CONTENTS

Section

Key features in this edition

In addition to providing a wide ranging bank of real past exam questions, we have also included in this edition:

- An analysis of all of the recent new syllabus examination papers.
- Paper specific information and advice on exam technique.
- Our recommended approach to make your revision for this particular subject as effective as possible.

  This includes step by step guidance on how best to use our Kaplan material (Complete text, pocket notes and exam kit) at this stage in your studies.
- Enhanced tutorial answers packed with specific key answer tips, technical tutorial notes and exam technique tips from our experienced tutors.
- Complementary online resources including full tutor debriefs and question assistance to point you in the right direction when you get stuck.

You will find a wealth of other resources to help you with your studies on the following sites:

www.mykaplan.co.uk

www.accaglobal.com/students/

ONLINE ENHANCEMENTS

Timed question with Online tutor debrief

For selected questions, we recommend that they are to be completed in full exam conditions (i.e. properly timed in a closed book environment).

In addition to the examiner's technical answer, enhanced with key answer tips and tutorial notes in this exam kit, online you can find an answer debrief by a top tutor that:

- works through the question in full
- points out how to approach the question
- how to ensure that the easy marks are obtained as quickly as possible, and
- emphasises how to tackle exam questions and exam technique.

These questions are indicated with the "clock" icon in the index.

Online question assistance

Have you ever looked at a question and not known where to start, or got stuck part way through?

For selected questions, we have produced "Online question assistance" offering different levels of guidance, such as:

- ensuring that you understand the question requirements fully, highlighting key terms and the meaning of the verbs used
- how to read the question proactively, with knowledge of the requirements, to identify the topic areas covered
- assessing the detail content of the question body, pointing out key information and explaining why it is important
- help in devising a plan of attack.

With this assistance, you should then be able to attempt your answer confident that you know what is expected of you.

These questions are indicated with the "signpost" icon in the index.

Online question enhancements and answer debriefs will be available on MyKaplan

www.mykaplan.co.uk

INFORMATION TECHNOLOGY

MARKETING

PROJECT MANAGEMENT

FINANCING

ANALYSIS OF PAST PAPERS

The table below summarises the key topics that have been tested in the new syllabus examinations to date.

Note that the references are to the number of the question in this edition of the exam kit, but the Pilot Paper is produced in its original form at the end of the kit and therefore these questions have retained their original numbering in the paper itself.

	Pilot 11	Dec 10	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14
Strategic planning							C			
PESTEL	C		C							
5 FORCES	C						O			
Forecasting			O					O		O
Strengths/weaknesses				C	C					
Value chain					O					O
SWOT			C	C		O			C	
Stakeholders/mission					C					
Strategy evaluation			C	C						C
Strategic choice					C				C	C
Methods of strategic development		C				C		C		C
Organisational structure		O								
Business process change			O	O	O		O			O
Project management	C	O	O	O	O		C		O	O
Information technology	O	O	O		O	O				
Marketing		O	O				O	O	O	
Financing/cost accounting	O					O		O	O	
Strategy and people		O					O			
Change management		C				C	C		C	

Key:

C Appeared in the compulsory question (section A) in the exam

O Appeared as an option question in the exam

APPROACH TO EXAMINING THE SYLLABUS

The syllabus is assessed by a three-hour paper-based examination.

Section A

Section A contains one multi-part question based on a case study scenario. This question is worth 50 marks.

Section B

Section B will consist of three discrete questions each worth 25 marks. Candidates must answer two questions from this section.

Fill in the self-assessment box below and decide on your best course of action.

Comfortable with question attempt

↓

Only revisit when comfortable with questions on all topic areas

Not comfortable with question attempts

↓

Focus on these areas by:

- Reworking test your understanding examples in Kaplan's Complete Text
- Revisiting the technical content from Kaplan's pocket notes
- Working any remaining questions on that area in the exam kit
- Reattempting an exam standard question in that area, on a timed, closed book basis

Note that:

The "footsteps questions" give guidance on exam techniques and how you should have approached the question.

The "clock questions" have an online debrief where a tutor talks you through the exam technique and approach to that question and works the question in full.

Stage 3: Final pre-exam revision

We recommend that you **attempt at least one three hour mock examination** containing a set of previously unseen exam standard questions.

It is important that you get a feel for the breadth of coverage of a real exam without advanced knowledge of the topic areas covered – just as you will expect to see on the real exam day.

Ideally this mock should be sat in timed, closed book, real exam conditions and could be:

- a mock examination offered by your tuition provider, and/or
- the pilot paper in the back of this exam kit, and/or
- the last real examination paper (available shortly afterwards on MyKaplan with "enhanced walk through answers" and a full "tutor debrief").

Topic	***Complete Text Chapter***	***Pocket note Chapter***	***Questions to attempt***	***Tutor guidance***	***Date attempted***	***Self assessment***
Strategic choice						
– competitive strategies and strategy evaluation	5 – 6	5 – 6	64, 74	Competitive strategies will have already been tested in Q63. Strategy evaluation appears in almost every compulsory question and it is vital that you can apply the [illegible],S&W technique.		
– strategic development	7	7	15, 66, 77	It is important in these types of question that you do not just regurgitate the lists that are presented in the pocket notes. You need to apply the lists to the scenario and ensure you focus on the actual requirement in the scenario.Q66 provides a good question on portfolio management.		
Strategy in action						
– Organisational structure	8	8	18	There are few recent exam questions on this area. But Q18 should test your application of the pocket note material to a question scenario. The key in this question is to spot the most appropriate type of structure.		
– Business process change	9	9	21, 22	Harmon's models are the key models in this chapter. The first model helps decide which processes should be redesigned, the second model helps explain how the redesign should happen. Q21 is a good test of the first model, whilst the second model (already been covered in Q74 and Q78) is covered again in Q22.		

In the last six months, ATL has developed an e-learning course for the certificate in Information Technology. There are three main reasons for this development. The first reason is to allow candidates to prepare for the examination in a flexible way, studying 'at their own pace in their own place'. Currently, courses are only run in Eothen and each certified course takes five days. In contrast the e-learning product will be delivered over the Internet. The second reason is to provide a cheaper route to the qualification. Course places currently cost $950 per person. Finally, ATL wishes to exploit a global market. It believes that there is a 'very large market' for e-learning for this qualification, particularly in countries where disposable income is less than in Eothen. It feels that overseas customers will be sensitive to price, but they have no estimate of this sensitivity.

Eothen, itself, is in a period of economic decline and the top 500 companies, which are specifically targeted by ATL, are reducing their training budgets. Figure 1 shows the results of research from MidShire University into the relationship between average training spend per employee and companies' gross profit. Data given below is from 10 of the top 500 companies targeted by ATL. Statistics produced by the Eothen government suggest that the average gross profit of the top 500 companies in Eothen will fall to $50m next year. In this analysis, the independent variable (gross profit) is x, which is being used to estimate a dependent variable y (average annual training spend per employee).

Company	*Gross profit ($m) (x)*	*Average annual training spend per employee ($) (y)*	*Analysis*
A	50	900	The regression line for the two variables
B	100	1,050	is defined by y = 616.73 + 3.939x
C	120	1,500	
D	30	750	And correlation by
E	15	600	
F	130	1,500	r = 0.801
G	55	850	
H	20	400	
I	40	500	
J	300	1,500	

Figure 1: Training spend analysed against gross profit

The e-learning product has been specified by an experienced lecturer and developed by a business analyst. The latter will also be responsible for supporting students once the product has been released. ATL is the first company to produce an e-learning product for the ISD market. It wishes to quickly build on its success and to offer e-learning for the other two certificates – Software Engineering and Solutions Architecture.

Each certificate examination costs $125 and is available on demand in test centres all over the world. This makes it very accessible to the countries that ATL are targeting. The managing director of ATL has also discovered the following analysis of nationwide e-learning sales published by Training Trends, a respected Eothen-based publication. Here the independent variable is time (x) and e-learning sales is the dependent variable (y).

Required:

(a) **Evaluate the strategic position of the estate with specific reference to the expectations of stakeholders, to the external environmental factors beyond the control of the estate and to the strategic capabilities of the estate itself.** **(15 marks)**

(b) **Discuss how the website could be further developed to address some of the issues highlighted in the survey.** **(10 marks)**

(Total: 25 marks)

10 ATD

ATD is a medium-sized engineering company providing specialist components for the marine engineering market. The sales manager is currently under pressure from the other departmental managers to explain why his sales revenue forecasts are becoming increasingly unreliable. Errors in his forecasts are having consequential effects on production, inventory control, raw materials purchasing and, ultimately, on the profitability of the company itself. He uses a 'combination of experience, intuition and guesswork' to produce his sales forecast, but even he accepts that his forecasts are increasingly inaccurate.

Consequently, he has asked a business analyst to investigate more rigorous, appropriate ways of forecasting. The business analyst has suggested two possible alternatives. The first (summarised in Figure 1) is least squares regression. The second (summarised in Figure 2) is time series analysis. The actual sales figures in both of these examples are for ATD, so the company is currently in quarter 3 – 2013. However, the business analyst has left the company before completing and explaining either the basis for, or implications of, these two alternative approaches to forecasting.

Figure 1: Least squares analysis

Year/quarter		Quarter sales ($000)			
	x	y	x^2	xy	y^2
20X0 quarter 1	1	110	1	110	12,100
20X0 quarter 2	2	160	4	320	25,600
20X0 quarter 3	3	155	9	465	24,025
20X0 quarter 4	4	96	16	384	9,216
20X1 quarter 1	5	116	25	580	13,456
20X1 quarter 2	6	160	36	960	25,600
20X1 quarter 3	7	153	49	1,071	23,409
20X1 quarter 4	8	100	64	800	10,000
20X2 quarter 1	9	128	81	1,152	16,384
20X2 quarter 2	10	180	100	1,800	32,400
20X2 quarter 3	11	169	121	1,859	28,561
20X2 quarter 4	12	99	144	1,188	9,801
2013 quarter 1	13	137	169	1,781	18,769
2013 quarter 2	14	180	196	2,520	32,400
		1,943	1,015	14,990	281,721
			b	1.84	
			a	125.022	
			r	0.253	

The equation of a straight line is y = a + bx

Larger and more complex items (such as mobility scooters and bath lifts) are bought in bulk from suppliers and stored in the hangars. Delivery of these items to IL is organised by their manufacturers. These products are stored until they are ordered.

When an order is received for such products, the product is unpacked and tested. An IL transfer logo is then applied and the product is re-packaged in the original packing material with an IL label attached. It is then dispatched to the customer. Some inventory is never ordered and last year IL had to write-off a significant amount of obsolete inventory.

All goods are sold at cost plus a margin to cover wages and administrative costs. Prices charged are the same whether goods are ordered over the web or by telephone. Customers can also make a further voluntary donation to help support IL if they wish to. About 30% of customers do make such a donation.

Ordering and marketing

IL markets its products by placing single-sided promotional leaflets in hospitals, doctors' surgeries and local social welfare departments. This leaflet provides information about IL and gives a direct phone number and a web address. Customers may purchase products by ringing IL directly or by ordering over their website. The website provides product information and photos of the products which are supplied by IL. It also has a secure payment facility. However, customers who ring IL directly have to discuss product requirements and potential purchases with sales staff over the phone. Each sales discussion takes, on average, ten minutes and only one in two contacts results in a sale. 20% of sales are through their website (up from 15% last year), but many of their customers are unfamiliar with the Internet and do not have access to it. Goods are delivered to customers by a national courier service. Service and support for the bought-in products (mobility scooters, bath lifts) are supplied by the original manufacturer.

Commercial competitors

IL is finding it increasingly difficult to compete with commercial firms offering independent living aids. Last year the charity made a deficit of $160,000, and it had to sell some of its airfield land to cover this. Many of the commercial firms it is competing with have sophisticated sales and marketing operations and then arrange delivery to customers directly from manufacturers based in low labour cost countries.

Required:

IL fears for its future and has decided to review its value chain to see how it can achieve competitive advantage.

(a) **Analyse the primary activities of the value chain for the product range at IL.** **(10 marks)**

(b) **Evaluate what changes IL might consider to the primary activities in the value chain to improve their competitiveness, whilst continuing to meet their charitable objectives.** **(15 marks)**

(Total: 25 marks)

The Equipment Emporium has 57 superstores throughout the country selling tools and machines such as air compressors, generators and ventilation systems. It is a well-recognised brand with a strong marketing presence. It focuses on selling specialist products in bright, well-lit superstores. It has approached Graffoff to ask whether it can sell the Graffoff product through its superstores. Emile has rejected this suggestion because he feels that his product requires proper training if it is to be used efficiently and safely. He sees Graffoff as offering a complete service (graffiti removal), not just a product (graffiti removal equipment) and so selling through The Equipment Emporium would be inappropriate.

Figure 1: Extracted financial data for Graffoff's second year of trading, reported at 31 December 20X1

Extract from the statement of financial position: as at 31 December 20X1

All figures in $000:

ASSETS	
Non-current assets	
Property, plant and equipment	1,385
Intangible assets	100
Total non-current assets	1,485
Current assets	
Inventories	100
Trade receivables	260
Cash and cash equivalents	30
Total current assets	390
Total assets	1,875
EQUITY AND LIABILITIES	
Share capital	1,500
Retained earnings	30
Total equity	1,530
Non-current liabilities	
Long-term borrowings	250
Total non-current liabilities	250
Current liabilities	
Trade and other payables	75
Current tax payable	20
Total current liabilities	95
Total liabilities	345
Total equity and liabilities	1,875

Extracts from the income statement: as at 31 December 20X1

All figures in $000

Revenue	1,600
Cost of sales	(1,375)
Gross profit	225
Administrative expenses	(100)
Finance costs	(15)
Profit before tax	110
Income tax expense	(20)
Profit for the period	90

In 20X6 MMI acquired Boatland, a specialist boat maker constructing river and canal boats. The primary rationale behind the acquisition was the potential synergies with First Leisure. First Leisure had experienced difficulties in obtaining and maintaining boats for its leisure parks and it was expected that Boatland would take on construction and maintenance of these boats. Cost savings for First Leisure were also expected and it was felt that income from the First Leisure contract would also allow Boatland to expand its production of boats for other customers. MMI perceived that Boatland was underperforming and it replaced the current management team with its own managers. However, by 20X8 Boatland was reporting poorer results (see table 1). The work force had been used to producing expensive, high quality boats to discerning customers who looked after their valued boats. In contrast, the boats required by First Leisure were for the casual use of holiday makers who often ill-treated them and certainly had no long-term investment in their ownership. Managers at First Leisure complained that the new boats were 'too delicate' for their intended purpose and unreliability had led to high maintenance costs. This increase in maintenance also put Boatland under strain and its other customers complained about poor quality workmanship and delays in completing work. These delays were compounded by managers at Boatland declaring First Leisure as a preferred customer, requiring that work for First Leisure should take precedence over that for established customers. Since the company was acquired almost half of the skilled boat builders employed by the company have left to take up jobs elsewhere in the industry.

Three months ago, InfoTech – an information technology solutions company approached MMI with a proposal for MMI to acquire them. The failure of certain contracts has led to falling revenues and profits and the company needs new investment. The Managing Director (MD) of InfoTech has proposed that MMI should acquire InfoTech for a nominal sum and then substantially invest in the company so that it can regain its previous profitability and revenue levels. However after its experience with Boatland, the CEO of MMI is cautious about any further diversification of the group.

Table 1: Financial and market data for selected companies (all figures in $millions)

MMI Quarrying and Mining	*20X8*	*20X6*	*20X4*	*20X2*
Revenue	1,680	1,675	1,250	1,275
Gross profit	305	295	205	220
Net profit	110	105	40	45
*Estimated Market Revenue	6,015	6,050	6,200	6,300
First Leisure	*20X8*	*20X6*	*20X4*	*20X2*
Revenue	200	160	110	100
Gross profit	42	34	23	21
Net profit	21	17	10	9
*Estimated Market Revenue	950	850	770	750
Boatland	*20X8*	*20X6*	*20X4*	*20X2*
Revenue	2.10	2.40	2.40	2.30
Gross profit	0.30	0.50	0.50	0.60
Net profit	0.09	0.25	0.30	0.30
*Estimated Market Revenue	201	201	199	198

Required:

(a) **Critically evaluate the decision made by the CEO to use a software package approach to automating the production process at Flexipipe, and explain why this approach was unlikely to succeed. (12 marks)**

(b) **The CEO recommends that the company now adopts a formal process for procuring, evaluating and implementing software packages which they can use in the future when a software package approach appears to be more appropriate.**

Analyse how a formal process for software package procurement, evaluation and implementation would have addressed the problems experienced at Flexipipe in the production process project. (13 marks)

(Total: 25 marks)

INFORMATION TECHNOLOGY

26 PERFECT SHOPPER *Walk in the footsteps of a top tutor*

Local neighbourhood shops are finding it increasingly difficult to compete with supermarkets. However, three years ago, the Perfect Shopper franchise group was launched that allowed these neighbourhood shops to join the group and achieve cost savings on tinned and packaged goods, particularly groceries. Perfect Shopper purchases branded goods in bulk from established food suppliers and stores them in large purpose-built warehouses, each designed to serve a geographical region. When Perfect Shopper was established it decided that deliveries to these warehouses should be made by the food suppliers or by haulage contractors working on behalf of these suppliers. Perfect Shopper places orders with these suppliers and the supplier arranges the delivery to the warehouse. These arrangements are still in place. Perfect Shopper has no branded goods of its own.

Facilities are available in each warehouse to re-package goods into smaller units, more suitable for the requirements of the neighbourhood shop. These smaller units, typically containing 50–100 tins or packs, are usually small trays, sealed with strong transparent polythene. Perfect Shopper delivers these to its neighbourhood shops using specialist haulage contractors local to the regional warehouse. Perfect Shopper has negotiated significant discounts with suppliers, part of which it passes on to its franchisees. A recent survey in a national grocery magazine showed that franchisees saved an average of 10% on the prices they would have paid if they had purchased the products directly from the manufacturer or from an intermediary – such as cash and carry wholesalers.

As well as offering savings due to bulk buying, Perfect Shopper also provides, as part of its franchise:

(i) Personalised promotional material. This usually covers specific promotions and is distributed locally, either using specialist leaflet distributors or loosely inserted into local free papers or magazines.

(ii) Specialised signage for the shops to suggest the image of a national chain. The signs include the Perfect Shopper slogan 'the nation's local'.

(iii) Specialist in-store display units for certain goods, again branded with the Perfect Shopper logo.

Jayne Cox Direct orders wood, upholstery and textiles from long-established suppliers. About 95% of its wood is currently supplied by three timber suppliers, all of whom supplied the company in its first year of operation. Purchase orders with suppliers are placed by the procurement section. Until last year, they faxed purchase orders through to suppliers. They now email these orders. Recently, an expected order was not delivered because the supplier claimed that no email was received. This caused production delays. Although suppliers like working with Jayne Cox Direct, they are often critical of payment processing. On a number of occasions the accounts section at Jayne Cox Direct has been unable to match supplier invoices with purchase orders, leading to long delays in the payment of suppliers.

The sofas and chairs are built in Jayne Cox Direct's factory. Relatively high inventory levels and a relaxed production process means that production is rarely disrupted. Despite this, the company is unable to meet 45% of the estimated delivery dates given when the order was placed, due to the required goods not being finished in time. Consequently, a member of the sales team has to telephone the customer and discuss an alternative delivery date.

