UNIVERSITY OF JOHANNESBURG

PORTFOLIO – SUPPLEMENTARY ASSESSMENT for MCom

FACULTY/COLLEGE	College of Business and Economics
SCHOOL	Johannesburg Business School
DEPARTMENT	Business Management
CAMPUS	APK
MODULE NAME	Strategic Management - **MCom**
MODULE CODE	BMB9X01
SEMESTER	Second
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	**Supplementary Assessment - Portfolio**

DUE DATE	**To be confirmed**	**SESSION**	
ASSESSOR	Dr Dinko Herman Boikanyo		
MODERATOR	Dr Johan le Roux		
DURATION		**TOTAL MARKS**	**150**

NUMBER OF PAGES (Including cover page)	11

INFORMATION/INSTRUCTIONS:

- **Number your answers clearly.**
- **Structure your answers by using appropriate headings and subheadings.**
- The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.

I declare that I am aware and understand actions that are considered to be committing an offence during an assessment as per UJ Academic Regulations and Assessment Policy. I understand that persons who are not registered for a relevant module and are present in an assessment to take part in the assessment opportunity are guilty of fraud and may face disciplinary procedures or legal action.

I have NOT:
- *Committed academic misconduct;*
- *Committed plagiarism;*
- *Helped or attempted to help another student, or obtained help or attempted to obtain help from another student, or obtained help or attempted to obtain help from any source of information, except for explicitly approved sources as permitted by the Assessor.*

By do this assessment, you consent with the declaration.

SUPPLEMENTARY EXAM – PORTFOLIO ***Total Marks = 150***

SECTION A

Strategic analysis of Eskom

Respond to the following questions about Eskom. Use the information in the public domain for your analysis. There is no need to interview Eskom employees.

Assume that you have been appointed as a strategist for Eskom when you respond to the questions.

QUESTION 1

Briefly discuss the current strategic issues at Eskom and propose a future desired state for the organisation ***(10 marks)***

QUESTION 2

Critically discuss their current strategies. Are the strategies appropriate for the organisation? Discuss any factors that may be acting as barriers to implementation of their strategies ***(10 marks)***

QUESTION 3

Develop new appropriate strategies for Eskom that will assist them to be sustainable. ***(10 marks)***

QUESTION 4

Advice the organisation about the steps to take for the implementation and control phases of their strategic management process. ***(10 marks)***

QUESTION 5

Briefly discuss the Ethics and Corporate Governance issues in the organisation and make recommendations for any corrective actions that will help to steer the organisation in the right direction. ***(10 marks)***

SECTION B

CASE STUDY

Read the following case study and respond to the following questions

Krispy Kreme Doughnuts, Inc., 2015

www.krispykreme.com, KKd

Headquartered in Winston-Salem, North Carolina, Krispy Kreme Doughnuts (KKD) serves doughnuts and coffee as well as other snack items. The company has locations in 23 different countries. Many Krispy Kreme shops are factory shops where customers can watch doughnuts being made and purchase fresh hot doughnuts as well. The factory stores are responsible for servicing local grocery stores and convenience stores. The KK Supply Chain provides raw materials for both franchise and company-owned stores in the doughnut- making process. Krispy Kreme storeowners must purchase all materials from KK Supply Chain. Krispy Kreme reported total revenues in fiscal year end February 2015 of $490 million (up from $460 million the prior year) with about 90 percent of revenues derived from the United States.

For the fiscal first quarter (Q1) of 2015, Krispy Kreme's revenue rose 9 percent year over year to $132.5 million, driven almost entirely by a 17.3 percent increase in Krispy Kreme's store count. For that quarter, the company's domestic same-store sales rose 5.2 percent, but its international franchise same-store sales declined 1.7 percent. Overall for Q1 of 2015, the company's adjusted net income was $16.6 million, or $0.24 per share. The company's EPS number was up at least by the KKD buying back 391,300 shares of its stock for $7.4 million.

