

2019 ACCA Job Hunting Competition Grand Final

Case study scenario and tasks

Utopia

Introduction

Utopia Company is a listed company which operates major theme park complexes around the world. The company's theme parks are named 'Utopia'.

Utopia's corporate headquarters are located beside their first theme park complex in a country in Western Europe.

Exhibits 1 - 4 provide information relevant to Utopia Company.

Exhibit 1: Extracts from a report on Utopia Company produced recently by a management consultant as part of a strategic review.

Exhibit 2: A transcript of a recent telephone conversation between yourself and Moeen Hasan, Utopia Company's CEO, regarding a possible new ride. The Exhibit also includes a related email message.

Exhibit 3: An extract from the minutes of a recent Utopia Company board meeting discussing the possibility of Utopia developing and operating hotels.

Exhibit 4: An email message from Utopia Company's Finance Director and your line manager, Tara Adenowo regarding the resignation of a director of Utopia Company.

<p>You are employed by Utopia Co as a Senior Finance Analyst reporting to the Finance Director Tara Adenowo. The case requirements are as follows.</p>
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The case requirements are included in the tasks which follow:

1. Tara Adenowo (Finance Director) has sent you a report produced recently by an external management consultant. The report is shown in Exhibit 1. Tara is required to present key findings from the report at the next Utopia Company board meeting.

Required:

Prepare information for four presentation slides to be presented to the Utopia Company board, including relevant bullet points and supporting notes. The information presented in the slides should use a recognised model to analyse Utopia's strategic position.

(28 marks)

Two professional skills marks are available for demonstrating *analysis* skills, *business acumen* and *communication* skills when analysing and communicating the company's strategic position.

(2 marks)

(30 marks)

2. During a period of annual leave for your line manager Tara Adenowo (Finance Director), you received an email from the Utopia Company CEO Moeen Hasan.

The email, and the attachments sent with it, are shown in Exhibit 2.

Required:

Prepare working notes for Moeen which evaluate:

- (a) **The strategic advantages and disadvantages of proceeding with the introduction of the Galaxy Warrior ride.** (8 marks)
- (b) **The likely implications of proceeding with the project on employees and shareholders (internal stakeholders), and customers and governments (external stakeholders).** (12 marks)

Professional skills marks are available across parts (a) and (b) for demonstrating *analytical* skills and *commercial acumen* skills in evaluating whether the ride fits with the company's strategy and explaining the likely impact on stakeholders.

(2 marks)

- (c) **Two key factors to consider when deciding which park the first Galaxy Warrior ride should be built in.** (6 marks)

Professional skills marks are available for demonstrating *commercial acumen* and *scepticism* skills in identifying and explaining factors to consider.

(2 marks)

(30 marks)

3. The idea of Utopia Company opening hotels on Utopia sites was raised at a recent board meeting. An extract from the meeting minutes is shown in Exhibit 3.

Since the board meeting Moeen Hasan (CEO) has been in touch with Tara Adenowo and requested a report covering different aspects of the proposed diversification into hotel development and operation.

Moeen has asked for the report to be produced to evaluate the strategic option of Utopia Company developing and subsequently operating one Utopia hotel on each of the Utopia parks.

Tara has asked for your assistance in drafting sections of the report.

Required:

Draft sections of the report to evaluate:

- (a) **Whether the development and operation of hotels would be a good strategic fit for Utopia Company including identifying the key risks associated with this strategy.** (8 marks)

Professional Skills marks are available for demonstrating *evaluation* skills and *business acumen* in selecting key points to include in the report and for providing clear supporting notes. (2 marks)

- (b) **Issues to consider when deciding how the new area of operation should be incorporated into the Utopia Company structure.** (8 marks)

Professional Skills marks are available for displaying *analysis* skills and *business acumen* when considering how to add the new operation into the company structure. (2 marks)

(20 marks)

4. You have received an email message from Utopia Company's *Finance Director* and your line manager, Tara Adenowo. Tara's email message is shown in Exhibit 4.