Telephoning the customer to change the delivery date presents a number of problems. Firstly, contacting the customer by telephone can be difficult and costly. Secondly, many customers are disappointed that the original, promised delivery date can no longer be met. Finally, customers often have to agree a delivery date much later than the new delivery date suggested by Jayne Cox Direct. This is because customers often get less than one week's notice of the new date and so they have to defer delivery to much later. This means that the goods have to remain in the warehouse for longer.

A separate delivery problem arises because of the bulky and high value nature of the product. Jayne Cox Direct requires someone to be available at the delivery address to sign for its safe receipt and to put the goods somewhere secure and dry. About 30% of intended deliveries do not take place because there is no-one at the address to accept delivery. Consequently, furniture has to be returned and stored at the factory. A member of the sales staff will subsequently telephone the customer and negotiate a new delivery date but, again, contacting the customer by telephone can be difficult and costly.

Delivery of furniture is made using the company's own vans. Each of these vans follow a defined route each day of the week, irrespective of demand.

The company's original growth was primarily due to the innovative business idea behind specifying competitively priced bespoke furniture. However, established rivals are now offering a similar service. In the face of this competition the managing director of Jayne Cox Direct has urged a thorough review of the supply chain. She feels that costs and inventory levels are too high and that the time taken from order to delivery is too long. Furthermore, in a recent customer satisfaction survey there was major criticism about the lack of information about the progress of the order after it was placed. One commented that 'as soon as Jayne Cox Direct got my order and my money they seemed to forget about me. For ten weeks I heard nothing. Then, just three days before my estimated delivery date, I received a phone call telling me that the order had been delayed and that the estimated delivery date was now 17 June. I had already taken a day off work for 10 June, my original delivery date. I could not re-arrange this day off and so I had to agree a delivery date of 24 June when my mother would be here to receive it'.

limited company, owned 51% by ProTech and 49% by the city authority. All existing employees in the IT department and the IT technology of the city authority will be transferred to ProTech who will then enter into a 10 year outsourcing arrangement with the city authority. The CEO is very keen on the idea and he sees many other authorities following this route.

The only exception to this transfer of resources concerns the business analysts who are currently in the IT department. They will be retained by the authority and located in a new business analysis department reporting directly to the CEO.

The CEO has suggested that the business analysts have the brief to 'deliver solutions that demonstrably offer benefits to the authority and to the people of the city, using information technology where appropriate'. They need to be 'outward looking and not constrained by current processes and technology'. They will also be responsible for liaising between users and the newly outsourced IT company and, for the first time, defining business cases with users.

In principle, the creation of the new company and the outsourcing deal has been agreed. One of the conditions of the contract, inserted by the finance director, is that the new company achieves CMMI level 5 within three years. The current IT department has been recently assessed as CMMI level 2. ProTech has recently been assessed at CMMI level 3.

Required:

(a) Evaluate the potential benefits to the city authority and its IT employees, of outsourcing IT to ProTech-Public. (12 marks)

(b) The role of the business analyst is currently being re-designed.

Analyse what new or enhanced competences the business analysts will require to undertake their proposed new role in the city authority. (7 marks)

(c) This question element is no longer examinable. (6 marks)

(Total: 25 marks)

29 GOOD SPORTS

Timed question with Online tutor debrief

Good Sports Limited is an independent sports goods retailer owned and operated by two partners, Alan and Bob. The sports retailing business in the UK has undergone a major change over the past ten years. First of all the supply side has been transformed by the emergence of a few global manufacturers of the core sports products, such as training shoes and football shirts. This consolidation has made them increasingly unwilling to provide good service to the independent sportswear retailers too small to buy in sufficiently large quantities. These independent retailers can stock popular global brands, but have to order using the Internet and have no opportunity to meet the manufacturer's sales representatives. Secondly, UK's sportswear retailing has undergone significant structural change with the rapid growth of a small number of national retail chains with the buying power to offset the power of the global manufacturers. These retail chains stock a limited range of high volume branded products and charge low prices the independent retailer cannot hope to match.

35 BA TIMES

The country of Umboria has two professional business analysis associations, both running certification examination schemes for business analysts worldwide. These are the Association of Benefits Consultants (ABC) and the Institute of Consultants, Finance and Commerce (ICFC). Many private and public sector learning providers run accredited training courses to prepare candidates for the examinations. Some learning providers provide courses for both associations, whilst others focus on niche markets. Umboria itself is a wealthy country with high labour costs and property prices, particularly in the capital city of Ambosium.

Victor is the editor of the *BA Times*, a subscription magazine, published once a month, which provides news and articles preparing students for the examinations of both business analysis associations. The magazine is edited and printed in offices and an adjoining factory in Ambosium. The offices and factory are leased and the magazine currently employs 20 people, all of whom live close to the offices. It is the only independent magazine in the sector. Each association has its own magazine and website, but relatively tight control is maintained over their editorial policy. Victor was the editor of the ABC magazine (*Business Analysis Today*) for 16 years before establishing the *BA Times* nine years ago. Because of its independence, the *BA Times* can be a little more controversial and provocative than its rivals and it is popular with students and well respected by the profession.

However, despite such recognition, the magazine is currently unprofitable due to increased production, distribution and office costs, falling subscriptions and reduced advertising. Changing reading habits in Umboria, particularly amongst the young, has led to less reading of printed media. All of the traditional media providers are experiencing financial problems. The sales of printed magazines and the profits of publishers are both falling dramatically throughout Umboria. Furthermore, advertisers are increasingly unconvinced about the effectiveness of advertising in printed magazines and so the advertising revenues of these magazines are also falling.

The *BA Times* currently has a website but its role is to convince the visitor to order the printed magazine. The website offers extracts of news and articles, often with provocative headlines, which may only be read in full in the printed magazine.

Recent survey

A recent survey of people who had decided not to renew their *BA Times* subscription revealed the following comments:

> I am studying the ABC syllabus and so in-depth articles on ICFC topics and examinations are not relevant to me. I quite enjoy reading the news parts, but not the in-depth analysis of examinations that I am not taking. *ABC student*
>
> I have reached the final stage of my examinations. I do not want to read articles about the stages I have already passed. I reckon only about 15% of *BA Times* is relevant to me now. *ABC Final Stage student*
>
> Some of the readers' letters are really irritating or just plain wrong, but the editor seldom makes a comment! It really annoys me! *ICFC student*
>
> I became a business analyst to get a job, not just to sit examinations and read about examining bodies. *ICFC student*

Required:

(a) **This requirement is no longer examinable.**

(b) **Evaluate the alternative strategies available to ASW's project manager to address the slippage problem in the CaetInsure project. (10 marks)**

(c) **As a result of your evaluation, recommend and justify your preferred solution to the slippage problem in the CaetInsure project. (6 marks)**

(Total: 16 marks)

41 LDB *Online question assistance*

Four years ago Lowlands Bank acquired Doe Bank, one of its smaller rivals. Both had relatively large local branch bank networks and the newly merged bank (now called LDB) found that it now had duplicated branches in many towns. One year after the takeover was finalised, LDB set up a project to review the branch bank network and carry out a rationalisation that aimed to cut the number of branches by at least 20% and branch employment costs by at least 10%. It was agreed that the project should be completed in two years. There were to be no compulsory staff redundancies. All branch employment savings would have to be realised through voluntary redundancy and natural wastage.

LDB appointed its operations director, Len Peters as the sponsor of the project. The designated project manager was Glenys Hopkins, an experienced project manager who had worked for Lowlands Bank for over fifteen years. The project team consisted of six employees who formerly worked for Lowlands Bank and six employees who formerly worked for Doe Bank. They were seconded full-time to the project.

Project issues and conclusion

During the project there were two major issues. The first concerned the precise terms of the voluntary redundancy arrangements. The terms of the offer were quickly specified by Len Peters. The second issue arose one year into the project and it concerned the amount of time it took to dispose of unwanted branches. The original project estimates had underestimated how long it would take to sell property the bank owned or to re-assign or terminate the leases for branches it rented. The project board overseeing the project agreed to the project manager's submission that the estimates had been too optimistic and they extended the project deadline for a further six months.

The project team completed the required changes one week before the rearranged deadline. Glenys Hopkins was able to confirm that the branch network had been cut by 23%. Six months later, in a benefits realisation review, she was also able to confirm that branch employment costs had been reduced by 12%. At a post-project review the project support office of the bank confirmed that they had changed their project estimating assumptions to reflect the experience of the project team.

Potential process initiatives

LDB is now ready to undertake three process initiatives in the Information Technology area. The IT departments and systems of the two banks are still separate. The three process initiatives under consideration are:

(1) The integration of the two bespoke payroll systems currently operated by the two banks into one consolidated payroll system. This will save the costs of updating and maintaining two separate systems.

Meeting 3: 4 September attended by MM, RP and IC

IC produced a re-drafted design. This overall design was agreed and the go-ahead was given for TD to produce a prototype of the design to show to the board.

Meeting 4: 11 September attended by RP, IC and TD

TD explained that elements of the drafted re-design were not technically feasible to implement in the programming language being used. Changes to the design were agreed at the meeting to overcome these issues and signed off by RP.

Meeting 5: 13 October attended by MM, RP, IC and TD

The prototype re-design was demonstrated by TD. MM was unhappy with the re-design as it was 'moving too far away from the original objective and lacked functionality that should be there'. TD agreed to write a technical report to explain why the original design (agreed on 4 September) could not be adhered to.

Meeting 6: 9 November attended by MM, IC and TD

It was agreed to return to the 4 September design with slight alterations to make it technically feasible. TD expressed concerns that the suggested design would not work properly with all web browsers.

At the board meeting of 9 December the board expressed concern about the time taken to produce the re-design and the finance director highlighted the rising costs (currently $25,000) of the project. They asked MM to produce a formal cost-benefit of the re-design. The board were also concerned that the scope of the project, which they had felt to be about re-design, had somehow been interpreted as including development and implementation.

On 22 December MM produced the following cost-benefit analysis of the project and confirmed that the word 'redesign' had been interpreted as including the development and implementation of the website.

	Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*
Costs	$50,000	$10,000	$10,000	$10,000	$10,000
Benefits*	0	$15,000	$25,000	$35,000	$35,000

*These benefits are extra sales volumes created by the website's extra functionality and the company's increased visibility in the market place.

On 4 January the board gave the go ahead for the development and implementation of the website with a further budget of $25,000 and a delivery date of 1 March. TD expressed concern that he did not have enough developers to deliver the re-designed website on time.

Meeting 7: 24 February attended by MM, RP, IC and TD

A partial prototype system was demonstrated by TD. RP felt that the functionality of the re-design was too limited and that the software was not robust enough. It had crashed twice during the demonstration. He suggested that the company delay the introduction of the re-designed website until it was complete and robust. MM declared this to be impossible.

New buildings built under the Private/Public investment policy must attain energy level targets and this is the basis for the estimation, above, of the *energy savings.* It is expected that the new centre will attract more customers who will pay for the centre's use as well as increasing the use of facilities such as the cafeteria, shop and business centre. These benefits are estimated, above, under *increased income.* Finally, it is felt that staff will be happier in the new building and their motivation and morale will increase. The centre currently employs 20 staff, 16 of whom have been with the centre for more than five years. All employees were transferred from the old to the new centre. These benefits are shown as *better staff morale* in Figure 1.

Construction of the centre 2010–2011

In October 2010 the centre was commissioned with a planned delivery date of June 2011 at a cost of $600,000 (as per Figure 1). Building the centre went relatively smoothly. Progress was monitored and issues resolved in monthly meetings between the company constructing the centre and representatives of the local authority. These meetings focused on the building of the centre, monitoring progress and resolving issues. Most of these issues were relatively minor because requirements were well specified in standard architectural drawings originally agreed between the project sponsor and the company constructing the centre. Unfortunately, the original project sponsor (an employee of the local authority) who had been heavily involved in the initial design, suffered ill health and died in April 2011. The new project sponsor (again an employee of the local authority) was less enthusiastic about the project and began to raise a number of objections. Her first concern was that the construction company had used sub-contracted labour and had sourced less than 80% of timber used in the building from sustainable resources. She pointed out the contractual terms of supply for the Private/Public policy investment initiatives mandated that sub-contracting was not allowed without the local authority's permission and that at least 80% of the timber used must come from sustainable forests. The company said that this had not been brought to their attention at the start of the project. However, they would try to comply with these requirements for the rest of the contract. The new sponsor also refused to sign off acceptance of the centre because of the poor quality of the internal paintwork. The construction company explained that this was the intended finish quality of the centre and had been agreed with the previous sponsor. They produced a letter to verify this. However, the letter was not counter-signed by the sponsor and so its validity was questioned. In the end, the construction company agreed to improve the internal painting at their own cost. The new sponsor felt that she had delivered 'value for money' by challenging the construction company. Despite this problem with the internal painting, the centre was finished in May 2011 at a cost of $600,000. The centre also included disability access built at the initiative of the construction company. It had found it difficult to find local authority staff willing and able to discuss disability access and so it was therefore left alone to interpret relevant legal requirements. Fortunately, their interpretation was correct and the new centre was deemed, by an independent assessor, to meet accessibility requirements.

Unfortunately, the new centre was not as successful as had been predicted, with income in the first year well below expectations. The project sponsor began to be increasingly critical of the builders of the centre and questioned the whole value of the project. She was openly sceptical of the project to her fellow local authority employees. She suggested that the project to build a cost-effective centre had failed and called for an inquiry into the performance of the project manager of the construction company who was responsible for building the centre. 'We need him to explain to us why the centre is not delivering the benefits we expected', she explained.

Required:

(a) **The local authority has commissioned the independent Project Audit Agency (PAA) to look into how the project had been commissioned and managed. The PAA believes that a formal 'terms of reference' or 'project initiation document' would have resolved or clarified some of the problems and issues encountered in the project. It also feels that there are important lessons to be learnt by both the local authority and the construction company.**

Analyse how a formal 'terms of reference' (project initiation document) would have helped address problems encountered in the project to construct the community centre and lead to improved project management in future projects. (13 marks)

(b) **The PAA also believes that the four sets of benefits identified in the original business case (rental savings, energy savings, increased income and better staff morale) should have been justified more explicitly.**

Draft an analysis for the PAA that formally categorises and critically evaluates each of the four sets of proposed benefits defined in the original business case.

(12 marks)

(Total: 25 marks)

FINANCING

47 WOODS EDUCATIONAL INSTITUTION

You are a newly appointed Finance Manager of the Woods Educational Institution (WEI) that is mainly government funded, having moved from a similar post in a service company in the private sector. WEI is a large education establishment which has traditionally focused on providing academic qualifications for under-graduates. It has over 300 full time teaching staff and 60 support staff, with facilities to provide 100 lectures at any one time within the institution's own buildings.

The objective, or mission statement, of this Institution is shown in its publicity material as:

'to achieve recognised standards of excellence in the provision of teaching and research.'

The only financial performance measure evaluated by the government is that the Institution has to remain within cash limits. The cash allocation each year is determined by a range of non-financial measures such as the number of research publications the Institution's staff have achieved and official ratings for teaching quality.

However, almost 20% of total cash generated by WEI is now from the provision of courses and seminars to private sector companies. These customers are aiming to improve their skills base rather than achieve academic qualifications. They are largely unconcerned about research ratings and lecturer qualifications and are more concerned with course content and flexibility. Courses can often be facilitated in WEI's own buildings, but some clients prefer for courses to be provided in their own offices.

WEI's Head of Education aims to increase the percentage of income coming from the private sector to 50% over the next five years.

50 SATELLITE NAVIGATION SYSTEMS

Satellite Navigation Systems (SNS) installs complex satellite navigation systems in cars, at a very large national depot. The standard cost of an installation is shown below. The budgeted volume is 1,000 units installed each month. The operations manager is responsible for three departments, namely: purchasing, fitting and quality control. Satellite Navigation Systems Limited purchases navigation systems and other equipment from different suppliers, and most items are imported. The fitting of different systems takes differing amounts of time, but the differences are not more than 25% from the average, so a standard labour time is applied.

Standard cost of installation of one navigation system

	$	*Quantity*	*Price* ($)
Materials	400	1 unit	400
Labour	320	20 hours	16
Variable overheads	140	20 hours	7
Fixed overheads	300	20 hours	15
Total standard cost	1,160		

The Operations Department has gathered the following information over the last few months. There are significant difficulties in retaining skilled staff. Many have left for similar but better paid jobs and as a result there is a high labour turnover. Exchange rates have moved and commentators have argued this will make exports cheaper, but SNS has no exports and has not benefited from these movements. Some of the fitters have complained that one large batch of systems did not have the correct adaptors and would not fit certain cars, but this was not apparent until fitting was attempted. Rent, rates, insurance and computing facilities have risen in price noticeably.

The senior management team of SNS want the finance department to lend more support for the business and provide information that will help them to understand why costs appear to be spiralling out of control in the last few months and what the organisation can do to improve its position in the future.

The financial results for September to December are shown below.

Operating statement for SNS for September to December

	September $	*October* $	*November* $	*December* $	*4 months* $
Standard cost of actual output	1,276,000	1,276,000	1,102,000	1,044,000	4,698,000
Variances materials					
Price	5,505 F	3,354 F	9,520 A	10,340 A	11,001 A
Usage	400 A	7,200 A	800 A	16,000 A	24,400 A
Labour rate	4,200 A	5,500 A	23,100 A	24,000 A	56,800 A
Efficiency	16,000 F	0	32,000 A	32,000 A	48,000 A
Variable overheads					
Expenditure	7,000 A	2,000 A	2,000 F	0	7,000 A
Efficiency	7,000 F	0	14,000 A	14,000 A	21,000 A
Fixed overheads					
Expenditure	5,000 A	10,000 A	20,000 A	20,000 A	55,000 A
Volume	30,000 F	30,000 F	15,000 A	30,000 A	15,000 F
Actual costs	1,234,095	1,267,346	1,214,420	1,190,340	4,906,201

A = adverse variance F = favourable variance

The management team is concerned that X plc has recently faced increasing competition in the marketplace for Product W. As a consequence there have been issues concerning the availability and costs of the specialised materials and employees needed to manufacture Product W, and there is concern that these might cause problems in the current budget-setting process.

Required:

(a) Prepare the following budgets for each quarter for X plc:

(i) Production budget in units

(ii) Raw material purchases budget in kgs and value for Material B. (8 marks)

(b) X plc has just been informed that Material A may be in short supply during the year for which it is preparing budgets.

Discuss the impact this will have on budget preparation as well as the strategic planning and decision making within X plc. (12 marks)

The same company is also considering investing in one of three marketing campaigns to increase its profitability. All three marketing campaigns have a life of five years, require the same initial investment and have no residual value. The company has already evaluated the marketing campaigns taking into consideration the range of possible outcomes that could result from the investment. A summary of the calculations is shown below:

Marketing campaign	*J*	*K*	*L*
Expected net present value	$400,000	$800,000	$400,000
Standard deviation of net present value	$35,000	$105,000	$105,000

(c) Explain

(i) the meaning of the data shown above

(ii) how the data may be used by the company when choosing between alternative investments. (5 marks)

(Total: 25 marks)

52 WORLD ENGINES

World Engines (WE) is one of the largest producers of aircraft and ship engines in the world. It has assets in excess of $600bn. It is currently considering improvements to its marine engine production facilities. These improvements include the introduction of specialist hardware and software engine testing technology. Two companies have been shortlisted for supplying this technology.