History

Krispy Kreme traces its roots back to 1933 when Vernon Rudolph bought a doughnut shop in Paducah, Kentucky. After selling doughnuts in Kentucky, Tennessee, and West Virginia, the store known today as Krispy Kreme was moved to Winston-Salem. Krispy Kreme doughnuts were sold to grocery stores at first, but became so popular with customers that they requested the option to buy the doughnuts fresh and hot from the store, thus launching the doughnut factory retail store and selling directly to the public. Krispy Kreme grew quickly over the next four decades before being sold to Beatrice Foods Company in 1976. Shortly after the purchase by Beatrice, in 1982, several Krispy Kreme franchisees purchased the company back from Beatrice Foods and quickly established the current Doughnut Theater style of factory stores where by customers can watch doughnuts being made.

It was not until 1996 that KKD finally expanded outside the Southeast by opening a store in New York City, followed in 2001 by opening its first store outside the United States, in Canada. The company went public with its IPO launch in April 2000.

In the United Kingdom, KKD just concocted a single, gigantic box that holds 2,400 doughnuts. The box (11.4 feet by 3 feet) was filled with doughnuts and required eight KKD employees to deliver it to 360 Resourcing Solutions. The box was part of a promotion for the new "Krispy Kreme Occasions" division that customizes doughnut offerings for corporate events or special occasions such as weddings and other celebrations. The division sells doughnut "towers" for special events or even personalized doughnuts with customized, chocolate nameplates or corporate logos. The company has no plans to create another box, but it is happy to sell 100 of the so-called double-dozen boxes for about $2,600.

Krispy Kreme opened its first store in India in 2013 in Bangalore, Karnataka, and now there are seven in that city. Also in 2013, KKD began opening stores in Colombia, with a total of 25 planned, as the first South American country for the company. In late 2013, KKD opened its first store in Taipei, Taiwan. In 2014, KKD opened its first shop in Chennai in southern India.

Internal Issues

Vision/Mission

Krispy Kreme Doughnuts does not appear to have a published vision statement. The company's mission statement, however, is given as follows:

Consumers are our lifeblood, the center of the doughnut
There is no substitute for quality in our service to consumers
Impeccable presentation is critical wherever Krispy Kreme is sold
We must produce a collaborative team effort that is unexcelled
We must cast the best possible image in all that we do
We must never settle for "second best;" we deliver on our commitments
We must coach our team to ever-better results. (*Source:* Company documents)