Required:

Prepare a briefing paper for Tara Adenowo which:

- (a) **Evaluates the performance of Utopia Company's remuneration committee in agreeing Dipa Malik's reward package.** (6 marks)

Professional skills marks are available for demonstrating *evaluation* skills and *commercial acumen* in evaluating the performance of the remuneration committee. (2 marks)

and

- (b) **Describes an appropriately designed and balanced reward package that could be used to attract a new director to replace Dipa Malik.** (10 marks)

Professional skills marks are available for demonstrating *commercial acumen* skills when designing an appropriate reward package. (2 marks)

(20 marks)

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Exhibit 1

A report summarising the findings of a strategic review completed recently by an external management consultant.

To: The Board of Directors - Utopia Company

Subject: Strategic review - Utopia Company

From: Nadia Ake (Management consultant)

Date: xx xx xxxx

Introduction

This report is based on information obtained from research of the theme park industry and from the executive directors of Utopia Company.

Organisational overview

Utopia Company is a listed company which operates major theme park complexes around the world. The company's theme parks are named 'Utopia'.

The company's first theme park complex opened in 1987, in Western Europe. The company's second park, in North America, opened in 1998. The third complex opened in Asia in 2008. Construction of a fourth park, in the Middle East, is well advanced. The park is scheduled to open in 14 months.

Utopia's corporate headquarters are located beside their first theme park complex in a country in Western Europe. The current Chief Executive Officer (CEO) is Moeen Hasan, who has been at Utopia Company for 10 years and CEO for 5 years.

Business model

Utopia's site selection and park development process follows the template established with Utopia's first park:

- Find an appropriately located but relatively cheap site
- Construct the park
- Encourage the growth of a supporting infrastructure including transport links and accommodation

Each park complex has large car parks, including space for busses and coaches, and a nearby railway station.

Each park includes three distinct zones:

- Junior-U, with rides and attractions intended to appeal to families with young children.
- Thrill-U, in which the major attractions are rides intended to thrill. Many of these rides are subject to height restrictions, although the vast majority of 12-13 year old children exceed the minimum height.
- Ocean-U, which has a marine theme including rides, play activities and the Ocean-U Arena in which trained dolphins perform with human trainers.

Utopia Company employ experts in engineering and design to develop new attractions. Each park is in a constant process of evolution, with new concepts being tested and implemented.

All parks have a monorail system that links the car parks, bus and railway stations to the park's main gate.

Visitors to all three established parks are a mixture of day trippers and those who stay overnight in the vicinity of the park, staying in hotels owned and operated by other companies as Utopia do not operate their own hotels.

Utopia Company's main sources of revenue are entry tickets, merchandise sold at retail outlets in the parks and food sold at the park's catering outlets. All rides and attractions are covered by the cost of the entry ticket. Tickets are sold both online and at each park's main gate. Tickets sold online are offered at a 5% discount, to encourage advance purchase.

There are two categories of tickets. Standard tickets include access to all park areas, shows and attractions but exclude admission to the rides in the Thrill-U area of the park. Premium tickets include access to all park areas, shows and attractions and also include admission to the rides in the Thrill-U area of the park. Premium tickets are 30% more expensive than standard tickets and are most popular among visitors aged 14 - 30.

The company aims to offer a consistent customer experience across all locations.

Strategic direction

Utopia has deliberately expanded capacity gradually, with a new park opening approximately every 10 years. It is feasible to build parks at a faster rate, but the board feels this would risk saturating the market and diluting the appeal and publicity associated with the opening of a new park.

Moeen Hasan encourages the board to see Utopia's core product as 'an escape from the routine of daily life'. A trip to Utopia must be seen as something special, an experience that will live in the minds of visitors long after they have left the park gates.

Visitors to Utopia parks have shown they are prepared to travel considerable distances and the relative scarcity of parks seems to be part of the attraction.