Amethyst is a well-established company whose product provides sophisticated testing facilities and costs $7m. The software that supports the product is written in a conventional programming language. The solution is widely used, but it is relatively inflexible and it has an out-of-date user interface. Amethyst has been trading profitably for 20 years and currently has an annual turnover of $960m.

The managing director of CoolFreeze has called you in to review the forecasting model used by the sales forecasting team. "It must be very flawed to go so badly wrong. I have the feeling that the model is not based on a well-accepted approach". He has obtained a copy of the spreadsheet used by the sales forecasting team (see figure four) to help you in your analysis.

The managing director recognises that the actual quarter 2 performance has to be analysed against the budgeted one. "I think everyone here has made mistakes – the sales manager, procurement manager, production manager, administration manager. They all have to take responsibility. We are in this together and now we must pull together to get out of this mess".

Figure three: Analysis of quarter 2 trading; budget and actual

Quarter 2 – 2010	*Budget*	*Actual*
Units	83	50
Revenue	$83,000.00	$45,000.00
Raw materials	($29,050.00)	($15,000.00)
Labour	($26,975.00)	($15,750.00)
Fixed overheads	($18,000.00)	($18,000.00)
Operating profit	$8,975.00	($3,750.00)

Figure four: Forecasting spreadsheet

A	*B*	*C*	*D*	*E*	*F*	*G*	*H*	*I*
Part 1								
Year	*Quarter*	*Units*		*Trend*	*Variation*	*Seasonal*	*Residual*	*Check*
2006	1	56						
	2	70						
	3	74	524	65.50	8.50	7.35	1.15	74.00
	4	60	538	67.25	–7.25	–4.73	–2.52	60.00
2007	1	60	554	69.25	–9.25	–11.65	2.40	60.00
	2	80	570	71.25	8.75	9.02	–0.27	80.00
	3	80	582	72.75	7.25	7.35	–0.10	80.00
	4	70	586	73.25	–3.25	–4.73	1.48	70.00
2008	1	62	588	73.50	–11.50	–11.65	0.15	62.00
	2	82	588	73.50	8.50	9.02	–0.52	82.00
	3	80	586	73.25	6.75	7.35	–0.60	80.00
	4	70	586	73.25	–3.25	–4.73	1.48	70.00
2009	1	60	590	73.75	–13.75	–11.65	–2.10	60.00
	2	84	590	73.75	–10.25	9.02	1.23	84.00
	3	82						
	4	68						

'business was not fun anymore'. The company was legally required to publish directors' salaries in its annual report and the generous salary package enjoyed by the Chairman and CEO increasingly became an issue and it dominated the 20X2 Annual General Meeting (AGM). Hein was embarrassed by its publication and the discussion it led to in the national media. He felt that it was an infringement of his privacy and civil liberties.

Phase 3 (20X3–20X8)

In 20X3 Hein found the substantial private equity investment necessary to take Rock Bottom private again. He also used all of his personal fortune to help re-acquire the company from the shareholders. He celebrated 'freeing Rock Bottom from its shackles' by throwing a large celebration party. Celebrities were flown in from all over the world to attend. However, most of the new generation of store managers found Hein's style to be too loose and unfocused. He became rude and angry about their lack of entrepreneurial spirit. Furthermore, changes in products and how they were purchased meant that fewer people bought conventional audio products from specialist shops. The reliability of these products now meant that they were replaced relatively infrequently. Hein, belatedly, started to consider selling via an Internet site. Turnover and profitability plummeted. In 20X7 Hein again considered franchising the company, but he realised that this was unlikely to be successful. In early 20X8 the company ceased trading and Hein himself, now increasingly vilified and attacked by the press, filed for personal bankruptcy.

Required:

(a) **Analyse the reasons for Rock Bottom's success or failure in each of the three phases identified in the scenario. Evaluate how Rick Hein's leadership style contributed to the success or failure of each phase. (18 marks)**

(b) **Rick Hein considered franchising the Rock Bottom brand at two points in its history – 1988 and 20X7. Explain the key factors that would have made franchising Rock Bottom feasible in 1988 but would have made it 'unlikely to be successful' in 20X7. (7 marks)**

(Total: 25 marks)

56 ARC

Ten years ago Sully Truin formed the Academic Recycling Company (ARC) to offer a specialised waste recycling service to schools and colleges. The company has been very successful and has expanded rapidly. To cope with this expansion, Sully has implemented a tight administrative process for operating and monitoring contracts. This administrative procedure is undertaken by the Contracts Office, who track that collections have been made by the field recycling teams. Sully has sole responsibility for obtaining and establishing recycling contracts, but he leaves the day-to-day responsibility for administering and monitoring the contracts to the Contracts Office. He has closely defined what needs to be done for each contract and how this should be monitored. 'I needed to do this', he said, 'because workers in this country are naturally lazy and lack initiative. I have found that if you don't tell them exactly what to do and how to do it, then it won't get done properly.' Most of the employees working in the Contracts Office like and respect Sully for his business success and ability to take instant decisions when they refer a problem to him. Some of ARC's employees have complained about his autocratic style of leadership, but most of these have now left the company to work for other organisations.

Traditionally, the NM has provided administrative support for sections and departments, grouped together beneath a Director of Administration. The role of the Director General has been a part-time post. However, the funding changes introduced by the government and the need to produce a strategy document, has spurred the Board of Trustees to appoint a full-time Director General from the private sector. The trustees felt they needed private industry expertise to develop and implement a strategy to achieve the government's objectives. The new Director General was previously the CEO of a major chain of supermarkets.

Director General's proposal

The new Director General has produced a strategic planning document showing how the NM intends to meet the government's objectives. Proposals in this document include:

(1) Allocating budgets (from 20Y0) to sections based on visitor popularity. The most visited collections will receive the most money. The idea is to stimulate sections to come up with innovative ideas that will attract more visitors to the museum. Visitor numbers have been declining (see Figure 3) since 20X4.

Visitor numbers (000s)	*20X7*	*20X6*	*20X5*	*20X4*
Age 17 or less	10	12	15	15
Age 18–22	5	8	12	10
Age 23–30	10	15	20	20
Age 31–45	20	20	18	25
Age 46–59	35	35	30	30
Age 60 or more	40	35	35	30
Total	120	125	130	130

Figure 3: Visitor numbers 20X4–20X7

(2) Increasing entrance charges to increase income, but to make entry free to pensioners, students, children and people receiving government benefit payments.

(3) Removing the head of sections' dining room and turning this into a restaurant for visitors. An increase in income from catering is also proposed in the document.

(4) Removing the head of sections' personal assistants and introducing a support staff pool to reduce administrative costs.

(5) Increasing the display of exhibits. Only 10% of the museum's collection is open to the public. The rest is held in storage.

(6) Increasing commercial income from selling posters, postcards and other souvenirs.

The Director General has also suggested a major re-structuring of the organisation as:

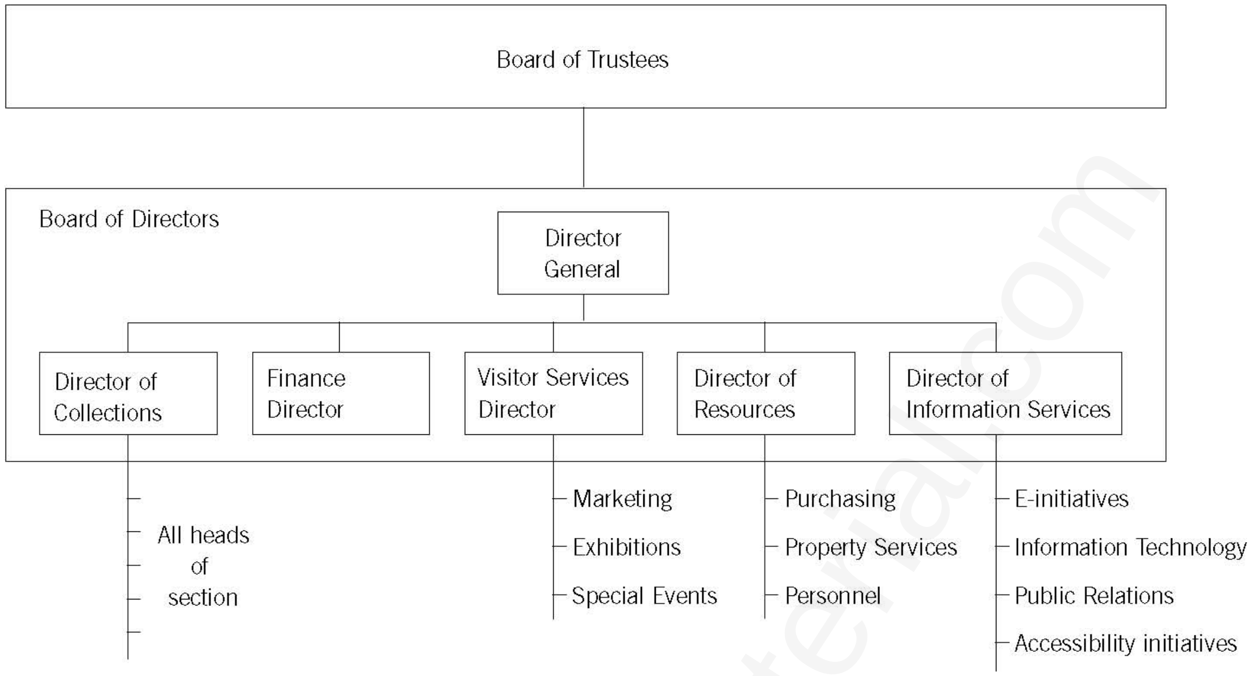


Figure 4: Proposed organisational structure

Reaction to the proposals

Employees have reacted furiously to the Director General's suggestions. The idea of linking budgets to visitor numbers has been greeted with dismay by the Director of Art and Architecture. 'This is a dreadful idea and confuses popularity with historical significance. As previous governments have realised, what is important is the value of the collection. Heritage Collections recognise this significance by putting the nation's interests before those of an undiscerning public. As far as I am concerned, if they want to see fashion, they can look in the high street shops. Unlike fashion, great art and architecture remains.' The Director of Art and Architecture and the two professors who hold the Head of Architecture and Head of Art posts have also lobbied individual members of the Board of Trustees with their concerns about the Director General's proposals.

The Director of Industrial Arts and the Director of Media and Contemporary Art have contacted powerful figures in both television and the press and as a result a number of articles and letters critical of the Director General's proposals have appeared. A recent television programme called 'Strife at the NM' also featured interviews with various heads of collections criticising the proposed changes. They were particularly critical of the lack of consultation; 'these proposals have been produced with no input from museum staff. They have been handed down from on high by an ex-grocer', said one anonymous contributor.

Eventually, the criticism of staff and their lack of cooperation prompted the Director General to ask the Board of Trustees to publicly back him. However, only the two trustees appointed by the government were prepared to do so. Consequently, the Director General resigned. This has prompted an angry response from the government which has now threatened to cut the museum's funding dramatically next year and to change the composition of the Board of Trustees so that the majority of trustees are appointed directly by the government. The Minister of Culture has asked the museum to develop and recommend a new strategy within one month.

Once the acquisition is complete, Shoal plc wish to quickly turnaround Captain Haddock and return it to profitability.

(ii) **Identify and analyse the main elements of strategic change required to achieve this goal. (8 marks)**

Professional marks will be awarded in part (b) (ii) for the cogency of the analysis and for the overall relevance of the answer to the case study scenario. (2 marks)

Portfolio managers, synergy managers and parental developers are three corporate rationales for adding value.

(c) **Explain each of these separate rationales for adding value and their relevance to understanding the overall corporate rationale of Shoal plc. (10 marks)**

(Total: 50 marks)

67 AUTOFONE

Introduction

AutoFone was established almost twenty years ago at the beginning of the mobile telephone boom. It was formed by a dynamic Chief Executive Officer (CEO) who still remains a major shareholder of the company.

AutoFone brought two new concepts to the market. Firstly, it established retail shops where customers could go and handle the products and discuss mobile phone options with trained sales people. Before AutoFone, all mobile telephones were sold through the customer directly contacting the telephone network provider (like conventional home land line services) and were generally aimed at business rather than leisure users. Secondly, AutoFone sold products and services from all the four major network providers licensed by the government to provide telecommunications services in the country. Previously, customers could only choose products and services from within one network provider's range. AutoFone allowed customers to choose products and services across the range of the four providers and reflected this in the company's motto 'ethical advice: the customer's choice'.

In 1990, AutoFone signed a thirty-year supply contract with each provider. Although, in retrospect, these deals were on commercially favourable terms for AutoFone, the network providers were happy to agree these deals because none of them believed that mobile telephones could be successfully sold through retail shops. However, speaking in 20X3, the managing director of one of the networks suggested 'that AutoFone had got away with incredible profit margins' when they signed the deals in 1990. The four network providers themselves had re-signed twenty-five year licence deals with the government in 1995. Under the terms of these deals, licences will be restricted to the four current providers until their renewal date of 2020.

Retail shops division

AutoFone currently has 415 shops around the country. To reduce costs most shops are on the edge of (but not in) the main shopping area of the town they serve. It is usual for AutoFone to sign a fifty-year shop lease in return for low initial annual rental and a rent-free period at the start of the lease while the company fits out the shop to reflect AutoFone's corporate image. In 1997, AutoFone floated on the country's stock market to assist the funding of further shops and so continue its organic growth. The national coverage of its shops, the publicity generated by its CEO and a successful television advertising campaign culminated, in 20X5, with it being rated by consumers as one of the top 20 brands in the country.

68 WET

Introduction

Arcadia is a country with great mineral wealth and a hard-working, well-educated population. It has recently enjoyed sustained economic growth generated by the expansion of its manufacturing industry. The population has grown as well and, as a result, agricultural output has increased to satisfy this population, with much previously marginal land converted to arable and pasture land. However, after 10 years of sustained economic growth the country, in 20X9, began to experience economic problems. Gross Domestic Product (GDP) has declined for three successive quarters and there is increasing unemployment. Surveys have shown that wages are stagnant and retail sales are falling. There are also increasing problems with servicing both personal and business debt leading to business bankruptcy and homelessness.

The climate of the country is also changing, becoming drier and windier. Last year, for the first time, the government had to ration water supply to domestic homes.

The formation of WET

In 20X2, the environmental campaigner Zohail Abbas published a book on the Wetlands of Arcadia. The Wetlands of Arcadia are areas of natural habitat made up of land that is saturated with moisture, such as a swamp, marsh or bog. Dr Abbas' book chronicled the systematic destruction of the wetlands due to population growth, increased economic development and climate change. Water had been progressively drained from the wetlands to provide land for farming and to provide water for the increasing population and industry of the country. Wetlands also provide an important habitat for wildlife. Dr Abbas showed that in the period from 1970 to 2000, there had been a dramatic decline in birds, mammals and fish dependent upon the wetland habitat. Some species had become extinct.

In 20X3, Dr Abbas formed the WEtland Trust (WET), with the aim of preserving, restoring and managing wetlands in Arcadia. Since its formation, the Trust has acquired the four remaining wetland sites left in the country. The Trust's work is funded through donations and membership fees. Donations are one-off contributions. Membership is through an annual subscription which gives members the right to visit the wetlands. Each wetland site is managed by volunteers who provide access and guidance to members. The wetlands are not currently open to the general public. Dr Abbas' work on the wetlands has brought him to the attention of the Arcadian public and he is now a popular television presenter. WET is also a strong brand, recognised by 85% of Arcadians in a recent green consumer survey.

GiftHelp

WET is a registered charity. Charities within Arcadia have to be registered with the Commission of Charities which regulates charities within the country. The number of charities has increased significantly in the last few years leading to widespread criticism from established charities, politicians and the public, who believe that many of these charities have been formed to exploit taxation advantages. Dr Abbas is a vociferous critic, particularly after the Commission of Charities gave permission for the establishment of a rival wetland charity (WWTFT) despite the fact that all wetlands in Arcadia are under WET's control. WWTFT promised to create new wetlands artificially in Arcadia. They have so far only raised $90,000 of the $151,000,000 required for a pilot site. Dr Abbas was part of a group that lobbied the government for the reform of the Commission of Charities, but the government has rejected their advice.

The government of Arcadia has recently changed the rules on charity taxation. Previously, once the charity's accounts had been audited, the government paid the charity a sum of 20% of the total value of donations and membership fees. This reflected the income tax the donor would have paid on the amount they had given to the charity. However, the government has now declared that this is unfair as not all donations or membership fees are from Arcadian taxpayers or from people in Arcadia who actually pay tax. Consequently, in the future, charities will have to prove that a donation or membership fee was from an Arcadian tax payer. Only donations or fees supported by this proof will receive the 20%, so called GiftHelp, refund. Research and evidence from other countries suggests that 30% of donors will not give the GiftHelp details required and so the charity will not be able to reclaim tax from these donors. An analysis of WET's income for 20X8 is given in Figure 1 and an analysis of income for all charities is given in Figure 2. Research has also shown that 55% of members and 85% of donors also give money to other charities.

Figure 1 – WET's income sources; year 20X8

	Members	*Donors*
Arcadian Taxpayers	\$650,000	\$100,000
Arcadian Non-taxpayers	\$100,000	\$50,000
Non-Arcadian	\$50,000	\$50,000
Total	\$800,000	\$200,000

Figure 2 – Income for all Arcadian charities; year 20X8 (in \$millions)

	Amount donated to charity
Health charities	775.0
Social Care charities	275.5
International charities	149.8
Environmental charities (including WET)	45.6

WET 20X3–20X9

WET was originally a vehicle for promoting the vision and ideology of Dr Abbas. Volunteers were recruited to manage and administer the wetland sites and the number of members gradually increased (see Figure 3). Many of these volunteers have become acknowledged experts in wetlands and their knowledge and experience is valued by members. However, as the charity expanded a number of issues emerged.

1 Administrative costs rose at a faster rate than subscriptions and donations. Administrative staff are all full-time paid employees of the charity. However, despite an increase in staff numbers, there is a substantial backlog of cleared applications in the Membership Department which have not yet been entered into the membership computer system. The membership computer system is one of the systems used to support administration. However, the functionality of this software is relatively restricted and cumbersome and there have been complaints about its accuracy. For example, members claim that renewal reminders are often sent out to people who have already paid and that members who should have received renewal invoices have never received them. As a result 'we seem to be wasting money and losing members'.

Required:

(a) **The new CEO, Sheila Jenkins, recognises that she should understand the strategic position of WET before considering strategic options and changes. She wants a concise assessment of the strategic position; covering environment, strategic capability, stakeholder expectations and organisational mission.**

Undertake the assessment, required by Sheila Jenkins, of the strategic position of WET. (21 marks)

Professional marks will be awarded in part (a) for the scope, structure and tone of the answer. (4 marks)

(b) **Problems with the current membership renewal process include:**

- **the low response to payment requests**
- **the despatch of renewal reminders for people who have already paid**
- **the failure to send renewal invoices to some members.**

Analyse faults in the current membership renewal process that cause the problems identified above. Suggest solutions that would remedy these faults. (15 marks)

(c) **Sheila Jenkins sees customers as 'both prospective and existing members, volunteers and donors of WET'. She also wishes to gain increased revenue from each member and donor.**

Evaluate how email and website technology might facilitate the acquisition and retention of WET's customers and support WET's aim to gain increased revenues from members and donors. (10 marks)

(Total: 50 marks)

69 REINK CO

Eland – the country

Eland is an industrial country with a relatively high standard of living. Most commercial and domestic consumers have computers and printers. However, the economic performance of the country has declined for the last seven years and there are large areas of unemployment and poverty. The economic problems of the country have led to a significant decline in tax revenues and so the government has asked its own departments (and the public sector as a whole) to demonstrate value-for-money in their purchases. The government is also considering privatising some of its departments to save money. The Department of Revenue Collections (DoRC), which is responsible for collecting tax payments in the country, has been identified as a possible candidate for future privatisation.