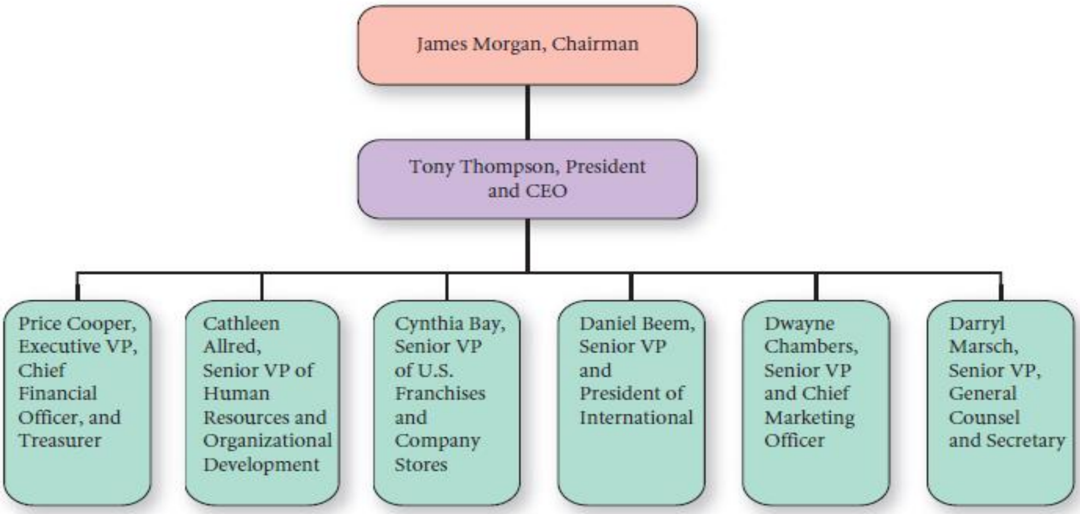
Distribution

Krispy Kreme doughnuts are sold in KKD stores, grocery stores, convenience stores, gas stations, Walmart, and Target stores in the United States. Internationally, the doughnuts are sold in Loblaws supermarkets, Petro-Canada gas stations, and as freestanding stores in Canada, along with BP Service Stations and BP Travel Centers and 7-Eleven stores in Australia. In the United Kingdom, Tesco supermarkets, Tesco Extra, and most Tesco service stations carry KKD products, and service stations Moto, Welcome Break, and Road Chef also carry self-service KKD cabinets. Today, KKD has locations in the United Kingdom, Australia, Turkey, the Dominican Republic, Kuwait, Mexico, Puerto Rico, Taiwan, South Korea, Malaysia, Thailand, Indonesia, the Philippines, Japan, China, the United Arab Emirates, Qatar, Saudi Arabia, Bahrain, Hong Kong, and Ethiopia.

Organizational Structure

As illustrated in Exhibit 1, KKD basically has two segments: USA and International. Note the company does not have a Chief Operating Officer (COO), Chief Administrative Officer (CAO), or Chief Strategy Officer (CSO). However, KKD reports revenues by geographic region, but is not structured geographically. In fact, the company appears to be structurally functionally, rather than divisionally.

EXHIBIT 1 KKD's Organizational Structure



Source: A depiction based on author's best judgment.

Strategy

Krispy Kreme Doughnuts has long prided itself on hot fresh doughnuts and a one of a kind taste. As you can easily watch at a KKD factory store Doughnut Theater, the original glazed doughnut is fried before it heads toward a glazing waterfall to be covered in a sugary signature glaze. There is only one supplier of KKD's signature glaze. In addition to entertaining guests, KKD feels the Doughnut Theater

also reveals the firm's commitment to quality and freshness. To help attract customers into the store, the original hot doughnuts sign is lit during peak production hours, generally early in the mornings and late at night, when customers are most likely to visit the stores. In essence, KKD's strategy is hot fresh doughnuts, but the firm also sells its products in gas stations, grocery stores, and other retail outlets. About 50 percent of all KKD revenue is derived from wholesale outlets, so the firm plans to work on ways to improve the freshness and quality of its doughnuts sold in various retail locations.
The company is transitioning toward smaller factory shops that will focus on retail rather than wholesale customers. This strategy appears more in line with the firm's new marketing approach.
Many new stores in the south-eastern United States will be company owned, whereas new smaller factory stores outside the southeast are more likely to be operated under franchisee agreements.
Krispy Kreme Doughnuts has long helped the communities with fund-raisers, even offering special packaging at times. Fund-raisers are under the firm's "local relationship marketing" strategy.
The company does a good job attracting customers from local businesses and families. About 55 percent of all domestic transactions are for doughnut orders of 1 dozen or more. However, this is also partly explained by the volume discount provided for such orders. International orders of a dozen or more doughnuts at a time are a significant portion of sales as well, indicating that doughnut consumption habits are more homogeneous globally than some may believe. The company likes to mention homogeneity as a part of its "sharing concept," which is a key aspect of the firm's global marketing strategy.
In early 2014, KKD and Keurig Green Mountain Coffee agreed to create both decaf and regular Krispy Kreme coffee for Keurig coffee makers. Customers can purchase the products at both Keurig and KKD websites as well as at KKD factory stores, grocery, retail, and other channels throughout the United States. Krispy Kreme also has a new line of iced coffee. About 89 percent of all KKD's retail sales are derived from doughnuts, with the industry average closer to 50 percent of sales being derived from doughnuts. KKD is late to capitalize on selling coffee and other drinks, but the company is making efforts.