Utopia monitor the popularity of individual rides, shows and other attractions by measuring capacity utilisation and customer queue waiting time, and from customer feedback. Attractions which experience a significant drop in popularity are upgraded, adapted or replaced.

The rides, shows and other attractions offered are consistent across all Utopia parks which enables the company to provide the same experience regardless of park location.

Utopia work closely with other stakeholders to make visiting each park as convenient as possible. For example, the company has successfully negotiated changes to railway timetables so that 'express' trains from major cities stop at Utopia park railway stations.

Recent visitor numbers and key financial indicators

Over the past two years Utopia Company has experienced an average annual increase in visitor numbers of 6%, an average annual increase in revenue of 5.5% and an average increase in operating profit of 4%.

Utopia Company: Total visitor numbers (millions)

	<i>Most recent year</i>	<i>Previous year</i>	<i>Two years ago</i>
Age 9 and below	2.44	2.50	2.53
Age 10-16	1.80	1.80	1.76
Age 17-21	1.90	1.81	1.57
Age 22-30	2.45	2.31	2.10
Age 31-45	3.81	3.65	3.38
Age 46-59	1.62	1.44	1.29
Age 60 and above	1.15	0.94	0.87
Total	15.17	14.45	13.50

Revenue and operating profit

	<i>Most recent year</i>	<i>Previous year</i>	<i>Two years ago</i>
	€ million	€ million	€ million
Revenue	2,122	2,050	1,925
Operating profit	827	795	765

Operating profit as a % of revenue

<i>Most recent year</i>	<i>Previous year</i>	<i>Two years ago</i>
39%	39%	40%

Average revenue per visitor

<i>Most recent year</i>	<i>Previous year</i>	<i>Two years ago</i>
€139.88	€141.87	€142.59

The steady growth in revenue and operating profit has been achieved against a backdrop of steady economic growth globally.

In percentage terms, Utopia's revenue growth is slightly behind the growth in visitor numbers. Utopia's board attribute this to a change in the sales mix between standard tickets and premium tickets.

In terms of visitor number growth, Utopia has either matched or outperformed each of the major players in the global theme park market over this period. Utopia's popularity is attributed to their ability to regularly release new rides and features across the three areas of their parks.

Although Utopia relies upon discretionary consumer spending, senior management feel the company is positioned to perform well regardless of economic conditions. During periods of economic growth the proportion of Utopia visitors comprising international and domestic tourists increases. During times when economic conditions are more difficult, parks attract a higher proportion of local visitors who are economising by holidaying closer to home.

The board see Utopia's future as secure and prosperous as long as people wish to relax and enjoy themselves.

Other points of interest from the consultant's report

The theme park market is competitive with customers always looking for new experiences. New rides often require significant capital expenditure but also generate significant media interest and provide a focus for advertising campaigns.

The weather significantly affects attendance at parks. Poor weather, particularly rain, has been found to reduce attendance on a given day by up to 40%. Utopia are exploring possibilities for covering parks so they are not affected by the weather.

Health and safety is a high priority. All safety harnesses are checked multiple times per day and the mechanical aspects of rides are checked weekly by Utopia engineers. However, there is always the risk that accidents can occur which could be serious. Utopia are fully insured.

Around 50% of Utopia workers are members of trade unions. The involvement of unions tends to ensure that all companies in the industry pay similar rates.

Parks are open 365 days a year, which means that essential maintenance has to happen during scheduled attraction closures which are published a few months in advance.

Demand fluctuates significantly at each park across the year. Week days during winter months, outside of school holidays, are particularly quiet. Pricing initiatives have been introduced in an attempt to smooth demand, with very limited success.

Customer feedback indicates that Utopia staff are perceived by customers as being well trained and professional. However, customer approval ratings are significantly lower during the summer season at each park, when significant numbers of temporary staff are used.

The Utopia brand enjoys high brand awareness and Utopia parks are perceived as offering a high quality experience, reflecting effective public relations and marketing. The board are keen to establish Utopia as a genuine global brand and holiday destination, which some feel requires the company to downplay its European origin and diversify outside of theme parks.