The people of Eland are enthusiastic about the principles of reuse and recycling. There has been a notable rise in the number of green consumers. Mindful of this, and aware of the economic benefits it delivers, the government is also encouraging its departments (and the economy as a whole) to recycle and reuse products.

Stuart Roam Rail

Increasing fuel costs, increasing road congestion and concern about the environmental consequences of road transport caused The Roam Group to look at opportunities offered by rail transport.

In 20X2 The Roam Group purchased the Freight Direct Rail Company (FDRC). FDRC was formed in 2000 when the government of Meeland privatised the rail freight business. FDRC had struggled to survive in a business dominated by two large companies who shared the lucrative bulk freight contracts (coal, iron ore and oil) between them. The FDRC board welcomed The Roam Group acquisition and the locomotives were quickly painted in the red and white corporate colours and FDRC was renamed Stuart Roam Rail. However, despite experienced managers being transferred into the company from other companies in the Group, Stuart Roam Rail (like FDRC) has struggled to make a significant impact in the rail freight sector. Most of its customers are at locations which are not directly accessible by rail. Furthermore, the lucrative bulk rail freight contracts (coal, iron ore and oil) are in products which companies within The Roam Group have no experience in. It is still unclear whether the movement of consumer food and drink to multiple locations (The Roam Group's core business) is suited to rail transport. Furthermore, it has also been difficult for The Roam Group's senior management to understand the culture and economics of the rail freight business. The railway tracks, which are still owned by the state, are subject to very close control and monitoring and Stuart Roam Rail's use of these tracks is directly charged. There has also been a failure to recognise that train driving requires far greater skills and training than truck driving.

However, on the positive side, Stuart Roam Rail has developed an innovative mini-container system which can easily transfer goods between trucks and trains and it also effectively uses warehouse space. Furthermore, most of the supermarkets, attracted by a green image, are very supportive of the rail initiative and wish to be associated with it.

	20X5		*20X4*		*20X3*		*20X2*		*20X1*	
	Roam	*Industry*	*Roam*	*Industry*	*Roam*	*Industry*	*Roam*	*Industry*	*Roam*	*Industry*
Stuart Roam Road Transport										
Revenue	575	2,050	565	2,025	550	2,015	520	2,050	500	2,000
Operating profit	10.80%	9.98%	10.75%	9.95%	10.80%	9.93%	10.45%	9.50%	10.25%	9.57%
ROCE	12.25%	11.50%	12.15%	11.45%	12.05%	11.45%	11.95%	11.30%	11.95%	11.35%
Stuart Roam Warehousing										
Revenue	315	3,200	275	3,010	270	3,050	255	2,950	250	2,850
Operating profit	14.55%	14.50%	14.25%	14.15%	14.20%	14.25%	14.00%	14.25%	13.85%	14.15%
ROCE	14.50%	14.15%	14.25%	14.10%	14.15%	14.10%	13.95%	13.90%	13.95%	13.85%
Stuart Roam Rail										
Revenue	112	3,150	110	3,000	105	2,850	105	2,650	105	2,500
Operating profit	4.75%	12.45%	4.50%	12.35%	4.85%	12.25%	4.95%	12.75%	5.15%	12.85%
ROCE	3.50%	8.75%	3.65%	8.55%	3.75%	8.55%	3.85%	8.35%	3.85%	8.25%

Table One: Financial data for operating companies in The Roam Group.

The performance of the company is shown under the columns headed Roam. Industry figures (provided by Freight Line International) are shown under the columns headed Industry. Operating profit and ROCE figures are averages for the industry while revenue figures are totals. All revenue figures are in $million.

Extracted from statements of financial position (all figures in $m)

Trade receivables	70	80	90
Share capital	100	100	100
Retained earnings	140	160	170
Long term borrowings	70	50	20

In 20X1, Hammond Shoes paid, on average, their supplier invoices 28 days after the date of invoice. In 20X3 this had risen to 43 days and in 20X5, the average time to pay a supplier invoice stood at 63 days.

Required:

(a) **Analyse the financial position of Hammond Shoes and evaluate the proposed investment of $37.5 million in upgrading its production facilities.** **(14 marks)**

(b) **Using an appropriate framework (or frameworks) examine the alternative strategic options that Hammond Shoes could consider to secure its future position.** **(20 marks)**

Professional marks will be awarded in part (b) for the clarity, structure and style of the answer. **(4 marks)**

(c) **Advise the Hammond family on the importance of mission, values and objectives in defining and communicating the strategy of Hammond Shoes.** **(12 marks)**

(Total: 50 marks)

72 HAIR CARE LTD

Timed question with Online tutor debrief

Assume that 'now' is June 20X7.

Sam and Annabelle Burns own and manage the firm Hair Care Ltd, based in the United Kingdom. The firm was formed in 20X2 when Sam and his wife re-mortgaged their house and borrowed heavily from the bank to buy out the company from a conglomerate organisation who were disposing of non-core businesses. Sam had been a senior salesman with the hair-care subsidiary of the conglomerate. This subsidiary bought hair care products, mainly small value items and consumables – scissors, brushes, combs, hair nets, curlers and hair driers, from manufacturers and resold them to wholesalers and large retail chemist chains within the United Kingdom, mainly for use in hairdressing salons. The new business has continued in this direction.

	Main currency	*20X7*	*19W7*
Purchases from the Far East (mainly Hong Kong, China and Malaysia)	US $	66%	93%
Purchases from mainland Europe (mainly Italy and Germany)	Euro	29%	3%
Purchases from UK	GP £	5%	4%

make shampoos, conditioners and other cosmetic type products who also buy-in consumer hairdressing products such as the ones sold by Hair Care Ltd. They then sell these mainly to the retail trade for domestic use by consumers and not directly to the hairdressing salons as does Hair Care Ltd. Furthermore these are large companies and Sam believes that they do not currently see his company as a major threat.

The company has registered a brand name for its main products, which it re-packages, rather than using the individual brands of the original manufacturers. This has enabled Hair Care Ltd to generate even greater loyalty from its customers and often to obtain a price premium from these products.

Sam believes that part of the company's success stems from the fact that he has an organisation with minimal administrative overheads. He outsources all of his products, adding value mainly through branding and the maintenance of customer care. He believes that strategy is not mainly about beating the competition but in serving the real needs of the customer. The company has also been able to develop a strong relationship with the country's leading retail chemist chain, providing it with good quality, low-cost disposable products such as hair nets and brushes to be sold under an own-brand label. Although the margins are inevitably small, the volumes involved more than compensate for this.

The company has had to incur increased investment as a result of the large growth in sales revenue. The building of the warehouse, the increased inventory-holding costs, capital expenditure on items such as computing systems, fork-lift trucks and automated inventory control and retrieval systems could not be financed out of current earnings, but the company's bank was only too ready to lend the company the necessary money considering that the original loan had been repaid ahead of schedule.

Table 1: Details of Performance of Hair Care Ltd: 20X4–20X7

	20X4	*20X5*	*20X6*	*20X7 (Forecast)*
	$000	$000	$000	$000
Sales revenue	2,300	3,500	5,010	7,500
Cost of sales	1,450	2,380	3,507	5,250
Marketing costs	200	250	290	350
Distribution costs	300	400	430	500
Administration	50	55	80	120
Interest payments	0	80	220	700
Operating profit	300	335	483	580
Loans	0	850	2,400	5,000
Number of suppliers (actual)	15	20	30	50
Range of products (actual)	35	85	110	130
Total staff including Sam and Annabelle	12	14	15	23
Inventories	230	400	700	1,400
Non-current assets	50	1,500	2,700	6,300

All the success which Hair Care Ltd has achieved has not diminished Sam's appetite for growth. He now seems to be driven more by seeking power and influence than acquiring wealth. He questions the ability of the company to continue its current growth in the prevailing environment and therefore he is looking for ideas which may facilitate corporate expansion. He has asked his accountant to provide some options for him to consider.

EQUITY AND LIABILITIES	
Share capital	550
Retained earnings	110
Total equity	660
Non-current liabilities	
Long-term borrowings	2,000
Total non-current liabilities	2,000
Current liabilities	
Trade and other payables	199
Current tax payable	1
Total current liabilities	200
Total liabilities	2,200
Total equity and liabilities	2,860

Extract from the statement of comprehensive income

All financial figures in $m

Revenue	320
Cost of sales	(210)
Gross profit	110
Administrative expenses	(40)
Profit before tax and interest	70
Finance cost	(60)
Profit before tax	10
Tax expense	(1)
Profit for the year	9

Extract from the annual report

Number of employees	3,010
Number of rail kilometres	920

Figure 2: Financial information for the Rudos rail industry as a whole

Measure	*National rail industry average*
ROCE	4.50%
Operating profit margin	10.00%
Gross profit margin	22.00%
Current ratio	2.1
Acid test ratio	1.2
Gearing ratio	48%
Revenue/employee per year	$85,000
Number of employees per rail kilometre	4.1

Current position

Despite the apparent success of GET, there has been considerable criticism of the overall privatisation of the railway. Much of this criticism is concentrated in two of the geographical areas where the franchisees have struggled to provide an efficient and economic service. The government has appointed auditors who are reviewing the operation of these two franchises and a government minister has stated that 'terminating the franchise and opening it up to re-bidding has not been ruled out as an option'. A major rail accident in Rudos (with many fatalities) has also led to concerns about safety and led to new legislation being enacted. Further safety legislation is expected concerning the relaying of track and all franchisees will be expected to implement the requirements immediately.

In 2009, the PNR was returned to power, but with a reduced majority. The leader of the main opposition party originally suggested that the railways might be re-nationalised if he were to gain power. However, he has since moderated his view, although he suggests that 'they should return a significant percentage of their profits to the taxpayer'. Road transport has also suffered under the PNR government, with many of the roads in the country heavily congested. Fuel costs have increased to reflect increasing scarcity, causing many companies to face spiralling transport and storage costs. For the first time in the country's history, an ecology (green) party has won seats in government, capitalising on the growth of the 'green consumer', particularly in urban areas.

International rail developments

The pioneering privatisation initiatives in Rudos have been observed by other countries and many have adopted similar policies. Recently, the Republic of Raziackstan announced that it intended to privatise its railway network. Raziackstan is approximately five hours' flying time from Rudos and is part of the former eastern trading bloc. It is a country where there is currently very little health and safety legislation. Although there is also little employment legislation, public service jobs are traditionally viewed as safe, and employees perceive that a 'railway job is a job for life'. At present the railway network, which is 1,500 kilometres long, employs 8,000 employees generating revenues of $180,000,000. The country itself still has a limited technological and financial infrastructure, with only an estimated 20% of the population having access to the Internet. However, all political parties are united in their desire to privatise the railways so that money can be invested elsewhere in the country, for example, for providing better health care.

Because of the poor condition of the railway, the proposal is to retain and upgrade the rail tracks under public ownership. However, the trains and infrastructure, such as stations, will be privatised. The government is looking for letters of intent from private companies who are willing to take over the complete network (excluding the tracks).

A stipulation of the contract is that the bidder should have a significant industrial presence in the country. For some time GET has been interested in acquiring the company that undertakes most of the track and train maintenance in Raziackstan. This company SOFR (SOciety Fabrication de Raziackstan) was established in 1919 and has a long tradition of engineering. GET has used the company to refurbish some of its equipment and they have been delighted with the results.

The board of GET now senses a great opportunity. It would like to combine the speedy acquisition of SOFR with a bid to run the rail network in Raziackstan. In fact, early informal indications from the Raziackstan government suggest that the bid will be successful if SOFR has been acquired by GET as no other prospective bidders for the network have yet come forward.

Second meeting of the steering group (meeting 2)

The second meeting was attended by the two senior hospital doctors, but one of the health service support sector workers could not attend. At the start of the meeting, the two hospital doctors questioned the wide definition of health agreed at the previous meeting. One of the hospital doctors suggested that delivering health in this wider context was completely beyond the resources and capabilities of MidShire Health. 'You have to realise', he said, 'that poor health is often caused by poverty, bad housing and social dislocation. You cannot expect MidShire Health to solve such problems. We can advise and also treat the symptoms, but prevention and cure for these wider issues are well beyond us.' The nursing managers, who had previously approved the wider definition of health, now voiced their support for a narrower definition of health and sided with the hospital doctors. One of them commented that 'our real work is treating the sick and we must recognise this'. The CEO, outnumbered and outmanoeuvred in the meeting, had to agree to a modification of his initial vision, narrowing the overall objective to 'effectively and efficiently treating disease'. 'And, as we all know', stated one of the doctors, 'efficiency can only be achieved through giving control and budgets to the doctors, not to the administrators who are an unwanted overhead. This is the very first step we should take.' The nursing managers agreed and the meeting came to a slightly acrimonious and early conclusion.

Meeting three of the steering group (meeting 3)

At the third meeting, a presentation was made by the IT consultants, Eurotek, where they demonstrated their software for recording business activities and showed how these activities could be measured against agreed targets. A great deal of discussion took place on the targets that could be set for measuring health efficiency. After a long heated debate, three measures were agreed for hospitals. It was suggested that similar measures should be discussed and developed for health service support services, such as health education. However, at this point, the two senior doctors declared that they had to leave the meeting to 'return to our real job of treating patients'. The CEO agreed that the health service support workers could establish their own measures before the next meeting. One of these representatives commented that 'in my day-to-day job I am confronted by many people who have preventable illnesses. Their problems are due to poor diet and unhealthy habits. Preventing such problems must be better than curing them!' The CEO agreed; this was what he wanted to hear!

Meeting four of the steering group (meeting 4)

The fourth meeting of the steering group began with a discussion of the preventative perspective of health raised by one of the health service support workers at the end of the previous meeting. Both the hospital doctors and nursing managers suggested that this did not come under the revised definition of health used by the steering group, and the CEO quickly agreed. The rest of the meeting was dominated by a discussion of the costs of the Eurotek software solution. A local newspaper had run the headline 'spending money on computers – not patients' and it included a number of quotes attributed to one of the hospital doctors on the strategic steering group where he criticised the appointment of Eurotek and the attitude of the MidShire Health CEO. 'Running a manufacturing company is very different from running a health service', he said. 'We are motivated by service, not products and profit.' Terry Nagov, as CEO, openly questioned the ethics of members of the steering group discussing confidential internal matters with the press. The hospital doctors and the nursing managers fiercely defended their right to do so. 'You have to understand', they said, 'our loyalty is to the profession and to the public. We must act in the public interest.' Nevertheless, the CEO raised the possibility of disciplinary action against the hospital doctor. At this point, the senior hospital doctors and the nursing managers left the

Dave Deen has an ambitious growth plan, which he intends to achieve through a combination of internal growth, acquisition and, possibly, strategic alliances. The opening of further stores in Arboria is providing internal (organic) growth. Much of this drive for growth is fuelled by a desire to exploit MachineShop's unique competencies before the idea is copied, both within Arboria and elsewhere in the world. However, the company is having difficulty finding companies to acquire, as there are few equivalent companies to target, either in Arboria or elsewhere in the world. Although MachineShop has never traded outside Arboria, the search for acquisitions is worldwide, with Dave Deen particularly keen to explore international markets in his desire to build a worldwide brand. He has specifically identified the developing country of Ceeland as a potential target, because macroeconomic trends suggest that a consumer society is emerging there, which is similar to the one in Arboria.

Ceeland

The government of Ceeland has spent the last decade building an effective road transport system, supported by low fuel and road taxes which make it cheap to use. The government has also installed a fast digital communication network, providing broadband internet access to all of the population. This is important to MachineShop because internet order placement (either for collection or delivery) is an important part of their business model. The government has also lifted certain restrictions which had been in place under its predecessor. For example, it has removed the need for companies trading in the country to be registered in Ceeland and to have at least one Ceelander citizen on the board. Until recently, there were restrictions on what machines could be used by domestic customers. However, these restrictions have also been removed, as part of a government initiative to encourage the development of light manufacturing in the country. Indeed, one brand of products already stocked by MachineShop is made by a company based in Ceeland.

Fabrique Regle de Garrido (FRG)

Dave Deen has identified Fabrique Regle de Garrido (FRG) as a potential acquisition or strategic partner. FRG currently has 30 depots in Ceeland supplying large machine tools solely to trade customers. It does not sell products to domestic customers. It has an effective distribution network and a sales team which is experienced in selling to Ceeland businesses. MachineShop has the finance (in the form of bank loans and retained earnings) in place for an acquisition or a strategic partnership. Dave Deen has not yet opened up negotiations with FRG, but he has extracted some financial information from the company's most recently filed accounts (see Figure 1). He has also discovered that FRG is a privately owned company, with 30 shareholders, including a local trade union. Dave Deen sees the potential acquisition of FRG as an opportunity to introduce the MachineShop business model into Ceeland. He fully expects the country to become increasingly similar to Arboria and so it will be suitable for the sort of service and products which MachineShop offers. 'Achieving quick, substantial growth through acquisition will give us a powerful bargaining position. It will allow us to develop economies of scale, including purchasing in bulk to further drive down product prices. This will help us erect barriers to potential competition', he said.

Recommendation

On balance, investing in Alpha2 appears to offer the safest way to balance the portfolio in terms of cash flow whereas Gamma offers the highest growth and profit potential. The final decision will depend on the risk aversion of the directors.

(c) Social responsibility is the idea that an organisation should behave responsibly in the interests of the society in which it operates.

The social responsibility implications of the three options given are as follows:

Alpha2

Extending the patent in the way described would delay competitors producing cheap generic copies. The ethical argument here is that, if 3C invests, then customers would not have access to cheaper pain killers so, in effect, 3C is increasing the pain of many sufferers.

However, there are many alternative pain killers on the market, including generic drugs, so the comparison is really between cheap pain relief and more expensive but better pain relief.

Beta

The ethical position with Beta is the other way round – one could argue that 3C has a moral duty to invest in Beta as this will increase the availability of drugs dealing with serious infection. However, if 3C does not invest in Beta, then there are equivalent drugs on the market for patients and hospitals are likely to prioritise such treatments anyway. What investment in Beta is likely to achieve is a fall in the price of such drugs due to extra competition. It could be argued that this should allow health trusts' funds to go further, thus treating more patients.

Gamma

The situation with Gamma is very different. Millions of people around the world are infected with HIV/AIDS and, although progress is being made with anti-retroviral drugs, Gamma would be a major step forward in treatment.

A separate ethical issue is the price that 3C should charge for Gamma. Selling Gamma at the lowest price possible would ensure greater access to sufferers, particularly in poorer countries in Africa where the situation is at its worst. A high price would effectively exclude such people from treatment.

There is thus a major ethical conflict between the higher profits that 3C could earn for its shareholders verses increased treatment for people in the developing world. While it could be argued that 'the business of business is business' and that it is up to governments to make funds available to pay for drugs, the ethical argument here is compelling.

Conclusion

On ethical grounds further investment should be put into Gamma. In fact, the key ethical argument against investing in Alpha2 or Beta is that they preclude investment in Gamma. The pricing issue is more complex.