Segments

Krispy Kreme Doughnuts is broken down into (1) Company Stores, (2) Domestic Franchise, (3) International Franchise, and (4) KK Supply Chain. Company Stores and Domestic Franchise stores are similar, only differing in ownership. Both Company Stores and Domestic Franchise Stores consist of full factory stores and satellite stores. International Franchise Stores are designed the same way as Company Stores and Domestic Franchise with 125 factory stores and 449 satellite shops in foreign markets. KK Supply Chain supplies both Company and Franchise stores, which all are required to purchase its products from KK Supply Chain.
As of February 2015, there were 278 KKD stores operating domestically in 38 states and in the District of Columbia, and another 523 shops in 23 other countries around the world. The company has plans to grow international stores to 900 by January 2017.
Krispy Kreme Doughnuts' revenue by geographic region is provided in Exhibit 2. Note the nice increases everywhere except in the Other Americas.

EXHIBIT 2 KKD's Revenues by Geographic Region (in thousands of USD)

	February 2015	February 2014
United States	$438,801	$412,743
Other Americas	9,973	10,000
Asia/Pacific	28,575	25,460
Middle East & Europe	12,985	12,128
Total Revenues	**490,334**	**460,331**

Source: Based on KKD *Annual Report*, 2015, page 23.

EXHIBIT 3 KKD's Revenues by Company-Owned versus Franchise (in thousands of USD)

	Revenues		Operating Income	
	February 2015	February 2014	February 2015	February 2014
Company Stores	$325,306	$306,825	$9,287	$11,334
Domestic Franchise	13,450	11,839	8,103	8,083
International Franchise	28,598	25,607	20,026	17,977
KKD Supply Chain After Adjustments	122,980	116,060	41,823	36,953
Totals	**490,334**	**460,331**	**79,239**	**74,347**

Source: Based on KKD *Annual Report*, 2015 page 41.

Revenues and operating income by company-owned versus franchised stores are provided in Exhibit 3. Notice nice increases across the board, with international franchise lagging slightly.
Krispy Kreme Doughnuts' revenues by retail versus wholesale are provided in Exhibit 4.
Note that retail sales are the highest, accounting for 49 percent of 2014 revenues. However, collectively, wholesale sales accounted for 51 percent of total revenues led by grocers and mass merchants such as Walmart at 31 percent of total sales.