Feedback from employee surveys indicate that staff morale and satisfaction ratings are generally good. Employees (and shareholders) believe Moeen Ali leads the company well.

In the most recent year, 43% of Utopia visitors were over 30 years of age. The equivalent percentage ten years ago was 35%. This statistic reflects the aging population in Europe and North America. The Middle East also has an aging population.

In interviews held with board members, two individuals expressed concern that the market research carried out before the new park in the Middle East was given the go-ahead was flawed, as it failed to take cultural differences into account. Both board members stated that they did not raise their concerns at board meetings as they feared being perceived as 'negative'.

There is some support at board level for a strategy of growth through diversification into the development and management of hotels.

There is also support at board level to investigate the opening of a fifth park, in South America, to take advantage of a growing 'middle-class' in the region.

In Europe and North America, parks have experienced some negative publicity from groups opposed to dolphins being kept in captivity and trained to perform for an audience.

The emerging technology referred to as 'Virtual Reality (VR)' has the potential to be incorporated in new theme park rides.

The Utopia board uses a matrix management structure (the structure is shown below). The structure has led to confusion and conflict at times, for example when decisions are being made regarding marketing activity in a region it is unclear whether the regional director or the marketing director has the final say.

Board structure

Utopia Company is organised in a matrix structure, as shown below.