4 SWIFT *Online question assistance*

Key answer tips

In part (a), when performing the analysis you should ensure that you include both financial measures *and* non-financial measures. Try to take a structured approach to your answer by using a strategic model – the answer uses the Johnson, Scholes and Whittington tests for evaluating a strategy, but other models such as the BCG matrix or Ashbridge portfolio display would also have been appropriate and scored marks.

In part (b) you need to have knowledge of Porter's diamond and be able to apply it to the scenario. This is not a commonly examined area, but this should reinforce the need for broad syllabus knowledge that is needed in order to pass this paper.

(a) The acquisition of EVM can be analysed using the success criteria of *suitability, acceptability and feasibility.*

Suitability is concerned with whether a strategy addresses the issues identified when considering the strategic position of the company. In general terms the acquisition appears to make sense. The market is mature and competitive in Ambion, pushing down margins. These margins are further eroded by a government that is hostile to road transport resulting in high taxation on fuel, road taxes linked to carbon emission and restricted working practices. The acquisition of EVM provides an opportunity for Swift to exploit their core competencies in a different geographical market where demand is rising, the national government is investing in road infrastructure and competition is immature. The increased size of the group will further allow Swift to exploit economies of scale when purchasing trucks and other equipment.

Concerns around suitability surround the potential clash of cultures between Swift and EVM. Swift has no experience of acquiring or running foreign companies. It has no experience of trading in Ecuria. Furthermore, although EVM is now in private hands, it may be possible that the work practices and expectations of employees may still reflect the time when they were working for the central government. Although altering these practices may give scope for even greater profitability, it may lead to labour disputes that harm the service and reputation of the company. Swift wishes to acquire this company and adopt the practices, principles and technology of the Ambion operation. This may lead to conflict that they may find hard to resolve.

Acceptability is concerned with the expected performance of a strategy in terms of return, risk and stakeholder reactions.

Return: EVM delivers a very similar (18%) Return on Capital Employed (ROCE) to Swift Transport. This appears to be a strong performance for the sector, and should certainly be acceptable to the Swift shareholders. The gross profit margin (20%) is higher than Swift, but the net profit margin (7.5%) is lower. This may support some of the concerns discussed under suitability. The company may still be carrying high costs from its days as a nationalised company. Swift presumably believes that it can improve the net profit margin by implementing competences gained in the Ambion market.

Examiner's comments

Candidates scored well in part (a), with some getting full marks. The only slight disappointment here was candidate's reluctance to use the financial data provided in Figure One of the scenario. This data was important because it revealed two things. Firstly, that the three companies in the industry were of a very similar size and, secondly, that the market they were participating in was growing. Both these factors are important when considering the competitive rivalry that exists within the industry and how incumbents are likely to react to the threat of new entrants. It was also clear that a significant number of candidates had not properly interpreted the revenue figures. NESTA is much larger than any of the companies operating in the market place (indeed it is bigger than the combined revenue of the companies). However, some candidates suggested that NESTA was much smaller, apparently confusing $120m with $120,000m. Again this relative size of NESTA and its potential competitors is important to the assessment of the market place and this misinterpretation led candidates astray.

For part (b), it can be argued that the term is commonly used in everyday language. For example; terms such as 'best-case' scenario and 'worst case scenario' are quite often used in television interviews and newspaper articles. However, it was clear that most candidates were unfamiliar with the concept of scenarios, producing answers using a variety of perspectives and frameworks. Porter's diamond, the suitability, feasibility and acceptability criteria and SWOT analysis were just three of the inappropriate approaches used, and all usually resulted in candidates scoring no marks for this part question.

8 ISD

Key answer tips

This question involves dealing with lots of numbers and therefore should suited students who prefer numerical questions. A working knowledge of linear regression will be needed, though students simply had to explain and analyse it rather than perform calculations. But this may be an area that many students have avoided in their studies (particularly if they are weaker at calculations). Part (a) on pricing is worth more marks and involves the use of the 4C's model and should have been given more focus than part (b).

(a) This part of the question is concerned with factors that will influence ATL's pricing of its e-learning product. It can be answered from a number of perspectives and credit will be given as appropriate. This model answer focuses on four main areas. Firstly, the pricing objectives of the company, the overall goals that describe what ATL wants to achieve through its pricing efforts. The second area is the customer; the value of the product to them and how many products they are likely to buy at what price. The third area is the costing approach used and finally, different pricing strategies are considered. It is argued that all of these areas will need to be taken into consideration when determining the final price (or prices) of the e-learning product.

Financial gearing

The two gearing ratios discernable from the extracted information both give cause for concern. The gearing ratio itself has jumped from 25% to above 43%. The interest cover ratio has dropped to 2 from 7.5. Again, the sector needs investigation.

Conclusion

The financial figures of RiteSoftware do suggest that everything was not well and that further investigation was necessary. The figures suggest rising debt, cash flow problems, lowering efficiency and very poor profitability. Further investigation might have revealed that RiteSoftware was typical of the industry. However, it might have also identified the problems that led to the company's eventual demise.

(b) The lack of a formal evaluation of the financial figures of RiteSoftware is the subject of the first part of the question. However, the financial position is just part of the analysis required of the potential supplier. The question requires FOUR further ways in which OneEnergy failed to follow a proper evaluation procedure. In this model answer, the four suggestions are:

1. A failure to investigate the supplier's organisational structure and ownership
2. A failure to evaluate functional requirements
3. A failure to evaluate non-functional requirements
4. A failure to set proper evaluation criteria and follow a selection process

However, other appropriate suggestions made by the candidate will be given credit.

Organisational structure and ownership

The evaluation should have included an investigation into the structure of RiteSoftware, its shareholders and directors. A simple enquiry at Companies House (for example) would have revealed that the managing director of RiteSoftware had the same surname as the HR director of OneEnergy. The HR director could then have been asked directly if he was related to the managing director of RiteSoftware. Of course, there may have been no impropriety intended, but the fact would have come to light and been considered in the evaluation. Many organisations will either not procure from companies where directors and senior managers have relatives or will ask for that information to be disclosed by the supplier in order that it can be weighted in the evaluation of alternative suppliers.

Functional requirements of the software

The evaluation process did not formally define the functional requirements of the required system. The scenario mentions that three months ago, another set of amendments was requested from RiteSoftware to allow one of the divisions in OneEnergy to pay bonuses to lorry drivers in a certain way. This functional requirement should have been defined in advance in the process and it would have then been compared with the functions offered by the package. The gap between requirement and package could then be evaluated in advance. This allows two things. Firstly, the match of functionality and package will form part of the evaluation. It is not expected that every function requirement will be completely fulfilled but the degree of compromise has to be assessed in some way. Secondly, an understanding of the gap allows the compromise to be managed in advance. For example, in the context of the pay for lorry drivers it might have been possible to change the pay structure in such a way that rewarded the drivers but avoided the expense of commissioning and maintaining software amendments.

Non-functional requirements of the software

Many software packages do actually offer most of the functionality that the users require. However, how they deliver that functionality is very important and usability can be a great differentiator between competing packages. In the scenario, it seems clear that non-functional requirements such as user-friendliness have not been considered properly in the evaluation. If they had been then it would be unlikely that users would have problems understanding some of the terminology and structure of the software. Problems leading to comments such as 'it just does not work like we do' should have been identified in advance. Understanding user competencies and expectations would allow the gap between users' ability and the requirements of the package to be properly assessed. This measure would be part of the evaluation. Again, if the package is selected, the gap can be planned for in advance so that the extra training costs, alluded to in the scenario, are budgeted for at the outset.

Evaluation criteria and process

Finally, the scenario suggests that the board decided to purchase the RitePay software package without evaluating alternative solutions. It was felt that payroll rules and processes were relatively standard and so there was no need to look further than a package recommended by the HR director. Certainly, the discovery that the HR director is related to the managing director of RiteSoftware now puts his impartiality in doubt. Furthermore, subsequent requested amendments to the functionality of the package suggest that OneEnergy's payroll rules were not as standard as expected. However, the real problem with choosing one solution without evaluating alternatives is that there is no auditable evidence about how the supplier and the product were selected. At best this looks amateurish, at worst it might cause concern to the non-executive members of the board and its internal auditors. OneEnergy is a plc. The scenario suggests that the company does have a policy on competitive procurement. Avoiding it raises the chance of impropriety, reduces the opportunity of negotiating a good deal, and should attract the attention of non-executive directors and other significant stakeholders.

ACCA marking scheme

		Marks
(a)	Up to 1 mark for each non-ratio based observation up to a maximum of	5
	Up to 1 mark for each ratio based observation up to a maximum of	5
	Up to 3 marks for summary and integration of answer, giving a maximum of	13
(b)	Up to 1 mark for each relevant point up to a maximum of 3 marks for each failing. Four failings required, giving a maximum of	12
Total		**25**

Part (b)

Having assessed two acquisitions that had already taken place, students were asked to assess a third proposed acquisition.

Key to success:

Apply the same techniques that were used in part (a). So use the same model and include financial analysis. Students could also have used the suitability, feasibility, and acceptability approach suggested by Johnson, Scholes and Whittington

Make a recommendation as to whether the acquisition should proceed and justify it. It doesn't matter whether you think the acquisition should go ahead or not, as long as you have an opinion one way or the other and can back it up with sensible analysis.

Dangers:

The examiner complained that some students didn't include any financial analysis. This would have been a major error given the amount of financial information included in the question and the approach taken to part (a).

(a) **First Leisure**

The initial motivation for the acquisition of First Leisure was the need to diversify out of a declining market place (falling 5% over the recorded period) into an expanding one (increasing over 25% in the recorded period). The cash generated by the quarrying company was used to purchase a profitable, well-run company in an expanding market. Diversification was a direct response to environmental changes. Increased costs and falling reserves meant that there was little chance of finding new sites in its core market. MMI initially played no managerial role in First Leisure, allowing the managers who had made it successful to continue running the company. However, buying a company concerned with leisure appeared to be an example of unrelated diversification and there were some negative comments about the financial wisdom of this acquisition.

After a period of consolidation, certain unexpected synergies emerged that had not been clear at the time of acquisition. These came from the conversion of disused or unprofitable quarry sites into leisure parks. This conversion was doubly advantageous. In the first instance it reduced the operating costs of MMI, allowing it to shed costs associated with running unprofitable mines and maintaining security and safety at disused sites. Secondly, it allowed First Leisure to acquire sites relatively easily and cheaply in an environment where it was becoming more expensive and harder, because of planning restrictions, to purchase new sites. Johnson, Scholes and Whittington discuss the principles of economies of scope where an organisation has underutilised resources that it cannot effectively use or dispose of. It makes sense to switch these if possible to a new activity, in this instance leisure parks.

The turnover of First Leisure has doubled in six years. The figures summarised in table 1 suggest an expanding company in an expanding market and its market share continues to grow (up from 13% to 21% in the recorded period). Furthermore, gross profit margins have remained fairly constant but recent increases in the net profit margin suggests that costs appear to be under control, despite the recent issues concerning the supply of boats from Boatland. In corporate management terms MMI probably perceived that it would initially be playing a 'portfolio management' role at First Leisure. However, the discovery of unexpected synergies has led to it adopting (and perhaps claiming in hindsight) a synergy manager role. In terms of the BCG reporting lines – one to functional departments and one devoted to specialist products or teams. In the case of ALG Technology there will be a team focused around each specialist product group and each team will have representations from the various functional areas.

The **advantages** of a matrix or project team structure are as follows:

- The teams do not lose sight of their long-term objectives. They can remain more focused.
- There is more integration between the differing functional specialists – they become inter-disciplinary, resulting in greater co-operation and understand opposing or alternative opinions.
- Such a team is more responsive and flexible to environmental and technical change, so important for a company such as ALG. Because the team is now less bureaucratic and more focused, outcomes are much quicker as the bureaucracy is now replaced by a direct interplay between specialists – the interested parties.
- No one single functional area is likely to dominate. In a company such as ALG there is a danger that the views of scientists and engineers may triumph at the expense of prudent financial advice and market needs may also be ignored. There is a danger of the company becoming too product-orientated.
- Because staff are more directly involved in planning, control and decision making they become more motivated and committed – a key benefit for any company.
- Junior staff experience a wider range of inputs from a broad spectrum of areas. They lose their specialised isolation and become more valuable and 'rounded' employees. This provides a good training platform for future general managers.
- Experiences from one project team can easily and quickly be transmitted to other teams.

There are also **disadvantages**:

- Because of the dual representation within the teams there is a potential for conflict between project managers and functional heads.
- The two reporting lines can lead to confusion for members of the team. Where does their long-term future lie and where is it being determined?
- There is increased complexity in reporting, making such a structure costly to administer.
- Decision making can be slower and not be more responsive if every participant insists on full participation. This is a problem with all democratic and participatory organisations, as has been experienced by a number of Japanese companies.
- Because of dual reporting, there is a problem of allocating responsibilities. Who is in charge?
- This proposed new structure may lead to a dilution of priorities, particularly in resource allocation.

As a guideline for organising innovative project teams it is essential that structures should be flexible so as to encourage experts to break through conventional boundaries into new areas. There should also be leadership within the team of staff with a good technical background (**expert power**) and the team should not be dominated by superiors armed only with authority (**position power**).

(b) Organisational design can be influenced by many factors which can generally be divided into two categories – internal and external influences.

The **internal influences** comprise:

- Poor performance in the past. If a company has had difficulties such as are currently being experienced by ALG Technology then it is not surprising that it is considering a change in its organisational structure.
- If a company is now heavily influenced by entrepreneurs and innovators, a more flexible structure would be welcome. A 'machine bureaucracy', which might be what ALG Technology has become, would not be sympathetic to this type of employee. An adhocracy or an entrepreneurial structure might be more appropriate. (*Mintzberg*)
- A change in organisational ownership would inevitably have given the new shareholders a greater say on matters such as organisational design. Design will be more influenced by their management philosophy.
- There may have been a change in organisational goals. If quality of delivery is now given greater priority than product performance, as in the case of ALG, a structure more oriented to marketing might now be encouraged.
- A change in strategy will also help to influence the design of the organisation. If the company intends to compete with low prices then costs will now become critical. It is likely that there will be a more mechanistic approach to the structure with less focus on the individual. However with a differentiation strategy there is a potential for more informality, with more decision making being devoted to junior managers. This will be reflected in a less bureaucratic organisational structure.

The **external factors** that might influence organisational design are as follows:

- A **change in knowledge available** to a company. An increase in the availability and application of information technology (IT) now enables organisations to have greater control and communication within an organisation while having a smaller infrastructure to accomplish these functions.
- **Economic opportunities** may change: the globalisation of markets will necessitate a change in organisational structure to reflect and respond to these changes. In certain parts of the world barter has been re-introduced because of shortages of liquidity within the banking system. Organisations must build into their structures recognition of this 'problem'. Certain companies have had to create whole departments to respond to this condition.
- **Socio-demographic changes**: as organisations now operate in different parts of the world, each with different demographic and social regimes then differences such as attitudes to older people working, women in management, educational abilities matching requirements and labour force availability can all influence the design of organisational structures, resulting in more flexible and responsive organisations suiting local needs and cultures.
- **Ecological considerations**: 'Green' issues are becoming more significant in importance. Decisions on purchasing and distribution will be influenced by this and these, in turn, may affect the organisational structure. 'Just-in-time' supply techniques may be affected here (although just-in-time may be driven more by economic rather than ecological consideration).

Examiner's comments

Unfortunately, in part (a) too many candidates just read the first few words critically evaluate the decision and so the focus of their answer was on the decision itself (made without consultation, made without understanding requirements), rather than on the decision to follow the software package approach as a whole. It was agreed that credit should be given for this alternative interpretation of the question, but it must be stressed that candidates must carefully read the whole of the question and determine what is required in the context of the scenario. As one marker commented, 'it is as if they have read the first few words of the question and then dived into an answer'.

Part (b) was relatively straightforward, asking candidates to analyse how a formal process for software procurement, evaluation and implementation would have addressed the problems experienced in the production process project. However, as in question three (see later notes), too much focus was on describing a process for software package procurement as opposed to how it would address the problems experienced by the company.

INFORMATION TECHNOLOGY

26 PERFECT SHOPPER *Walk in the footsteps of a top tutor*

Tutor's top tips

Approach to the question

*If, as always, you start by reading **the first paragraph only** the following can be determined:*

- *the key competitors will be supermarkets*
- *it is a franchised network of local shops, with Perfect Shopper selling to the shops, who then in turn sell on to the public*
- *it is competing at the low end part of the market and aiming for economies of scale*
- *it uses large central warehouses*
- *suppliers deliver directly to these warehouses*
- *there are no own-branded goods.*

*Now look at the requirements **before** reading the rest of the question. This will ensure that you*

- *read the question in the correct manner,*
- *do not need to read the question more than once,*
- *save time and can begin planning.*

Suggestions for improvement might include:

As mentioned in the answer to the first part of this question, procurement continually uses the same long-established suppliers (for example, 95% of timber comes from three established suppliers). These suppliers may have become complacent and uncompetitive. The company might consider using e-procurement websites to identify a wider range of suppliers and then select between these suppliers on the basis of cost and quality when placing individual orders. Such an approach should help drive down raw material costs and re-focus the costs and service offered by the established suppliers.

Although the purchase orders are placed through email, the ordering process is relatively cumbersome with suppliers occasionally failing to respond to emails or, when an expected delivery is not received, claiming they did not receive them in the first place. The payment system (operated by accounts) sometimes fails to match purchase orders with supplier invoices, leading to delayed supplier payment and discontent. The company might consider a new system to administer purchasing and payment, linked electronically (through EDI) to the suppliers, so that orders are automatically entered into the supplier's system and all invoice reconciliation and payment is performed electronically. This may require the company to continue to trade with a selected number of small suppliers, but it should help avoid non-delivery, reduce administrative costs and improve supplier relationships.

To avoid delays through inventory shortages, linkage with supplier systems might be increased by allowing suppliers to see the demand for certain products so that suppliers can, to some extent, anticipate demand and so should be able to supply more quickly. This would require further investigation and it seems likely that it would work better for certain raw materials than others. For example, the textile suppliers would be able to see the relative demand for different patterns and adjust their production accordingly. This should lead to Jayne Cox Direct achieving a higher percentage of planned customer order dates, as well as reducing delivery lead time.

Increased integration also brings the promise of better inventory management, with the opportunity of suppliers effectively producing to order rather than to stock, which is, in effect, an extension of what Jayne Cox Direct is doing. Closer integration of customer and supplier systems also provides the opportunity for 'just in time' manufacture where raw materials arrive just before they are needed in the production process. Although this transfers inventory costs to suppliers, more understanding of demand should mean that suppliers' inventory management is also more effective. Reduced inventory costs for the supplier might also be passed on to Jayne Cox Direct, resulting in lower input costs. An understanding of demand and the relative costs of storage and ordering should also allow Jayne Cox Direct to implement systems that optimise order quantities (the EOQ model).

Downstream supply chain solutions

Downstream supply to customers is relatively simple as there are no intermediaries, as the company supplies directly to the consumer. However, evidence suggests that some consumers are relatively disaffected. A further challenge cited by Dave Chaffey is relevant here, the need to improve aftersales/post-sales operations (service on the value chain). The company also needs to consider the costs of finished goods storage (outbound logistics), distribution to customers (outbound logistics). Furthermore, although processing orders is relatively effective, customers feel uninformed in the period between order placement and order fulfilment.

The director of IT is keen to exploit the opportunities of web services and cloud computing but has not been able to recruit someone of sufficient calibre. As he says, 'there are probably other technologies that I have not even heard of that we should be exploring and exploiting'. An outsourced IT supplier should have a much greater range of knowledge and skills that it can then make available to its customers. It will be keen to be at the leading edge of technologies, because these technologies offer it possible competitive advantage, and so it will bear the cost of recruiting and retaining specialist employees.

