You are Hoi Lui, a management consultant leading a small team which has been commissioned to prepare a consultancy report for the Data Communications Services (DCS) Company directors to help them plan for the next three years.

DCS Company has two product areas. The largest area is the manufacture of data communications components which it mainly sells to original equipment manufacturers (OEM). The other smaller and less developed area is based on supply and support contracts for specialist IT management network systems, mainly to domestic medium-sized enterprises. You are a qualified accountant and your colleagues are Danny Leman, a company researcher, and Freddie Lithium who is a part-qualified finance professional. You and your team have collected and analysed the following information about DCS Company to help you prepare the consultancy report.

- Exhibit 1: A report on DCS Company's organisational overview, the external environment and the business model sourced and prepared by Danny Leman, your colleague
- Exhibit 2: A transcript from interview which was held between you and Java Peraya, the CEO of DCS Company.
- Exhibit 3: Summary of financial and business performance of DCS Company extracted from the Integrated Report (2012–2015) presented to you by the finance director of DCS Company
- Exhibit 4: The October board report, a recent board meeting notes which include strategic choices facing DCS Company – presented to you by the marketing manager of DCS Company
- Exhibit 5: An evaluation of alternative future strategies being considered by the DCS Company board, prepared and presented to you by your colleague, Freddie Lithium
- Exhibit 6: Minutes from the focus group meeting you held with middle management of DCS Company

Following your findings you are now starting to prepare the consultancy report and associated tasks for DCS Company.

The case requirements are included in the tasks shown below:

1 (a) From the information you have collated, draft a section of the consultancy report for the directors of DCS Company to include the following:

(i) An analysis of the industry and market which DCS Company is competing in, using an appropriate model. (15 marks)

(ii) An evaluation of the overall performance of DCS Company between 2012 and 2015 from an integrated reporting perspective. (12 marks)

Professional Skills marks are available for demonstrating evaluation skills relating to DCS Company's environment and performance. (4 marks)

Exhibit 1

Background report to the DCS Company

To:	Hoi Lui
From:	Danny Leman
Subject:	Organisational overview, the external environment and the DCS business model
Date:	20 November 2015

Notes:

Organisational overview

Data Communications Systems (DCS), a publicly listed company on the small companies' capitalisation (SmallCap) index of a national stock exchange, used to be a privately owned high technology company established in 1997 by computer engineer, Java Peraya. Due to a rapid expansion over the following years, DCS needed to source additional capital to fund its future growth and was floated on the national stock exchange in 2006. This allowed Java Peraya to realise his majority shareholding in the private company. 30% of the flotation was purchased by institutional investors and DCS also borrowed long-term funds to leverage the newly issued share capital. Before flotation, the company was almost exclusively financed from the founders' share capital, retained earnings and short-term finance.

External environment

DCS has its headquarters in Prydain, a prosperous developed nation with a stable and well established political system and which has highly developed labour laws including a national minimum wage and a newly introduced obligatorycontributory pension scheme. The government, like many governments worldwide, has invested heavily in a national telecommunications infrastructure which has led to a significant growth in social media and where virtually 75% of the population are connected to the internet through a range of devices including mobile technology. The government is also proposing a new carbon tax which will affect companies which manufacture and provide IT network services such as data communications components and systems. The electronics and IT industry has recently been identified as a sector with an increasing carbon footprint caused by their applications, such as component cooling devices, complex telecommunications network components and cloud computing technology. Although DCS Company can approximately estimate its total carbon footprint from the manufacture and supply of components from its factory, it has not yet developed formal systems and processes to manage its carbon footprint throughout the value chain.

Business model

DCS has two distinct product/service areas – data communications components manufacture and the supply and maintenance of network management systems, including technical support.

The DCS employees are a mixture of technically qualified engineers, working in research and development (R&D), factory staff manufacturing and assembling products and an IT sales and service support team. Since the flotation of the company, 60% of production employees in the data communications components factory joined a major trade union. In 2012 the country suffered an economic downturn which led many companies to postpone technological investment and by then DCS employed 150 full-time employees.

The main revenue source for DCS is the high-volume low cost data communications component manufacture part of the business and it has 1% of the total market share, which accounts for approximately 65% of DCS's total turnover. DCS mainly sells and supplies large volumes of data communications components to original equipment manufacturers (OEMs), 30% of which are based outside Prydain on a continent which has a single currency which is devaluing against the Prydain dollar. Success in the data communications components sector comes from the economies of scale achieved by producing high volumes of reliable components and keeping prices low. DCS Company has achieved this despite producing components in a country where there is significant employment legislation setting minimum wage rates and conditions.

The second product area is much smaller and is based on supply and support contracts for specialist IT management network management systems, mainly to domestic medium-sized enterprises, which currently yields a relatively higher gross profit margin than the data communications component products. A key aspect of this second product area is the installation and support of big data analytics capability along with cloud computing storage, which can be used to replace existing costly IT architectures such as unsophisticated data warehouses to allow business clients to collect and analyse more targeted and timely data about their own customers and purchasing patterns. Much of this can be obtained from data held within social and business networking software.