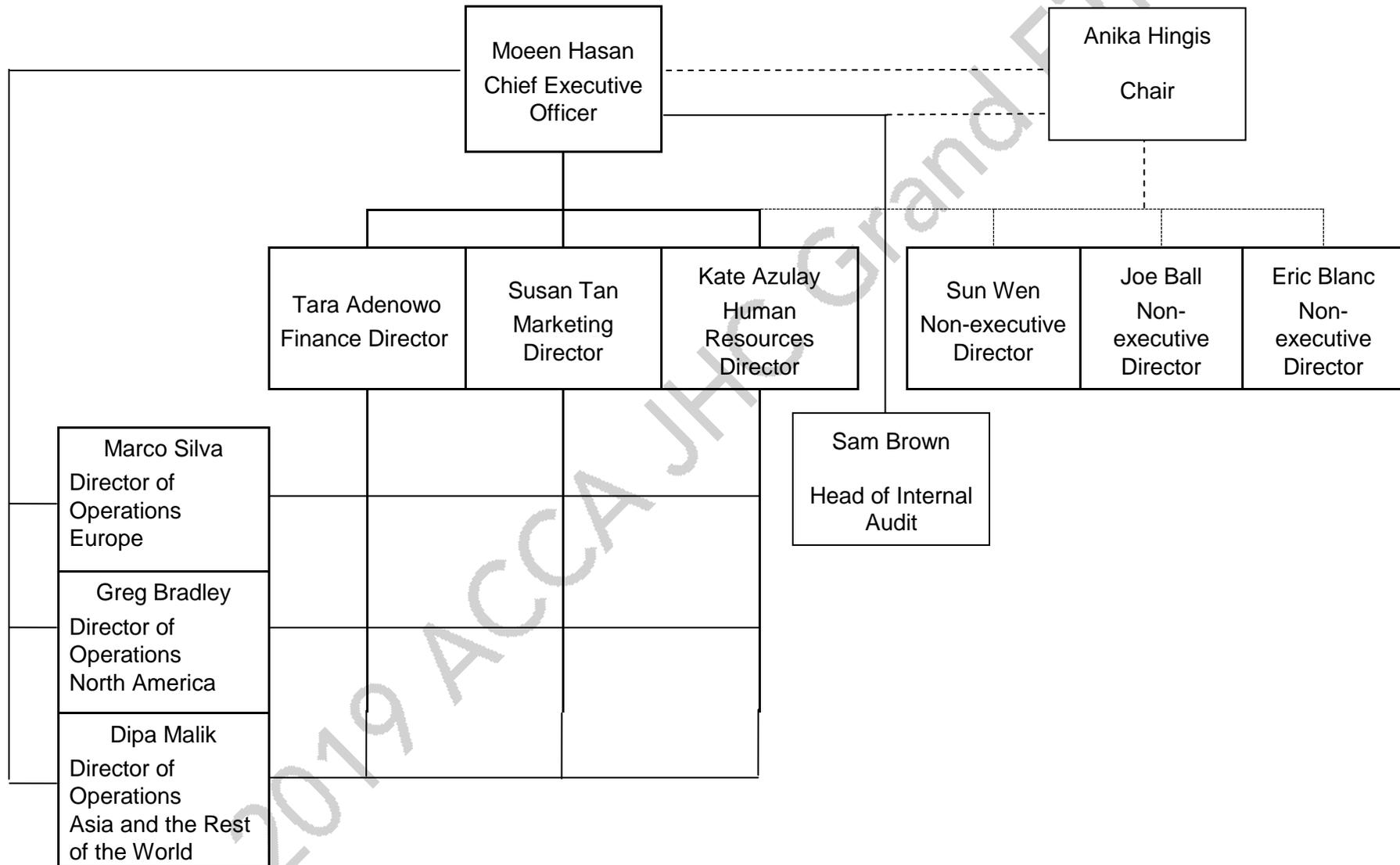


Exhibit 2

A transcript of a telephone conversation held between you and Moeen Hasan, Utopia Company's CEO, and an associated email.

Moeen	I was hoping to run this past Tara, but in her absence I would appreciate your input.
You	No problem Moeen.
Moeen	As we speak I'm emailing through an outline of a proposed new ride we have been working on with Real Fantasy Company. The concept involves riders wearing Virtual Reality headsets while riding a rollercoaster. There are still a few technical issues to sort out and some health and safety issues to resolve, but we have drawn up tentative plans to launch the first new ride in approximately 18 months-time.
You	Sounds exciting. Has the ride been named, and perhaps more importantly, has the project been costed and a financial business case prepared?
Moeen	You'll see brief details of the ride, and the ride name, in the document I've emailed through. Regarding a business case, Tara put some numbers together, but the reality is the project justification depends ultimately on the number of additional visitors we decide the ride would attract to each park, which is a number that is practically impossible to estimate realistically. What we do know is that the cost of installing each ride is approximately 50% higher than a new 'standard' roller coaster would be. The board and I have decided we must be innovative and lead the market in this area. We have decided the strategic benefits outweigh the hefty cost.
You	How would you like me to help?
Moeen	Please read the email I have sent through, and the attachments, and then get back to me regarding; whether proceeding with the introduction of the GW ride would be consistent with Utopia Company's overall strategy; the likely impact of proceeding with the project on internal stakeholders and external stakeholders and factors to consider when deciding which park the first ride should be built in.
You	No problem. I'll be in touch.

Email

From: Moeen Hasan
To: Senior Finance Analyst
Sent: xx/xx/xxxx
Subject: GW (confidential)

Please find brief details of the ride concept attached and a summary of a recent board discussion below.

Director of Operations, Europe

The first Galaxy Warrior ride should be installed in our European park as this was our first park and attracts the largest number of visitors.

Director of Operations, North America

The first Galaxy Warrior ride should be installed in our North American park as we face the greatest level of competition and have more potential to increase visitor numbers.

Director of Operations, Rest of the World

Clearly, the logical place for the first Galaxy Warrior ride is the park currently under construction in the Middle East. This will cause least disruption and cost less than elsewhere, as the park is not yet open to visitors.

Regards

Moeen

Moeen Hasan (CEO)

Email attachment

Galaxy Warrior (GW) concept

The ride will combine virtual reality (VR) with one of the world's longest and fastest rollercoaster rides.

Through the use of VR headsets, riders will fly across the Galaxy in an agile space cruiser, engaging in battle with other craft and alien creatures.