Finally, the chief executive recognises that outsourcing IT is likely to be a model followed by other authorities. The formation of a separate company in which the city authority has a significant stake might provide an appropriate vehicle for gaining contracts with other authorities. They might be particularly attracted to working with a company which has significant public sector expertise and ownership. Profits made by the company may be distributed by dividend to the authority, bringing in income that can be used to reduce taxes or improve services.

(b) In the past, business analysts have been employed within the IT department. It is proposed that these analysts will now move to a new BA department reporting directly to the chief executive. Their brief is 'to deliver solutions that demonstrably offer benefits to the organisation and to the people of the city, using information technology where appropriate'. They will be responsible for liaising between users and the new, outsourced IT company. The business analysts will have to establish credibility with the user departments, demonstrating the role and contribution of the business analyst role. The question focuses on new or enhanced competencies they will need, rather than generic skills such as 'good communication skills' and 'team working' which they would have needed when they were sited in the IT department.

Competencies they will require might include:

Strategy analysis They will have to develop an external business focus which, at the very least, looks for opportunities in the wider environment. The CEO expects them to be 'outward looking and unconstrained by current process and technology'. Techniques such as SWOT analysis might be useful here.

Business case development The absence of cross-charging suggests that business cases were relatively simple in the authority and it appears that business analysts were not involved in the process. In the new arrangement, agreeing the business case becomes their responsibility and so they will have to liaise with users to ensure that benefits are properly defined. If the solution requires an IT element then there are now very tangible costs which will be charged by an external supplier. This is particularly significant if software is involved. The supplier will need well specified requirements to estimate from. Costs and benefits will have to be compared using an appropriate approach. The business analyst will also have to participate in benefits realisation, assessing whether the promised benefits had actually been delivered at the cost envisaged in the original proposal.

Business process modelling The business analysts must be prepared to come up with solutions that do not include information technology. For example, they might suggest a small change to a clerical business process that delivers significant benefits. It is unlikely that they would have formulated such solutions when they were part of the IT department. Business process modelling and redesign skills will be needed to facilitate this.

Requirements definition Requirements definition would have been an important part of the business analysts' job when they were in the IT department. However, the scenario suggests a relatively flexible relationship with users, with changes to requirements being accommodated right up until software release. Although the outsourced IT supplier may take a similar approach, changes will be charged for. Hence in the outsourced arrangement there will be a need for business analysts to define requirements more completely and also to manage changes to those requirements. The detailed definition should also allow them to resolve issues where there is debate over whether the change is actually a change or is what was specified in the first place. The business analyst may also be involved in *testing* the solution received from the supplier.

Procurement The relationship between the city authority and the IT provider is now a supplier–customer relationship. The business analysts will have to gain supplier and contract management skills, allowing them to successfully manage this relationship.

ACCA marking scheme

		Marks
(a)	1 mark for each relevant point up to a maximum of 12 marks.	12
(b)	1 mark for each relevant point up to a maximum of 7 marks.	7
Total		**19**

Examiner's comments

The first part of the question asked candidates to evaluate the potential benefits of this outsourcing to the city authority and its IT employees. Most candidates answered this relatively well, although many did not recognise that the formation of a joint company might itself bring significant advantages to the city authority. The formation of a separate company in which the city authority has a significant stake might provide an appropriate vehicle for gaining contracts with other public authorities. They might be particularly attracted to working with a company which has significant public sector expertise and ownership. Profits made by the company may be distributed by dividend to the authority, bringing in income that can be used to reduce taxes or improve services.

The scenario acknowledged that business analysts within the city authority will need to gain new or enhanced competencies. The second part of the question asked candidates to analyse these competencies. Some of these were clearly signposted in the scenario; for example, strategy analysis and business case development. The need for a formal relationship between the authority and the outsource provider leads naturally to a discussion of requirements definition and procurement. Thus it should have been relatively easy to identify competencies around strategy, business cases, requirement definition and procurement. Two marks for each of these should have resulted in full marks for this part question. However, in practice, this was not the case. Many candidates failed to identify any relevant competencies (falling back on generalisations such as 'good communication skills') and hence did not score well in this part question.

(b) Marketing mix

In this part of the question you are asked ***to use e-marketing****. You should be able to distinguish this clearly from part a) of the question and not mix your answers together – part a) wants you to explain e-marketing (this will focus on its differences and benefits), part b) then wants you to use it (this will focus on practical suggestions for AEC). The most appropriate model will be the 7P's model and you could approach this in the same way as part a) – set could set up a planning page with the 7P's listed out and then add points to this plan as you read the question.*

Reading the question

Now ***actively*** *read the question i.e. as you read it you should add all relevant points to your planning page(s).*

The key issues to pick out from the question as are as follows:

- *AEC provide three products – training for professional examinations, material for these courses, and CPD courses. So part b) of your answer should explain how to market each of these courses/products.*
- *AEC have recently won a large, new customer. The impact on this customer should be considered in both parts of your answer.*
- *The company are planning to switch from traditional marketing to e-marketing but won't do both – there is only a 3% overall increase in marketing forecasted. Therefore you need to make clear in part a) that the e-marketing benefits will have to outweigh the loss of the traditional marketing channels.*

Answering the question

Part (a) 6I's

As stated, if you have fully understood the impact of the final paragraph of the question, then there will be a mark or two for explaining that the e-marketing benefits will have to outweigh the loss of the traditional marketing channels. But there are plenty of other marks available if this point is missed.

There are 10 marks available and if you work to the normal rule of 2 marks per well explained point then you only have to cover 4 or 5 of the 6I's. The key issue will be to relate the model to the scenario (for example, by referencing the win of the new, large client).

For example, using independence of location, traditional marketing can be used to target customers in all parts of the world. But AEC could expand this through e-marketing by allowing these customers to also book courses online – something that isn't happening at the moment. So e-marketing should make it easier and therefore more attractive to customers to choose AEC as their training provider. It should also reduce administrative burdens for larger clients and might allow AEC to attract more multi-national customers.

Product

The product is a fundamental element of the marketing mix. If the product is not 'right' it is unlikely that the marketers will be able to persuade customers to buy the product or, if they do buy it, to convince them to become repeat buyers. In the context of the new technology, an organisation may seek opportunities for developing the product or service. These opportunities emerge from re-considering the core product or identifying options for extending it.

In the context of AEC the consideration of the product is complicated by there being at least three products promoted on their web site; training courses and training manuals for students studying for professional qualifications and training courses for qualified accountants undertaking continuing professional development (CPD). The course training manual is a tangible physical product that can be handled before purchase. Potential customers can try before they buy because a sub-section of a manual is available for inspection. This is an admirable policy. Potential customers do not have to believe that the manuals are comprehensive and well-written; they can make their own judgement based on a sample. In contrast, the training courses are services, bought on the promise of satisfaction.

AEC might profitably consider delivering elements of both student and CPD training courses through web casts and pod casts. Such courses might be fully on-line or the new technologies might be integrated with older ones, such as workshops and offline assignments, to provide a blended approach to learning. This may be particularly appropriate for student tuition where competence is assessed by a formal examination, not by attendance at a course. AEC is already distributing course catalogues and course schedules through the Internet. However, there is no physical evidence to support the customer's evaluation of such courses. AEC might consider having sample videoed sessions available on the web so that prospective customers can assess the content and approach to training.

Although training documentation is currently available through the web site it could benefit from re-focusing. At present students pay a fixed fee which gives them access to the whole set of manuals. However, manuals for modules at the end of the scheme will only be relevant if the student passes the earlier modules. Lack of confidence may deter the student from committing to the whole manual set at the beginning of his or her studies. Similarly, candidates who become aware of AEC products only after they have passed the first few modules are unlikely to pay a fee for a manual set which includes manuals for modules that they have already passed or for which they are exempted. Consequently, it would appear more sensible to allow candidates to select the manuals they require and pay a fee per manual, with a discounted fee for buying the whole set.

AEC might also wish to consider *product bundling* where it offers further products and services to complement its core products. For example, travel booking, accommodation services and entertainment bookings might be offered to qualified accountants attending CPD courses. AEC is also in a market place where the product needs to be continually updated and developed to reflect changing or clarified requirements. For example, new training manuals may need releasing every year.

Price

The Internet has allowed pricing to be much more transparent to potential customers. They can easily visit the sites of competing companies and compare prices for similar products and services. Such accessibility may deter AEC from using the web site to offer *differential pricing*. The Internet makes products available

35 BA TIMES

Key answer tips

Part (a) of this question should be familiar to well prepared students. Part (b) is very open ended. Guidance was given to students in the form of specific issues that the editor was concerned about and these should hopefully give students some focus to their answer.

(a) Victor urgently needs to revisit his business model to look at the opportunities presented by new technology and new media. Revenues from his current business are falling due to reduced advertising spend and fewer subscribers. On the other hand, production, distribution and office costs are increasing. These problems are not unique to the *BA Times*. The sales of printed magazines and the profits of publishers are falling dramatically throughout Umboria.

Perhaps because of his conventional publishing background, Victor still perceives his core business as the publishing of a printed magazine. The *BA Times* does have a website, but it is designed to provide tempting tasters for the magazine, running extracts of stories that can only be read in full by people who subsequently buy a printed copy of the magazine. Thus the website is seen as a way of marketing the magazine and, in itself, provides far fewer services and information than the magazine. Emerging technology provides Victor with the opportunity to revisit this business model in the context of four of the '6Is' of e-marketing: individualisation, interactivity, intelligence and independence of location.

Individualisation

A survey of people who had not renewed their subscription revealed that some subscribers believe that the magazine includes too much information which is irrelevant to them. One respondent commented that, 'I am studying the ABC syllabus and so in-depth articles on ICFC topics and examinations are not relevant to me. I quite enjoy reading the news parts, but not the in-depth analysis of examinations that I am not taking.' One ABC candidate remarked that, 'I have reached the final stage of my examinations. I do not want to read articles about the stages I have already passed. I reckon only about 15% of *BA Times* is relevant to me now.'

A key feature of the new technology and media is the opportunity to *individualise* or tailor the product to meet specific requirements and for that tailoring to be driven and performed by the customer. So, for example, if all the resources are made available on a website, the customer only needs to access those resources that he or she wants. This can be achieved by him or her just ignoring menu options for other institutes or examinations or, more innovatively, by configuring the website so that it just reflects an individual's interest (*myBATImes*). Furthermore, through registering interests either directly on the website, or through linked social and business networking sites, the candidate can be kept informed of articles, news, comments and blogs relevant to their interests, institute and examination stage. A centralised website resource would allow Victor to expand the number of relevant resources available (which he is under pressure to do) without making his printed magazine any larger or more expensive. He can also supplement conventional text articles with webcasts and podcasts. If the candidate wants a hard copy of any article, then he or she can locate it and print it out, thus transferring printed costs to the subscriber. The website should be considered as a comprehensive knowledge centre where all relevant resources are stored.

(b) The provision of delivery placement and tracking is, at the moment, an important element of customer retention. However, in a wider sense the company's website has to be reviewed to see if it can be harnessed to acquire further customers, to enhance the service it offers (above and beyond placing and tracking deliveries) and also to assist in the long-term retention of customers. It must be recalled that the present website is only used for information purposes. It only contains information about the company: its structures, history, key contacts and case studies. However, it must also be recalled that CT only deals with a relatively small business market. In B2B applications there tends to be far fewer but larger buyers (Chaffey, 2007).

Customer acquisition

The scenario suggests that chemical wholesalers are CT's current customers. The site should be constructed with their interests and requirements in mind. Evidence suggests that CT has recognised expertise in the difficult and dangerous task of chemical distribution where there is a need for compliance with stringent and emerging legislation. The website needs to provide examples of this and also constant updates which tempt people to return to the site to view the latest information. CT does not have to reveal its complete expertise. However, regular, selected updates on new legislative requirements and new chemical distribution challenges may prompt return visits and so increasingly suggest to potential customers that this is a business avenue that is worth exploring. The case studies already on the website will strengthen the message of expertise and also demonstrate to potential customers that outsourcing to CT will have both business and financial benefits. Testimonials from established customers will help support this message. It has to be recognised that it is a B2B website and that no contract or purchase will be entered into as a result of the website alone. It is about building up confidence and information that may lead to contact being made between CT and a potential customer. Overall, the website should look professional and business-like and appropriately discreet. Existing customers may not wish certain information to be given out and CT itself must not give too much valuable information to competitors about its pricing or its range of current customers.

It is also important that potential customers find the CT website when they are looking for information or for a potential haulier. Although it is less important than in a B2C website, it is still helpful if CT ensures that the website is optimised so that it appears high up in website searches. This is not easy to reliably achieve and so purchasing sponsored links can also be very valuable. The website address also has to be promoted in any offline marketing undertaken by the company. Again, it must be recalled that CT must have a relatively finite set of potential customers. These should be relatively easy to target with marketing information and sales calls that will include the website details.

CT may also benefit from collecting details about the people who are visiting its site. This may again be achieved through offering selected information only to visitors who leave their email address. So, although some technical information might be offered for free, other information – such as important changes in international legislation – might only be available to visitors who have provided their email details. These email details may just be used as part of an analysis (which companies are looking at us) or they might be used to target future promotional campaign.

43 INSTITUTE OF INDEPENDENT ANALYSTS

Key answer tips

In part (a) weaker students may spend time checking or performing unnecessary calculations. Instead, better answers will focus on whether the information used in the calculation should have been there and they will apply the Ward and Daniel benefits scale to the numbers.

Part (b) requires a mixture of knowledge and application, but, as a key exam area, these should be areas that students have spent time on during their studies and should not cause too many issues (assuming that students do not become too bogged down in part (a) of the question and leave enough time for this part of the question).

(a) **Overview**

The table presented in the scenario suggests that the project is currently financially viable. It returns a net present value of $10,925. However, the basis of the discount rate selection could be questioned. Although there is little information in the scenario about this, it might be felt that it has been set artificially low to produce a positive NPV. Also, the duration of the investment appraisal is quite long (seven years). Three and five year appraisals are more common. So again, the basis of this could be questioned. Perhaps seven-year investment periods are common at the IIA, but this needs to be investigated and confirmed.

It would also be beneficial to perform a sensitivity analysis on the data. A relatively small change in the initial cost of the software makes the NPV negative.

Costs

Software costs

Although the software package has a fixed cost, the IIA wishes to make a number of significant bespoke amendments. The actual detail of these amendments is still under discussion. They are currently estimated at $25,000 and this cost is part of the year 1 payment. However, this estimate may change once the detail of the requirement is agreed. The IIA must keep bespoke requirements under review to ensure that costs do not rise substantially, invalidating the financial business case for the investment. The scenario also suggests that there are problems in defining the detail of the requirement and these may lead to project delays, meaning that benefits may not begin to accrue until year 3 (or beyond), which will seriously affect the financial viability of the project. The final delivered cost of the project will also determine the maintenance cost, as it is calculated at 10% of the final delivered software cost. So, an increase in the initial cost of the software will also have long-term implications which may again affect the overall viability of the project.

Summary

There is a strong argument for taking disruption costs and increased student numbers out of the financial appraisal of the project. It is difficult to put credible values on these in advance of the project. The effect of doing this (for information) is shown below.

Tutorial note

The answer provides a revised NPV calculation but this is there to aid the understanding of some of the points made in the answer. It was not expected that students would do this, and no marks are awarded for it.

All figures in $000s

Year	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*
Costs								
Initial software	200	200						
Software maintenance			40	40	40	40	40	40
Question bank	50	50	5	5	5	5	5	5
Security			20	20	20	20	20	20
Total costs	250	250	65	65	65	65	65	65
Income/Savings								
Marker fees	0	0	125	125	125	125	125	125
Admin saving	0	20	30	30	30	30	30	30
Total benefits	0	20	155	155	155	155	155	155
Benefits – costs	(250)	(230)	90	90	90	90	90	90
Discount factor	1	0.926	0.857	0.794	0.735	0.681	0.630	0.583
Present value	(250)	(212.98)	77.13	71.46	66.15	61.29	56.70	52.47
							Net present value	(77.78)

The net present value is now less than zero, so there is no financial case for the project. However, this does not mean that the project should not go ahead. IIA management may feel that intangible benefits make the investment worthwhile and so the project may be progressed.

(b) A *benefit owner* is someone who has responsibility for defining, agreeing and delivering a benefit defined in the business case. Without benefit owners, benefits are unlikely to happen. It is very unlikely that the project manager responsible for a change project (as alluded to by the IIA director) would be the benefit owner. Their responsibility is to deliver the project, not to operationally run the outcome of the project. This must be the responsibility of the business and so the benefit owner should be a person who has authority to make business decisions which help deliver the benefits. Many projects which have promised cost savings have not delivered them because no-one had responsibility for making those savings. It is very important that the IIA appoints a benefit owner for the administrative cost reductions. First, because the extent of those savings cannot be reliably estimated due to problems in requirements definition and, second, because someone has to actually make these staff cuts when the new system is in place to deliver the benefits promised in the initial business case.

Project roles and responsibilities

Although it is not clearly stated, it appears that the sponsor of the project is the MM. However, at one critical point of the project the RP makes a decision to accept a design (meeting 4) which is subsequently overturned by the MM. This confusion of responsibility causes both cost and delay. If project roles and responsibilities had been properly defined, then it would have been recognised that the RP did not have sufficient authority to sign-off deliverables. Furthermore, the formal allocating of roles would have also meant that a project manager would have been nominated with the responsibility of delivering the project. In the scenario there is never any clear indication of who is playing the role of project manager and this is a major flaw.

Resources committed to the project

There is no evidence that the resources available to the project had been identified and documented at the start of the project. Problems only begin to emerge late in the project when the Board's decision to launch on 1 March prompts the TD to express concern that there are not enough developers to deliver the system on time.

Risks and assumptions associated with the project

Most project management methods suggest that risks should be formally documented and managed. Each risk is identified and its potential effect quantified. For each significant risk, avoidance actions are suggested which are steps that can be taken to prevent the risk from occurring. Mitigation actions are also defined for each risk. These are steps that can be taken to reduce the impact of the risks if they occur. Again there is no evidence to show that this has been done. As problems emerged in the project they were dealt with on an ad hoc basis. A consideration of risk at the outset of the project can lead to changes in how the project is conducted. For example, the risk of poor scoping of requirements could have prompted a more formal definition of requirements scope (an avoidance action).

Initial project structure and arrangements for management control

This is an initial project structure describing how the project will be broken down into stages with an associated list of project milestones. It is a very high-level plan which provides a context for the detailed plans that will follow. There is no evidence of such a structure in the website re-design project and so the absence of detailed planning (see below) goes unnoticed. The project initiation document might also include management control information concerning, for example, progress reporting and monitoring arrangements. If these had been defined in advance then their absence (see below) would have been clear in the actual project.

(b) Effective project management could have improved the conduct of the website re-design project in the following ways:

Detailed planning

During the delivery of the project the lack of a formal detailed plan means that there is no baseline for review and control. The absence of monitoring progress against that plan is also very evident. The meetings are events where, although progress appears to have been made, it is unclear how much progress has been made towards the delivery of the final re-designed website. Effective project management would have mandated the production of a detailed plan. There is no mention of a project plan, a critical path analysis, a Gantt chart or supporting project management software.

