

University of Swaziland
Faculty of commerce
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TITLE OF THE PAPER: STRATEGIC MANAGEMENT PROCESS 11
DEGREE : BACHELOR OF COMMERCE

COURSE : BA 441 & BA 505 (IDE)

TIME ALLOWED : THREE (3 HOURS)

Instructions:

1. THIS PAPER CONSIST OF FOUR CASE STUDY QUESTIONS
2. ALL QUESTIONS ARE COMPULSORY
3. ANSWER ALL QUESTIONS AFTER READING CASE

Note: You are reminded that in assessing your work, account will be given of accuracy of language and the general quality of expression, together with layout and presentation of your final answer.

THIS PAPER MUST NOT BE OPENED UNTIL THE INVIGILATOR HAS GRANTED THE PERMISSION

CHICKEN BIZ SQUAWKS AT LAND DEBATE

Chris Schutte, CEO of South Africa's largest poultry producer, Astral Foods, put on hold the reinvestment in the business following the South Africa Government support for the land expropriation without compensation. He claimed that the business was about to release some capital for investment but the Board raised the risk issue around the reinvestment in South Africa due to the land debate.

Despite the severe challenges facing the industry, Astral almost doubled its headline earnings to E735 million last year. Schutte announced that it expected profit to jump by 410% in the six months to end of March 2018. Schutte said "when President Cyril Ramaphosa was sworn in and made positive changes in cabinet. Two days later he talked about expropriation without compensation". Schutte claims that this statement will cause fear for foreign and local investors even if this actual happens or not the uncertainty is extremely damaging.

He hopes the government will come out with clear statement about what they meant but in the meantime he thinks this is the havoc in the investment market. Astral shareholders have been contacting him on hourly basis asking if they will lose land or not. Astral have the keen interest from international investors buying into agricultural companies in South Africa. From the feedback the CEO received, he believe government position on land expropriation without compensation will come out when they review in the risk portfolio because investors need a long -term safeguards.

CEO says he does not know how the Ramaphosa Government will tell investors as he did tell investors at the World Economic Forum in Davos that South Africa is "open for business", and then push a policy that in effect slams the door in their face. The bit of mixed signal create uncertainty and we should avoid uncertainty because it has the impact in the long term investment. He hopes there will be some remedy to this scenario because Astral is heavily invested in agricultural land. It owns 183 farms with feed mills, abattoirs and factories.

Foreign investors can still withhold capital for investment and sense their reaction after the proclamation. He says he cannot pick and run but he needs make a strategic decision if he expands or not in this business venture.

Astral support the need for land redress but the CEO says there is a credible process in place agreed to by business and Government departments to implement which needs to be addressed. He claims that the motivation for expropriation of land without compensation is populist and political one, not an economic one. Shutte started the business 36 years ago as shed worker.

Chicken importers accuse local poultry producers of exaggerating the impact of cheap imports so that government will increase tariffs and protect them from competition. Thirteen producers who were forced to sell their products below the costs made loss and close their businesses four years ago. Others including Rainbow, have cut a big chunk of production. Astral survive by focusing on the things it can control. Astral is afraid of debt since this business is risky. The company is able to maintain fairly strong balance sheet and that has kept them afloat for a bit longer than competitors. Importers say cheap imports benefit consumers.

Schutte had done many surveys and they never see a chicken sold to consumer cheaper because that margin is absorbed in the system. When you no longer have the local industry, prices rise up again. He claims that how they doubled earnings last year if dumping had such crippling effects. The falling in prices when the long drought ended of maize and soya production areas in Mpumalanga where Astral' production and processing business is based is the result of increase in profits in Astral. 74% of the input costs of local poultry companies is feed and drought meant local input costs more than double and the threat of happening is always there.

The drought has not ended in the Western Cape, where Astral has 45 farms. They are not affected because they have implemented measures

– cutting water use by 40% and digging boreholes for the past two years because they knew that this will happen and day zero will not disrupt the production.

Astral is depending on municipalities and he claims there are many challenges there including water and lights. The company claims that they had spent to reduce dependence on municipalities' services. Astral says they actual pay a double tax because the money they spent could have been used more effectively for the benefit of the country by reinvesting it in the businesses and creating more jobs.

Source: South Africa Sunday times (11 March 2018)

Required

After reading case Chicken biz squawks at the land debate please Answer ALL questions below

Question 1

Mr Schutte the CEO seeks your assistance to develop SWOT analysis on the current land expropriation in relation to his investments and advice on strategy he should pursue. **(25 marks)**

Question 2

Using the Boston Business Consulting portfolio matrix explain the current business position of Astral. Thereafter advise which portfolio matrix Astral should maintain. **(25 marks)**

Question 3

Schette the CEO claims that the droughts in South Africa will not affect them. Discuss using the Porter's five forces competitive strategy they can use to remain in the business. 25 marks

Question 4

The land expropriation without compensation raises uncertainty of economic growth in South Africa. Advise Mr Schette on cooperative strategies they can use to lobby Government to reverse this statement. **(25 marks)**