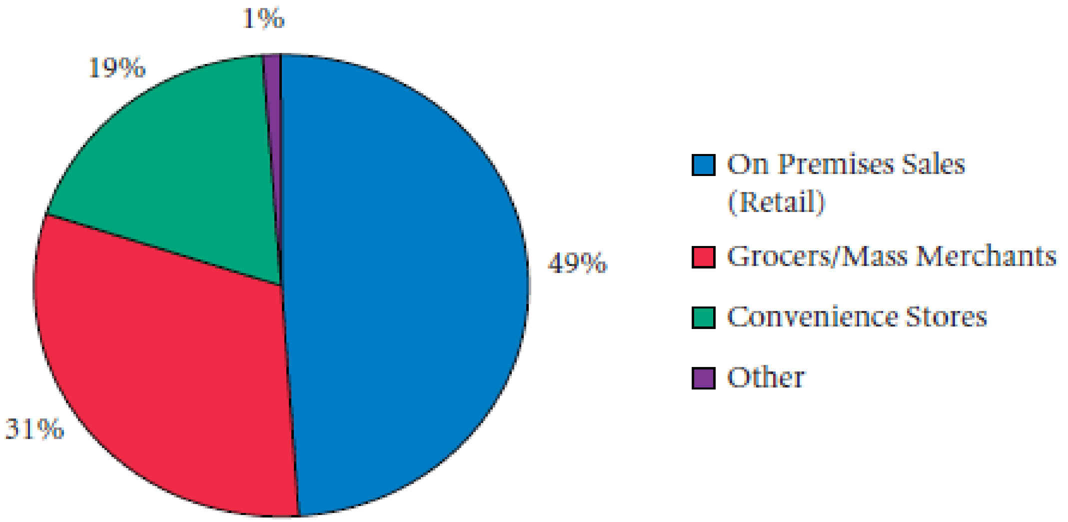
Finance

The fiscal year for Krispy Kreme Doughnuts ends in February. The company had an outstanding 2013 (ending February 1, 2014) on most financial areas. The firm's stock price was up over 100 percent, revenues increased 6 percent, and the company reported a 65 percent increase in net income. Much of the increases can be attributed to opening 80 new locations around the world, but KKD also reported 6.7 percent increase in comparable store sales. The company's CEO indicated in the spring of 2014 that overseas markets remain strong for the firm, with many new store openings having long lines for up to 3 months after opening. The CFO, Douglas Muir, retired in 2015, turning the reins over to Price Cooper. Also, KKD is increasing its $80 million stock buyback to $105 million in 2015. The company's most recent income statement and balance sheet are provided in Exhibits 5 and 6, respectively.

External Issues

The doughnut market in the United States is a $13 billion industry, with about 25 percent of sales coming from bulk doughnuts in the 1 dozen-size box and up. Another 40 percent of sales come from drinks with half of this being derived from coffee. Major rival Dunkin' Brands accounts for much of these sales with their popular coffee offerings. Yeast doughnuts account for about 10 percent of industrywide sales. Doughnut holes and other varieties account for about 10 percent. There are thousands of "mom-and-pop" doughnut and coffee shops globally.

EXHIBIT 4 KKD's Revenues by Retail versus Wholesale



Source: Based on KKD *Annual Report*, 2014, page 44.

EXHIBIT 5 Income Statement (in millions of USD)

Report Date	February 2, 2015	February 2, 2014
Revenues	$490	$460
Operating expenses	441	413
EBIT	49	47
Interest and other benefit	0.8	1.5
EBT	48	45
Tax	18	10
Net income	**30**	**34**

Source: Based on KKD's 2015 *Annual Report*.

EXHIBIT 6 Balance Sheet (in millions of USD)

Report Date	February 2, 2015	February 2, 2014
Assets		
Cash and equivalents	$51	$56
Accounts receivable	28	25
Inventories	18	17
Deferred tax	23	23
Other current assets	8	6
Total current assets	128	127
Property, plant, & equipment	116	93
Goodwill and intangibles	30	24
Deferred tax	68	83
Other assets	11	11
Total assets	**353**	**338**
Liabilities		
Short-term debt	—	—
Accounts payable	49	17
Taxes	1	2
Other current liabilities	0	27
Total current liabilities	50	46
Long-term debt	9	2
Other liabilities	26	25
Total liabilities	**85**	**73**
Common stock	311	338
Retained earnings	(43)	(73)
Total equity	**268**	**265**
Total liabilities & equity	**353**	**338**

Source: Based on KKD's 2015 *Annual Report*, and Yahoo Finance.

Eating Healthy

Both in the United States and globally, people are becoming more health conscious in their diet and food choices. In addition, as society becomes more litigious, firms competing in the fast-food industry, including doughnut shops, have become much more mindful of product labelling and ingredients used. Low-carb diets are still extremely popular worldwide and many have even made low-carb eating a lifestyle. Some cities and other governments around the world, for example, are imposing laws that restrict portion sizes of soft drinks and other sugary-laden snack sizes. Competitors of KKD, including Dunkin' Brands and Starbucks, have already diversified their menu options to include healthier choices. However, still, when most people want a doughnut, they want it to taste good and view it as a treat, so the outlook for doughnut shops remains positive, especially outside of North America, where the market is not saturated.

Coffee Prices

Like many commodities, the price of coffee is subject to wild price fluctuations. Brazil accounts for about 40 percent of worldwide coffee production. Droughts in Brazil, fungal infections, and deforestation of the rain forest have caused prices to swing greatly. The fungal infection in 2014 accounted for $1 billion in lost revenues; coffee production could drop as much as 40 percent in the coming years. Also, a global acceptance to "fair trade" providing farmers a fair wage and educational programs for their farming efforts has also contributed to higher prices. In addition, a growing middle class in developing countries has provided upward pressure on coffee prices. In total, coffee prices doubled from 2013 to 2014. The good news for consumers is that coffee prices paid will not be felt much more than a nickel or dime per cup at a restaurant, according to most analysts.