- Private sector courses should generate extra value added, which can then be used to pay for more staff and equipment.
- The value added by research activities could be measured by looking at the number of articles that the institution's staff have had published in academic journals.
- Targets can be set for the value added to be achieved each year, and actual value added compared with the target.

Profitability

- The profitability of private sector courses can be measured. The usefulness of profit measures will depend on the extent to which costs can be directly attributed to private sector courses. If large amounts of cost are apportionments of shared costs, such as costs of administration and teaching staff and establishment running costs, then profit measures might be of limited value.
- The non-current assets of the institution may have been provided by the government many years ago, perhaps for free. It would assist the calculation of genuine profitability if fair values could be assigned to these assets for this purpose, for example to estimate a fair depreciation charge.
- It is important that private sector training does earn extra money for the institution, and measures of contribution earned from these activities and directly attributable profit would certainly be useful.
- As the institution develops its private sector training programmes, targets for profitability should rise year by year.

Return on investment

- Return on investment is commonly measured in accounting terms as profit divided by capital employed. The advantage of ROI as a performance measure, compared with profit, is that the amount of profit earned is related to the size of investment required to obtain the profit.
- Capital employed is measured as the book value of net assets, so again it would be useful if all the net assets could be revalued to fair value.
- In the context of the educational institution, it will be important to make sure that private sector training courses are not just profitable, but that they earn a sufficiently large profit to justify the effort and resources committed to them. Measuring ROI could be useful in this respect, although the measurement of profit and the assignment of assets employed to the private sector programmes is likely to be somewhat arbitrary.
- The current wording of the mission statement is entirely qualitative. It would be useful to introduce some quantitative measures such as ROI.

Customer satisfaction

- The purpose of measuring customer satisfaction is to test customer reaction to the organisation's services, which in this case would be the training courses and seminars. Low levels of satisfaction would indicate a need to improve course content or quality of delivery. High levels of satisfaction are necessary to sustain growth in the 'business'. It is widely accepted that setting targets for customer satisfaction (and monitoring actual performance against target) can help with the management of service quality, which in turn should help to achieve long-term growth.

Debt

Debt looks more attractive:

- If PTG can convince lenders that the decline in profits will not continue, then a replacement loan for the debentures might be available. The gearing level is not excessive and there appears to be plenty of security (non-current assets $180m, net current assets $60m) that could be provided by fixed or floating charges.
- Mortgages could be taken out to cover the bulk of the cost of acquiring overseas premises, though this still leaves fitting out the restaurants and working capital requirements.

Franchising

Global fast food firms often operate on a franchise system.

Franchising has two main advantages in this context:

- The franchisees themselves inject a substantial amount of capital, so helping to fund the enterprise.
- The franchisees have local expertise and experience, thus reducing cultural risks.

Joint ventures

To supply additional finance, PTG could consider a joint venture with a US company which could give further assistance in an unknown market and if it is with an organisation that already has suitable sites there could be considerable advantages.

- The joint venture approach was adopted when Burger King entered the Japanese market.

49 DAVID SILVESTER

Key answer tips

In part (b) of this question you may find it useful to split the critical success factors between those that come from the company's resources and those which come from its competencies (as is shown in the pocket notes).

(a) **To**: David Silvester

From:

Funding strategy for Gift Designs Ltd

Clearly, you have identified a real business opportunity and face both business and financial risks in turning the opportunity into reality. One possible model you can use is that of the product life cycle which as a one-product firm is effectively the life cycle for the company. Linking business risk to financial risk is important – in the early stages of the business the business risk is high and the high death rate among new start-ups is well publicised; consequently, there is a need to go for low financial risk. Funding the business is essentially deciding the balance between debt and equity finance, and equity offers the low risk that you should be looking for. As the firm grows and develops so the balance between debt and equity will change. A new business venture like this could, in Boston Consulting Group analysis terms, be seen as a problem child with a non-existent market share but high growth potential. The business risks are very high, and consequently the financial risks taken should be very low and so the financing method should avoid taking on large amounts of debt with a commitment to service the debt.

You need to take advantage of investors who are willing to accept the risks associated with a business start-up – venture capitalists and business angels accept the risks associated with putting equity capital in but may expect a significant share in the ownership of the business. This they will seek to realise once the business is successfully established. As the business moves into growth and then maturity so the business risks will reduce and access to debt finance becomes feasible and cost effective. In maturity the business should be able to generate significant retained earnings to finance further development. Dividend policy will also be affected by the stage in the life cycle that the business has reached.

Yours,

(b) David even at this early stage needs to identify the critical success factors and related performance indicators that will show that the concept is turning into a business reality. Many of the success factors will be linked to customer needs and expectations and therefore where David's business must excel in order to outperform the competition. As an innovator one of the critical success factors will be the time taken to develop and launch the new vase. Being first-to-market will be critical for success. His ability to generate sales revenue from demanding corporate customers will be a real indicator of that success.

David will need to ensure that he has adequate patent protection for the product and recognise that it will have a product life cycle.

There look to be a number of alternative markets and the ability to customise the product may be a CSF. Greiner indicates the different stages a growing business goes through and the different problems associated with each stage. One of David's key problems will be to decide what type of business he wants to be. From the scenario it looks as if he is aiming to carry out most of the functions himself and there is a need to decide what he does and what he gets others to do for him. Indeed the skills he has may be as an innovator rather than as someone who carries out manufacture, distribution, etc. Gift Designs may develop most quickly as a firm that creates new products and then licences them to larger firms with the skills to penetrate the many market opportunities that are present. It is important for David to recognise that turning the product concept into a viable and growing business may result in a business and a business model very different to what he anticipated. Gift Designs needs to have the flexibility and agility to take advantage of the opportunities that will emerge over time.

(b) From a budget preparation perspective, if Material A is in short supply then this becomes the principal budget factor. This will affect budget preparation because the first step in the budgetary process will be to determine the optimum mix of products according to their contribution per kg of Material A. The optimum production plan can then be determined and the sales budget can be derived from the production plan. Once the production plan has been determined then Material B, labour and overhead budgets can be derived.

However, the change may also have an impact from a strategic and decision making perspective. New strategic decisions may have to be taken on competitive strategy, the viability of Product W overall, inventory holding strategy and even supply chain management.

The limit on the level of production may mean that there is spare capacity in the factory and the fixed overhead absorption rate will increase. This will increase the cost per unit of products and lower profitability. It appears from the scenario that rivals will be experiencing similar problems, but X Plc might be able to gain a competitive advantage if it can somehow negate this problem (for example, by finding cheaper suppliers, buying the material overseas or changing the product design). Alternatively, the creation of the budget may support a decision to abandon Product W altogether (it might be seen as a 'dog' in a BCG box) and to support investment elsewhere in the organisation's portfolio of products.

There may be knock on effects on other products; if lower production levels mean that there are spare labour resources it could mean that output of products which do not use Material A could be increased. Preparing the budgets for Product W would support strategic decisions to change or alter the production plans and sales strategies of other products, both now and in the future.

But it will be important that new information and revised budget is not the only driver of these strategic and operational decisions. X Plc should continue to carry out qualitative analysis of its environment to ensure that these changes are long-term and that market trends and threats are identified and planned for. Relying solely on the budgets may give a solely financial perspective that is often short-term, can be driven by any bias of the preparer and is overly focused on internal business capabilities and changes rather than external environmental changes.

It may be, for example, that the shortage of the material has been caused by a temporary change in supplier production strategies rather than any weakening of X's competitive strategy or that rivals have plans to leave the market and that X's market share will rise in the future (and the cost of the material subsequently fall as economies of scales are once again attained).Therefore, budgets can play a useful part in supporting organisational strategy, but they cannot be used in isolation and must be supplement by qualitative analysis.

(c) (i) The net present value of a project is the sum of the present values of the future cash flows which have been discounted at a rate which takes account of the time value of money.

The expected net present value takes into account the uncertainty or risk associated with the campaigns by weighting each possible outcome by its probability and finding the sum of the results.

The expected value alone gives no indication of the range of possible outcomes. The standard deviation provides a measure of the spread of the possible outcomes; a higher standard deviation indicates a wide range of possible outcomes and therefore a higher level of risk.

(3) Eliminating unnecessary travel – was the journey necessary? Encouraging employees to work from the home or the office reduces the risk of travel accidents by avoiding travel in the first place. The company might not only consider electronic meetings as a way of cutting costs, but also as a way of reducing the chance of fatal travel accidents.

(4) Finally, ensuring that all documentation is up-to-date and self-explanatory, so that it can be picked up easily by other employees of the organisation, hence avoiding the situation described in the scenario where the divisional director has to piece together fragments of documentation left by the unfortunate team.

ACCA marking scheme

		Marks
(a)	Up to 5 marks for the decision tree analysis and decision tree diagram Typically this will include (up to a maximum of 5 marks)	
	Diagram of the decision tree: 1 mark	1
	Expected income from Amethyst: 1 mark	1
	Expected value of Amethyst: 1 mark	1
	Expected income from Topaz: 1 mark	1
	Expected value of Topaz: 1 mark	1
	Conclusion (Topaz): 1 mark	1
	Other marks (up to 4 marks) including subjective nature of probabilities, sensitivity analysis, only part of the procurement decision	4
	Maximum	9
(b)	1 mark for each relevant point up to a maximum of	[illegible]
(c)	1 mark for each appropriate point up to a maximum of 5 marks for software vendor issues, 1 mark for each appropriate point up to a maximum of 5 marks for employee travel issues – maximum of 10 marks for this sub-question	15
Total		**25**

Examiner's comments

In part (a) many candidates showed that they were very familiar with constructing and interpreting decision trees and so scored reasonably well on this part question. The most common error was to forget to subtract the cost of the investment. However, it also has to be said, that some answers were very poor and it was unclear why the candidate chose to answer this optional question.

In part (b), candidates who knew this topic well, produced good answers, centred on risk, supplier viability and software functionality. In contrast, some answers were very poor and rambling; not answering the specific question at all.

In part (c) there were some very good answers. However, there were also some very poor answers, lacking in content or generally describing risk management without any context at all.

Overall, this question was unpopular. Candidate performance tended to be good, with candidates confident in the application and limitations of decision tree analysis and able to properly discuss risk in context, or poor, with candidates unable to properly undertake decision tree analysis or discuss the concept of risk in the context of the scenario.

53 COOLFREEZE

Key answer tips

These are new areas to the syllabus but not to the qualification. These are areas that have been covered at lower level papers. However, notice that at this level the emphasis is on the analysis of the numbers in terms of what they tell us and what their limitations might be, rather than on performing lots of detailed calculations.

(a) **Spreadsheet analysis**

I have had the opportunity to analyse the spreadsheet that you provided. My analysis suggests that the forecasting team used moving averages to help them analyse past sales and forecast the future. This is a well-established technique of analysing a time series and you are incorrect in your assumption that it is 'not based on a well-accepted approach'.

Explanation of the spreadsheet construction

The technique is based on averaging figures in the time series. For example, column D is calculated by adding up the first four figures (56,70,74,60) and then adding this total to the total moved on by one quarter (70, 74,60,60). This value is then divided by 8 (the number of values in the total calculation) to give the average value in column E. This represents the trend of the time series.

The figures in column F are the variation of the trend from the actual sales figures. These variations are analysed in part 2 where a seasonal variation is calculated.

This seasonal variation is then subtracted from the total variation of each quarter to determine the random or residual variation (column H).

The author of the spreadsheet has checked that the total of the trend plus seasonal plus random variation comes to the original sales figure (column I).

It is difficult to identify where the forecast figures come from. They are roughly in line with the observed trends and represent a very modest increase on the previous year (less than 1% growth). The forecasting group probably thought they were being very realistic.

Analysis

Time series analysis is based on past data. It cannot be used to predict sudden changes in the marketplace. The sales manager had expressed reservations when the forecasts were agreed. His sales staff had already reported that customers were less optimistic about the future because of a weakening economy and the availability of cheap foreign imports. In retrospect, a greater consideration of the external environment should have been included in the overall forecasting approach. Perhaps a number of scenarios should have been considered that took into account changes in the external marketplace.

(b) **Activity based costing**

Firstly calculate the number of activities in each area:

Activity	*Cost Driver*		*Drivers*
Machining costs	Machine hours	0.25 × (40,000 + 20,000)	15,000
Set up costs	No. of production runs	(40,000/500) + (20,000/500)	120
Quality inspections	No. of inspections	(40,000 × 50/500) + (20,000 × 125/500))	9,000
Stores receiving	No. of deliveries	30,000 + 20,000	50,000
Stores issues	No. of issues	15,000 + 15,000	30,000

Then calculate the cost driver per activity:

Activity	$000	*Driver*	*Cost per driver*
Machining costs	600	15,000	$40 per machine hour
Set up costs	900	120	$7,500 per set up
Quality inspections	180	9,000	$20.00 per inspection
Stores receiving	420	50,000	$8.40 per delivery
Stores issues	300	30,000	$10 per issue

Now apply these to each product:

	Standard		*Deluxe*	
	$ / unit	$000	$/ unit	$000
Machining costs	10.00	400	10.00	200
Set up costs	15.00	600	15.00	300
Quality inspections	2.00	80	5.00	100
Stores receiving	6.30	252	8.40	168
Stores issues	3.75	150	7.50	150
Total overhead	37.05	1,482	45.90	918
Direct costs	8.00	320	14.00	280
Total production costs	45.05	1,802	59.90	1,198
Previous production costs		1,520		1,480
Change in profit		(282)		282

(c) **Impact on the company's profits**

A change in the accounting method used will not impact on the company's overall profits, which will remain at $660,000. However, it will mean that there is a different split of fixed production overheads between the products. Activity Based Costing (ABC) uses a fairer method of sharing these overheads between products based on levels of activity split across 5 key activity levels (rather than the old system which used one overall split based on labour hours).

This means that $282,000 of fixed overheads have been re-apportioned from the Deluxe model to the Standard model. This is due, for example, to the fact that the Standard product has twice as many machine set ups than the Deluxe model (at a cost of $7,500 per set up).

This means that both products will now show a profit and the company should notice other benefits from this change in system.

only willing to purchase, after careful cost and delivery comparisons, through the Internet. Hence, Hein is in a situation where he faces more competition to supply products which are used and replaced less frequently, using a sales channel that is increasingly uncompetitive. Consequently, Hein's attempt to re-vitalise the shops by using the approach he adopted in phase 1 of the company was always doomed to failure. This failure was also guaranteed by the continued presence of the managers appointed in phase 2 of the company. These were managers used to tight controls and targets set by centralised management. To suddenly be let loose was not what they wanted and Hein appears to have reacted to their inability to act entrepreneurially with anger and abuse. Hein's final acts of reinvention concerned the return to a hedonistic, conspicuous life style that he had enjoyed in the early days of the company. He probably felt that this was possible now that he did not have the reporting requirements of the public limited company. However, he had failed to recognise significant changes in society. He celebrated the freeing of 'Rock Bottom from its shackles' by throwing a large celebration party. Celebrities were flown in from all over the world to attend. It seems inevitable that the cost and carbon footprint of such an event would now attract criticism.

Finally, in summary, Hein's approach and leadership style in phase 3 became increasingly out of step with society's expectations, customers' requirements and employees' expectations. However, unlike phase 2, Hein was now free of the responsibilities and controls of professional management in a public limited company. This led him to conspicuous activities that further devalued the brand, meaning that its demise was inevitable.

(b) At the end of the first phase Hein still had managers who were entrepreneurial in their outlook. It might have been attractive for them to become franchisees, particularly as this might be a way of protecting their income through the more challenging stages of the product and service life cycle that lay ahead. However, by the time Hein came to look at franchising again (phase 3), the managers were unlikely to be of the type that would take up the challenge of running a franchise. These were managers used to meeting targets within the context of centrally determined policies and budgets within a public limited company. Hein would have to make these employees redundant (at significant cost) and with no certainty that he could find franchisees to replace them.

At the end of phase 1, Rock Bottom was a strong brand, associated with youth and innovation. First movers often retain customer loyalty even when their products and approach have been imitated by new aggressive entrants to the market. A strong brand is essential for a successful franchise as it is a significant part of what the franchisee is buying. However, by the time Hein came to look at franchising again in phase 3, the brand was devalued by his behaviour and incongruent with customer expectations and sales channels. For example, it had no Internet sales channel. If Hein had developed Rock Bottom as a franchise it would have given him the opportunity to focus on building the brand, rather than financing the expansion of the business through the issue of shares.

If Sully pursues his ideas for job enrichment, then he will have to carefully assess his current staff to see which, if any, are willing to pursue this wider role. Evidence suggests that 'employees with low growth needs are less likely to experience a positive outcome when their job is enriched' (Bratton and Gold). Consequently, Sully may have to bring new people in from outside if he wants to pursue his job enrichment policy.

His assessment of the skills, competencies and desires of his employees has to be even more comprehensive if he wishes to extend jobs to include planning and enabling tasks. However, such an extension would allow them to assist him finding and establishing contracts, helping grow the company.

ACCA marking scheme

		Marks
(a)	1 mark for each relevant point up to a maximum of 15 marks.	15
(b)	1 mark for each relevant point up to a maximum of 5 marks for the principles of job enrichment and up to 5 marks for its application at ARC.	10
Total		**25**

Examiner's comments

This question was not very popular, but candidates who chose to do it often adopted a good answer structure to part (a) based on the requirement: before, after and reasons for failure. Many candidates recognised that the manager had moved from a stereotypical Theory X manager to a stereotypical Theory Y manager. Many answers made appropriate reference to management theory, and those citing contingency theory were particularly insightful, because the characteristics of the 'led' were significant in the context of the second part of the question. Overall, this part of the question was answered relatively well, with many candidates gaining a pass mark on this part question.

Part (b) was worth ten marks. This part question was answered less well. Many candidates struggled to provide enough relevant information on job enrichment and also failed to apply it to the case study situation. It seems likely that its potential application was reduced at ARC by the fact that many of the people who it may have attracted have left the company. The characteristics of the led may make it very difficult for the manager to implement a job enrichment scheme. Remember, although a particular concept may generally be perceived as a good thing (job enrichment in this question), it may not necessarily be so within the described case study scenario. Candidates must always reflect the context of the scenario in their answers.

- Employee training and development – here there is a need to create an effective management team through management development and organisational development.
- Labour employee relations – here there is a need to establish harmonious labour relations and employee motivation and morale.

Overall, the HR implications of the proposed growth strategy are profound and there is a significant danger that failure to link strategy and the consequent HR needs will act as a major constraint on achieving the strategy.

Yours,

(b) It is important to note that there is nothing in the nature of the activities carried out by HR staff and departments that prevents outsourcing being looked at as a serious option. Indeed, among larger companies the outsourcing of some parts of the HR function is already well under way, with one source estimating that HR outsourcing is growing by 27% each year. Paul, therefore, needs to look at the HR activities identified above and assess the advantages and disadvantages of outsourcing a particular HR activity. Outsourcing certain parts of the recruitment process has long been accepted, with professional recruitment agencies and 'head-hunters' being heavily involved in the advertising and short listing of candidates for senior management positions. Some HR specialists argue that outsourcing much of the routine personnel work, including maintaining employees' records, frees the HR specialist to make a real contribution to the strategic planning process. One study argues that 'HR should become a partner with senior and line managers in strategy execution'.