The VR experience will be synced with the rollercoaster movement. Blasts of hot and cold air and water vapour will enhance the experience.

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Exhibit 3

Extracts from minutes of a recent Utopia Company board meeting.

Agenda item: The strategic review	
Greg Bradley (via video link) <i>Director of Operations North America</i>	I had an excellent discussion with the consultant, Nadia Ake, last month. Nadia was very interested in the idea of Utopia opening our own hotels on Utopia sites.
Susan Tan <i>Marketing Director</i>	I understand the appeal of the idea, but in my opinion following this course of action would expose Utopia to significant risk. If things go wrong, we could damage the Utopia brand which has taken years of work to establish.
Greg Bradley (via video link) <i>Director of Operations North America</i>	With all due respect, every course of action carries risk. In my opinion, carrying on doing what we've always done is risky! A move into hotels is the obvious next step for us. In fact, I'd go as far as to say that this decision is what we in the US refer to as a 'no-brainer'.
Moeen Hasan <i>Chief Executive Officer</i>	Thanks Greg, a move into hotels may well turn out to be the correct course of action, but we've got some great brains here and we will use them to help us make the right decision! Tara, I'll be in touch about exploring this option.
Tara Adenowo <i>Finance Director</i>	No problem Moeen, I will wait to hear from you.
Moeen Hasan <i>Chief Executive Officer</i>	Thank you, I will be in touch. We will also include the possible move into hotels as an agenda item for the next board meeting.

Exhibit 4

An email received from Tara Adenowo, your line manager and the finance director of Utopia Company.

From: Tara Adenowo
To: Senior Finance Analyst
Sent: xx/xx/xxxx
Subject: CONFIDENTIAL: Remuneration committee

Hello

I'd appreciate your input on a sensitive issue regarding Dipa Malik, one of our directors. Please keep this email and any follow-up confidential.

Just over three years ago, Dipa Malik was appointed director of operations for our 'rest of the world' region. At the time, it was felt that Dipa's background in building projects and his contacts throughout the Middle East would help with our plans to expand in the region.

I recall that the priorities when recruiting were to select an individual capable of making our provisional plans to open a Utopia park in the Middle East a reality within 5 years by securing a suitable site and then overseeing the development and opening of the park within agreed timescales and budget.

During the recruitment process Dipa emphasised that he would be able to secure an appropriate site that would ensure a successful and profitable Utopia park in the Middle East.

Our remuneration committee at the time was comprised of Utopia's three non-executive directors plus Greg Bradley, our Director of Operations for North America. One of the remuneration committee members, the non-executive director Joe Ball, was able to personally vouch for Dipa's capability, having worked with him a few years ago.

Dipa negotiated hard and threatened to walk away if his demands were not met. The remuneration committee eventually offered Dipa a very attractive package including agreeing to his request for a non-performance related lump-sum pension contribution, worth three times his basic salary, payable whenever Dipa left the company. This payment was subject to a minimum term of three years and to Dipa not being dismissed for misconduct.

Once appointed, Dipa did manage to secure a site for our Middle East park and was instrumental in obtaining support for the project from government agencies and other businesses.

Last month, after just over three years with Utopia, Dipa resigned. Dipa commented to the media that the reason for his resignation is that he's achieved all he can at Utopia and he requires a new challenge. I find this difficult to understand, as the new park is still at least a year away from opening.

Some media commentators believe the Middle East park is unlikely to be profitable as there isn't a sufficiently large domestic market in the country the park is being built in. One article stated that Utopia Middle East will become 'a very expensive white elephant' (meaning it will be largely unused).

Dipa's large pension contribution payment on leaving has been criticised by shareholder groups and the media. The general feeling is that despite Dipa 'bailing out' he will benefit from the large contribution to his pension.

I'm keen that we learn lessons from this episode and prevent a repeat. Could you help with this?

Kind regards

Tara

Tara Adenowo (Finance Director)

End of question paper