Competitors

Top doughnut competitors are Dunkin' Brands, Tim Hortons, as well as Starbucks for coffee and other snacks. The global market looks promising for American donut firms and Canadian-based Tim Hortons. Dunkin' Brands accounts for about 54 percent of the total doughnut shop market share. Krispy Kreme and Tim Hortons each account for about 5 percent of the U.S. doughnut market share. Regarding coffee shops, Starbucks accounts for 35 percent, Dunkin' Brands for 25 percent, and Tim Hortons and KKD 2 percent each of the U.S. coffee shop market share in total revenues. Exhibit 7 shows the summary financial information for KKD and its rival firms.

Dunkin' Brands Group (DNKN)

Headquartered in Canton, Massachusetts, Dunkin' Brands is a global distributor of coffee, baked goods, and their famous ice cream served under the Baskin Robbins name brand. There are 11,000 Dunkin' Donuts restaurants in 40 states and 32 foreign countries, as well as 7,300 Baskin-Robbins restaurants in 43 states and 46 foreign countries. Many Dunkin' Donuts restaurants also contain a Baskin-Robbins within them, and all but 36 Dunkin' Donuts and Baskin-Robbins stores are franchisee owned. About two thirds of all Dunkin' restaurants in the United States have a drive-through that caters to customers, especially morning customers on their way to work. The majority of Dunkin' Donuts and Baskin-Robbins stores outside the United States are located in Asia and the Middle East, with South Korea and Japan having the most stores.

After an infusion of cash from going public with its IPO in 2011, Dunkin' started to aggressively expand within the United States and internationally, opening 700 Dunkin' Donuts and Baskin-Robbins worldwide in 2014 alone. Dunkin' is opening 65 stores in Brazil between 2014 and 2016. The company is also introducing a European flavor to over 100 restaurants that now offer soft seating areas with low tables in earthy colors and contemporary lights. Implemented in 2014 was a company rewards program that enables Dunkin' to understand its customers better and learn ways to meet their demand and desires more efficiently.

EXHIBIT 7 Summary Financial Information for KKD versus Rival Firms

	Krispy Kreme	Dunkin' Brands	Starbucks
# Employees	2,800	1,584	191,000
$ Net Income	30 M	176 M	2,068 M
$ Revenue	490 M	749 M	16,477 M
$ Revenue/Employee	175,000	473,000	86,000
$ EPS Ratio	0.46	1.70	1.69
Market Cap.	1.24 B	5.32 B	81.83 B

Source: Based on company documents.

With 99 percent of all Dunkin' Donuts stores under the franchisee system, most of Dunkin's revenues are derived from a 5.4 percent royalty payment franchisees pay on gross sales to the company. Baskin-Robbins franchisees pay around 5.0 percent. These numbers are U.S.-based only, as international based Dunkin' and Baskin-Robbins pay 2.1 percent and 0.7 percent royalty rates, with Baskin-Robbins stores also paying for certain ice cream products. U.S.-based stores also pay advertising fees of 5 percent of gross sales. Financially, 2014 was a banner year for Dunkin' Brands with revenues increasing 5 percent to $748 million, buoyed by 790 new restaurants that were opened worldwide in 2013 with 439 of these outside the United States. With new additions and improving business and prospects in foreign markets, Dunkin', like KKD, also experienced a large increase in net income of around 17 percent in 2014. Also noteworthy of late is Dunkin's increases in royalty income, franchise fees, and higher margins on Baskin Robbins ice cream products.

Tim Hortons

Tim Hortons is the largest doughnut and coffee retailer in Canada. Founded in Hamilton, Ontario, in 1964, the firm sells premium coffee, espresso, teas, and many other hot and cold beverages including fruit smoothies. Food items sold include soups, sandwiches, wraps, and many other choices. The company's mainstay, however, is donuts for which the firm was founded. There are over 850 Tim Hortons locations throughout the United States. The company also offers its products in self-service kiosk machines. In 2014, the company generated over $634 million in the United States alone. Tim Hortons was recently acquired by Burger King Worldwide.

