Hours</th>
<th>Job J2 Hours</th>
<th>J1 Overhead</th>
<th>J2 Overhead</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>180</td>
<td>4</td>
<td>8</td>
<td>(180 * 4) / (4+8) = 60</td>
<td>(180 * 8) / (4+8) = 120</td>
</tr>
<tr>
<td>2</td>
<td>240</td>
<td>4</td>
<td>2</td>
<td>(240 * 4) / (4+2) = 160</td>
<td>(240 * 2) / (4+2) = 80</td>
</tr>
</tbody>
</table>

Above table shows that new machine has brought benefits for J2 and nothing for J1 but still large portion of overhead has been allocated to J1. (Mcbee, 2015)

Advantages of traditional costing –

✓ It is easier in cost determination
✓ It is less expensive due to simplicity

(Hayden, 2014)

4.2. Activity Based Costing

In 1980s, business started sensing limitations of traditional system due inaccurate costing of services & products. During those days, overheads were not huge so it didn’t affect much but later when overheads started growing, it had an impact on costing process. Cooper & Kaplan first published articles about alternative approaches of costing during 1988 and came up with term ‘ABC’. After working with US companies, they articulated the idea further in 1990s. (Drury, 2008, pp. 225)

ABC method gives stress on identifying cost centers (cost pools) based on set of identical activities grouped together. So the cost allocation is based on these cost centers & not by department like traditional system. Instead of overhead rates, ABC uses term ‘cost driver’ to indicate allocation basis. These cost drivers can be volume based or non-volume based.

Steps in ABC –

✓ Calculate total costs for each cost pool
✓ Identify cost driver for each cost pool
✓ Calculate cost driver rate
✓ Allocate overheads based on rates for each cost driver

(Kaplan Financial, 2012)
4.3. Selecting Costing Method

- **Finalizing ABC**
  After comparing two costing methods, it has been recommended that ABC would be more suitable to do costing for the new company to be acquired. Primary reason for the choice is nature of our business. We are in broadcasting industry where there are no tangible products similar to manufacturing industry. It is more of a service than a product. So ABC would be helpful in allocating the overheads based on cost drivers rather than departments used in traditional method.

  Advantages of ABC –
  ✓ More accurate costing than traditional
  ✓ Suitable for products as well as services
  ✓ Can be applied all overhead types and not just production overheads
  ✓ Helps management in improving decision making

- **Limitations of ABC**
  ✓ Expensive to implement
  ✓ Processes complex
  ✓ Not possible to allocate all overhead costs

- **Why not Traditional?**
  Traditional method does have its limitations. Even though it is simple to implement, it is not accurate. After applying this method, there is risk of over-costing or under-costing which management wouldn’t find appropriate for budgeting. This method is also not suited for service industry.

4.4. Applying Costing to Acquisition company

4.4.1. Cost Behavior

After analyzing company’s financial data (Income statement), we notice that within total cost of the company, staff costs & operating lease rentals have exactly opposite trends compared with industry. Both of them have shown increase from 2013 to 2014 while these values have declined in industry.
4.4.2. **Cost Drivers**

In ABC, it is essential to identify potential cost drivers where overheads can be allocated. Based on company information, labor & material will be considered as primary source for overhead allocation. Now overhead among in-house programs will be allocated based on labor and material.

<table>
<thead>
<tr>
<th>Activity causing overheads</th>
<th>Cost Driver</th>
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</thead>
<tbody>
<tr>
<td>Producing Program</td>
<td>Direct labour hours</td>
</tr>
<tr>
<td>Depreciation</td>
<td>Equipment setup</td>
</tr>
<tr>
<td>Renting overheads</td>
<td>Equipment hours</td>
</tr>
<tr>
<td>Admin overheads</td>
<td>No. of Employees</td>
</tr>
</tbody>
</table>

Assume that out of total 50 employees, TV unit has 30 staff while radio unit has 20 staff. So the total admin overhead during in-house production will be allocated based on no. of staff in each unit. 60% of overheads to TV and remaining 40% overheads to radio.

Similarly lease rentals overheads will be distributed based on equipment usage. E.g. if TV unit uses rental equipment for more hours than radio, then that unit should carry proportionate rental overheads.

5. **Investment Appraisal**

One of the techniques to appraise investment is ROCE (Return of Capital Employed).

<table>
<thead>
<tr>
<th>Type</th>
<th>Capital employed in 2014</th>
<th>Profit before Tax in 2014</th>
<th>ROCE in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition company</td>
<td>€82,927,000</td>
<td>€24,570,000</td>
<td>29.63</td>
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<tr>
<td>Broadcasting Industry</td>
<td>€305,883,000</td>
<td>€86,626,000</td>
<td>28.32</td>
</tr>
</tbody>
</table>

So if we compare ROCE of the acquisition company with industry, investment in new acquisition certainly looks good proposition.

6. **Conclusion**

From above analysis, it will be clear to investors that our proposed plan to acquire new broadcasting company will definitely bring long-term benefits and help us to strengthen our position in the broadcasting industry by improving market share.
7. Bibliography