Starbucks

Starbucks is the world's largest specialty coffee retailer with over 18,000 stores in 60 different countries. In addition to offering a variety of hot and cold coffee drinks, Starbucks also offers pastries, muffins, cookies, and other dessert-type items. As of 2014, Starbucks expanded its line of products to include beer, wine, chocolate fondue, and even chicken skewers at around 40 of its locations. The company also owns Seattle's Best Coffee and Torrefazione Italia coffee brands.

Customers frequently purchase Starbucks coffee and ready-made coffee drinks at grocery stores, gas stations, and department stores. An important way Starbucks has historically differentiated itself from rivals KKD and Dunkin' Brands was by its perception as a more premium coffee offered in a variety of flavors. With Dunkin' Brands responding similarly with its product line, Starbucks is now using sales of beer, wine, and upgraded snacks and food as a means of attracting customers in the late afternoon and early evening—a time when sales are historically slower. Starbucks also maintains its position as more of a sit-down-and-relax establishment, unlike most KKD and Dunkin' Donuts stores.

Starbucks has enjoyed over a 100 percent stock price increase from January 2013 to the summer 2015 and a new income increase of 50 percent from fiscal year end 2012 to fiscal year end 2014.

Future

Krispy Kreme Doughnuts is slowly shifting its focus from wholesale to more of a retail presence. Currently around 50 percent of revenues are derived from each source. However, KKD has always prided itself on hot fresh doughnuts that customers purchase directly from factory stores. As a result, the firm is building smaller-sized factory stores to better serve the retail customer directly.

The company is also expanding its footprint internationally. In December 2014, KKD opened its 100th store in South Korea, a 3,200-square-foot doughnut theater facility with the full viewing area and the famous "Hot Doughnuts Now" sign. Also, in early 2015, KKD agreed with Doughnuts Café to establish 15 Krispy Kreme facilities in the greater Saint Petersburg, Russia, area by 2020. As KKD has expanded and become a global brand, rival firms and other food-producing companies are eyeing the possibility of acquiring the company. In early 2015, Jollibee Foods Corp., based in the Philippines, was considered by many analysts to be a serious contender to purchase KKD, as Jollibee management looks to add an American-based food company to its portfolio. Between growing both domestically and internationally, moving into a more retail-focused strategy, hedging off potential takeovers, and a growing awareness of a healthy eating public, KKD needs a clear strategic plan. Devise a three-year plan for CEO Morgan moving forward.

Adopted from Fred R. David and Forest R. David. 2017. Strategic Management – A competitive advantage approach, Concepts and Cases. Pearson Education Limited.

QUESTION 6
Write an Abstract of the case – a maximum of 150 words ***(10 marks)***

QUESTION 7

7.1 Propose a Vision Statement for the organisation ***(2 marks)***

7.2 Discuss the actual mission statement of the organisation ***(5 marks)***

7.3 Propose a new mission statement for the organisation ***(5 marks)***

QUESTION 8
Construct an Internal Factor Evaluation (IFE) Matrix. Discuss the result ***(10 marks)***

QUESTION 9
Construct a Competitive Profile Matrix. Use Starbucks and Dunkin Brands to compare. Discuss the result ***(15 marks)***

QUESTION 10
Do a financial ration analysis by calculating the current ratio, quick ratio, long term debt/equity, return on assets, return on equity, gross profit margin, net profit margin and long term debt/equity. ***(8 marks)***

QUESTION 11
Prepare a TOWS Matrix ***(10 marks)***

QUESTION 12
Prepare a Strategic Position and Action Evaluation (SPACE). Briefly discuss the result. ***(15 marks)***

QUESTION 13
Prepare Internal-External Matrix. Give your interpretation of the matrix. Discuss the result. ***(10 marks)***

QUESTION 14
Conclude by making some recommendations to the organisation based on your analyses. ***(10 marks***