If Paul is able to outsource the routine HR activities this will free him to contribute to the development of the growth strategy and the critical people needs that strategy will require. In many ways the HR specialist is in a unique position to assess current skills and capabilities of existing staff and the extent to which these can be 'leveraged' to achieve the desired strategy. In Hamel and Prahalad's terms this strategy is likely to 'stretch' the people resources of the company and require the recruitment of additional staff with the relevant capabilities. Paul needs to show how long it will take to develop the necessary staff resources as this will significantly influence the time needed to achieve the growth strategy.

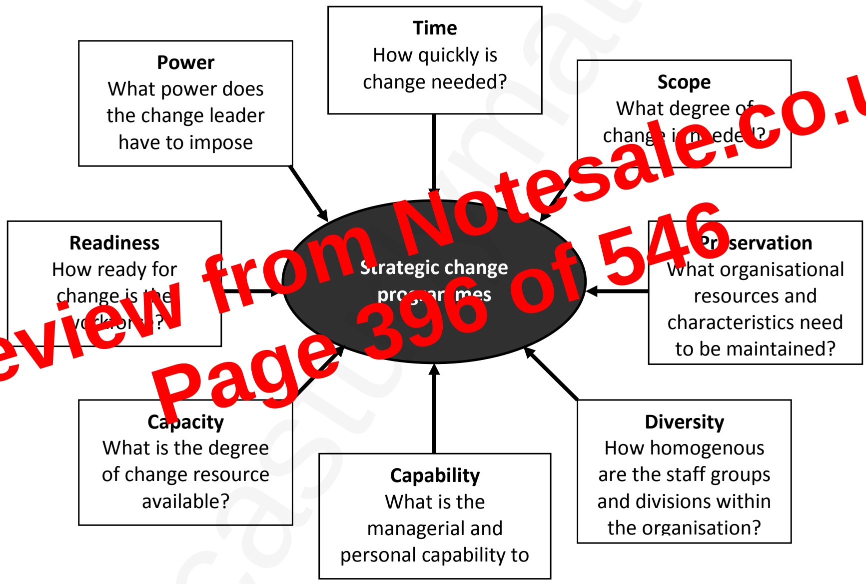
Outsourcing passes on to the provider the heavy investment needed if the company sets up its own internal HR services with much of this investment now going into web-based systems. The benefits are reduced costs and improved service quality. The downside is a perceived loss of control and a reduced ability to differentiate the HR function from that of competitors. Issues of employee confidentiality are also relevant in the decision to outsource.

(b) JSW argue that successfully managing change depends on context. This context is made up of a number of factors or contingencies peculiar to the organisation under consideration. How change is managed in a relatively small privately owned firm like PSI is very different to how it might be managed in a large international firm of accountants with hundreds of partners.

> ***Tutorial note***
>
> *Balogun and Hope Hailey's contextual features are a key model in the management of strategic change.*

JSW again use the work of Balogun and Hope Hailey to consider the contextual features that need to be taken into account in deciding how a strategic change programme should be managed. These features are shown in the diagram below and are used in the model answer. However candidates could adopt other models and approaches.

Contextual features and their influence on strategic change programmes



Source: Johnson, Scholes and Whittington

In the context of PSI, the following observations could be made.

- *Time* – the company is not facing any immediate financial or business problems and so there is no apparent need for rapid change. Figure 1 suggests a company that is slowly consolidating in its market place. There is no evidence of a crisis that requires urgent remedial action. It is likely that it will take a relatively long time to develop the new generic software package, particularly when the current pressures on the software development team are taken into account. They are already having problems meeting deadlines for the current product. The only urgency is that injected by the impatience of the chief executive who may want to quickly introduce change to achieve the objectives of realising his investment in the company. The natural inclination of the software team and their director will be to use any available time to

Symbols include logos, offices, cars, titles and the type of language and terminology commonly used within the organisation. The language and symbols of technology appear to dominate at iCompute. Software developers constantly scan the horizon for new technological opportunities. They embrace these technologies and solutions and, as a result, continually distract the organisation. As soon as a technical direction or solution is agreed, or almost agreed, a new alternative is suggested causing doubt and delay. One of the managers claimed that the company was 'in a state of constant technical paralysis'. This paralysis has implications. Furthermore, technological objectives can quickly outweigh business and financial objectives, to the detriment of the company as a whole.

The perceived inability of managers to effectively participate in technological discussions is derided by software developers who suggest that they are technically out of touch. Ownership and understanding of up-to-date mobile phones is perceived to be important, particularly by the software developers who are an important and powerful group within the organisation.

Finally, the language of the manager who suggested that support should be outsourced is very illuminating. Support calls are not from customers but from 'incompetent end users, too lazy to read user guides'. Re-focusing managers on customers appears to be long overdue.

Routines and rituals concern the 'way we do things around here'. At iCompute this involves long working hours and after-work social activities such as football, socialising and playing computer games. The latter of these reinforces the technical focus (discussed in symbols) of employees. The routines and rituals of the organisation are largely male-oriented (football, computer games) and would probably exclude most females. This would almost certainly contribute to the company's inability to recruit and retain women employees. Furthermore, long working hours and after-work activities will also alienate employees who have to get home to undertake family commitments or simply do not wish to be 'one of the lads'. This must contribute to almost one-third of all employees leaving within their first year at the company. The consequence of this culture is an expensive recruitment and training process.

The control systems of the organisation include measurement and reward systems. Within iCompute technical expertise is only rewarded to a certain organisational level. To earn more, technically adept employees have to become managers. Evidence appears to suggest that many are unsuited to management, unable to deal appropriately with their former peers. These managers also seem anxious to show that their technical expertise is not diminishing, emphasising the importance of technology as a symbol within the organisation. Consequently, they often try to demonstrate this expertise (for example, through programming) but are unaware that this brings derision rather than respect. The absence of measurement systems has recently been recognised by management within the company. This has led to the initiation of an in-house project to improve time recording. However, software developers within the company see this as an unwelcome initiative.

ACCA marking scheme

		Marks
(a)	Up to 2 marks for each identified strength up to a maximum of 10 marks for strengths Up to 2 marks for each identified weakness up to a maximum of 10 marks for weaknesses	20
(b)	(i) Up to 1 mark for each relevant point up to a maximum of 4 marks (ii) Up to 2 marks for each relevant point concerning the inappropriateness of a no-frills solution, up to a maximum of 13 marks Professional presentation of coherent argument: up to 3 marks	20
(c)	Explanation of alternative strategies: Up to 2 marks for each significant point up to a maximum of 8 marks. 2 marks also available for professional presentation and coherence of the complete answer.	10
Total		**50**

Examiner's comments

The first part of this question asked candidates to evaluate the strengths and weaknesses of ONA and to explore how these impacted on the company's performance. Many of these strengths and weaknesses were signposted in the text and others were readily discernable from the tabular and financial data. Most candidates answered this part of the question reasonably well. However, three points need to be made;

1 Not enough use was made of the financial data. Relatively easy marks were available for calculating and interpreting standard financial ratios. One marker commented that the 'analysis of the financial information was often weak. Use of this information often went no further than extracting superficial data that was immediately obvious from the tables, for example that net profit after tax had fallen'.

2 Some candidates adopted overly elaborate frameworks and models to answer the question. On one hand this was good to see, but on the other it did mean that many of the answers were very long. Valuable time was taken up in explaining the model, rather than the strengths and weaknesses of ONA. This was a particular problem when inappropriate models were used (such as PESTEL), leading candidates to discuss opportunities and threats which were explicitly excluded from the question.

3 One marker commented that 'candidates frequently started this question with a paragraph describing SWOT analysis and then noting that only strengths and weaknesses were required for the answer. This was a complete waste of time'.

The second part of the compulsory question asked candidates to explain the key features of a 'no-frills' low-cost strategy. Credit was given for both generic answers and for answers which specifically referenced the airline industry. This was answered relatively well.

The question then asked candidates to explain why moving to a 'no-frills' low-cost strategy would be inappropriate for ONA. This part of the question was not answered particularly well. The question asked candidates to adopt and support a particular position. Overall, candidates did not give sufficient ideas to get the marks on offer. The better answers actually adopted the suitability, acceptability and feasibility success criteria suggested by Johnson, Scholes and Whittingham.

Not only did this give plenty of scope for a good answer, it also allowed candidates to score well on the professional marks available for this question. Professional marks were given to answers that strongly supported the specified position – the inappropriateness of a move to a 'no-frills' low cost airline. Too many answers were neutral in tone and did not carry sufficient conviction. Answers were diluted by offering alternatives (the focus of the next part of the question) or by suggestions about how a 'no-frills' approach might be made to work. Although some of these ideas were interesting, they were not the intended focus of the question.

Finally, candidates were asked to evaluate other strategic options ONA could consider to address the airline's current financial and operational weaknesses. There are two key parts of this requirement. The word 'other', meaning other than 'no frills' and so marks could not be awarded for an option which had been specifically rejected by the organisation. Secondly, the question was particularly looking for strategic options, encouraging candidates to explore the strategy clock or any other appropriate framework. Indeed the better answers adopted the strategy clock, Ansoff's matrix or further applied the suitability, acceptability and feasibility success criteria. Answers that used these approaches tended to score well and gained the professional marks on offer. Unfortunately, some candidates did not pitch their answers at a strategic level, focusing more on piecemeal operational improvements. Credit was given for such suggestions, but such answers tended to be quite limited and were not awarded the professional marks, as they did not address strategic options in an appropriate framework.

Three further aspects also need stressing;

1 Financial and quantitative information is provided in scenarios for a reason. Please use it appropriately. Many candidates ignored this information completely.

2 The information in the scenario is very important. Many answers were too general and lacked appropriate context. Candidates must also make sure that they answer the question set, not the question they would like to have been set.

3 Do not use theories inappropriately in a scatter-gun approach. Trying to reference too many theories led to some answers becoming too complicated, too long and too irrelevant. Candidates must make sure that answers are focussed and contain enough relevant points to get the marks on offer.

65 THE NATIONAL MUSEUM *Walk in the footsteps of a top tutor*

Tutor's top tips

Part (a)

This part of the requirement explicitly asked for a PESTEL analysis. This should have given students the correct focus and avoided doubt about which model should be used in answers.

Key to success:

Apply the model to the scenario.

Try to cover all areas of the PESTEL (the examiner complained that some students failed to cover the 'legal' issues.

these visitors is increasing. The percentage of visitors aged 22 and under visiting the NM has decreased from 19% of the total visitors (in 20X4) to just over 12% in 20X7. The museum needs to identify what it needs to do to attract such groups to the museum. The Director General had suggested free admission. This could be combined with popular exhibitions (perhaps tied in with television programmes or films) and 'hands-on' opportunities. It appears that the immediate neighbourhood of the museum now houses many of the people the government would like as visitors and so, from this angle, the location of the museum is an advantage. However, the comment of the Director of Art and Architecture about popularity and historical significance hardly bodes well for the future.

The decay of the neighbourhood and the increased crime rate may also deter fee-paying visitors. The museum is becoming increasingly isolated in its environment, with many of its traditional middle-class customers moving away from the area and reluctant to visit. The extensive reporting of a recent assault on a visitor is also likely to deter visitors. The museum needs to react to these issues by ensuring that good and safe transport links are maintained to the museum and by improving security both in the museum and in its immediate vicinity. Visitors need to feel safe and secure. If the museum believes this to be unachievable, then it might consider moving to a new site.

Technological

It is estimated that only 10% of the museum's collection is on view to visitors. Technology provides opportunities for displaying and viewing artefacts on-line. It provides an opportunity for the museum to become a virtual museum – allowing visitors from all over the world access to images and information about its collections. Indeed, such an approach should also help the museum achieve some of its technology and accessibility targets set by the government. Technology can also be used to increase marketing activity, providing on-line access to products and allowing these products to be bought through a secure payment facility. The appropriate use of technology frees the museum from its physical space constraints and also overcomes issues associated with its physical location.

Environmental

It can be argued that all contemporary organisations have to be aware of environmental issues and the impact their activities have on the environment. These are likely to be exacerbated by the museum being located in an old building which itself requires regular maintenance and upgrading to reflect government requirements. It is also very unlikely that such an old building will be energy efficient and so heating costs are likely to be high and to continue to increase. The museum needs to adopt appropriate policies on recycling and energy conservation, but it may be difficult to achieve these targets in the context of an old building. Consequently, environmental issues may combine with social issues to encourage the consideration of the possible relocation of the museum to a modern building in a more appropriate location. However, the museum building is also of architectural importance, and so some acceptable alternative use for the building might also have to be suggested.

Legal

Legal issues affect the museum in at least two ways. Firstly, there is already evidence that the museum has had to adapt to legal requirements for disability access and to reflect health and safety requirements. Some of these requirements appear to have required changes in the building which have been met with disapproval. It is likely that modifications will be expensive and relatively awkward, leading again to

So, here in point form, are the main issues raised above. Each point (in suitably expanded form) would be worth one or two marks. It is not an exhaustive list, but it shows how marks can be gained by using the information in the scenario. There is a maximum of twelve marks for this question (remember the three other marks are for style, format and approach). However, more significantly, a candidate had to only make some of the following points to guarantee a pass mark on this question. Unfortunately many failed to do so.

- Cost of continuing leases, re-assignment costs
- Cost of making staff redundant
- Visibility of the brand
- Damage to the brand (closure, empty shops)
- Effect on internet sales of removal of pre-sales and post-sales support
- Effect on insurance sales and that division
- Age group analysis of retail and insurance sales (wealthy consumers)
- Financial figures do not support case for radical change
- Profitability has improved in 20X7 compared with 20X6 (corner turned?)
- Liquidity constant since 20X3
- Gearing slightly increased but not significant
- Retail division generates 85% of the revenue
- Recognition of mature stage of product/market (table 2 supports this)
- Directors over-reacting, need to recognise change and manage accordingly

68 WET

Key answer tips

In part (a) it is best to use the guidance given in the requirement as sub-headings. So there are 4 areas to cover and you should have four sub-headings. The best model to use overall is probably a SWOT analysis (this is the best/easiest model on 'strategic position' analysis), but lots of other models could have been used as long as you stick to the principle of keeping them relevant.

In part (b) there are three things to do: identify problems in the process (aim to find 4 or 5), discuss why they are a problem, and then attempt to solve them (try to find one solution for each problem). This should keep your answer relevant and specific and avoid the temptation to discuss unnecessary theoretical aspects of process redesign.

In part (c) it was important that you recognise that you are being asked about Customer Relationship Management from the terminology used in the requirement – namely 'acquisition' and 'retention'. Therefore it was important not to discuss e-business in general or get to involved in models such as the 7P's or 6I's.

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Understanding stakeholder perspectives and expectations is an important part of analysing the organisation's strategic position. Members require better access to wetland sites and more feedback on the activities of the organisation. Volunteers wish to be valued more, treated professionally and be given the chance to participate in decision-making. Having sufficient, knowledgeable volunteers appears to be necessary if some of the members' expectations are to be fulfilled. The contribution of volunteers becomes even more significant in a recession, when an organisation might have to reduce paid staff. WET also have to be aware of the potential effects of the recession on individual volunteers. For example, it appears that the failure to pay travelling expenses may have caused unnecessary hardship and led to the loss of volunteers. The CEO must also be aware that the consultation exercise with both members and volunteers will have fostered the expectations of a more open and democratic leadership culture, contrasting with Dr Abbas's autocratic style.

The original mission statement of WET was to preserve, restore and manage wetlands in Arcadia. It might be an appropriate time to revisit this mission statement, to explicitly recognise stakeholder concerns. For example, many members and volunteers are concerned with observing and saving wildlife, not wetlands. This could be explicitly recognised in the mission statement 'to save wetlands and their wildlife' or perhaps to 'preserve, restore and manage wetlands for wildlife and those who wish to observe them'. This would be a mission statement to which most of the stakeholders in WET could subscribe.

(b) A number of problems have been explicitly identified in the scenario. However, the swim lane flowchart helps identify two further problems, which may themselves explain some of the other documented difficulties.

1 Firstly, the flowchart clearly shows that sales and marketing receive renewal confirmations before payment is cleared. This means that membership cards and booklets are being sent to members whose payments have not yet cleared. The receipt of this documentation probably suggests to these members that payment has cleared, so response to the payment request is not necessary. They probably see it as an administrative mistake and ignore the reminder. This would help explain the very low rates of people who pay when they receive their payment request. It is not, as the finance manager said 'an unethical response from supposedly ethical people', but a problem caused by their own system. Perhaps those that do subsequently pay have taken the trouble of checking whether money has been debited to WET from their bank or credit card account. The consequence of this faulty process is that a significant number of members unwittingly receive a free year's membership. It may also help explain why a number of members do not receive a renewal invoice at the end of their membership year. These renewal invoices are only sent to members who have been updated on the system after their payments have cleared. If the payment never cleared, then the membership will have lapsed on the system and a renewal invoice will not be raised the following year.

2 Secondly, the receipt of a cleared renewal payment is only recorded when the membership details are updated on the Membership computer system by the Membership Department. Consequently, renewal reminders will be sent out to members whose payment is still awaiting clearance. It currently takes the Finance Department an average of five days from the receipt of the renewal to notifying the Membership Department of the cleared payment. There is also a backlog of cleared notifications in this department, awaiting entry into the

computer system. These members may also receive unwanted renewal reminders. Finally, members who have received a membership card and booklet through the process described in the previous paragraph will also receive a renewal reminder letter. Presumably most members ignore this letter (after all, they have received the new card and booklet) and believe that the charity is inefficient and is wasting money on producing renewal reminders for those who have already renewed their membership. Charities have to be careful about spending money on wasteful administrative processes. It might be these renewal reminders that led to the accusations about the charity wasting money.

A number of options can be considered for redesigning the membership renewal process. Some are given below. They range from simple changes, remedying the faults identified in the previous answer, to significant changes in the way WET will accept payment. Credit will be given for answers that suggest feasible amendments and also specify the likely consequences of the change to WET as an organisation, to employees in affected departments and to the systems they use.

- Remedy the fault identified in the previous part of the question 1(b) by only notifying sales and marketing of membership renewal once payment has been cleared, not just received. The consequence of this is that a membership card and booklet will only be sent to members who have paid their subscriptions. This should lead to an increase in subscription income because a percentage of members whose payment did not clear first time will now make sure that their payment clears. No changes are required to the membership computer system or departmental responsibilities.
- Remedy the second fault identified above, so that renewal reminders are only sent to members who have not responded to the renewal invoice, not to members who have responded but whose payment is still awaiting clearance. This could be achieved by initially updating the membership system when a payment is received. The consequence of this is that renewal reminder letters will not be sent to members who have renewed, but not yet had their payment cleared. This will reduce waste and improve member's perception of the efficiency of the organisation. However, it will require a change to the computer system and will also lead to more work for the Membership Department and another handoff between the Finance and Membership Departments. This handoff will introduce the chance of error and delay. The Membership Department already has a backlog in entering the details of members' renewals where payments have successfully cleared.
- A suggested generic process improvement is to reduce the number of handoffs between parts of the organisation by reducing the number of swim lanes. It is perceived that handoffs have the potential for introducing delay, cost and error. A number of options are possible, but perhaps the most obvious is to merge (for the purpose of this process) the functions of the Finance and the Membership Departments. This is because at one point (and perhaps two, if the previous suggestion is adopted) Finance are simply notifying the Membership Department of an event (payment cleared and, potentially, payment received), which the Membership Department has to then enter into the computer system. The case study scenario suggests that there is a backlog of membership details to enter. This probably results in renewal reminders being sent to members who have already renewed and whose payment has cleared. Merging the swim lanes will require all staff to have access to the computer system, sufficient competency in using it and sufficient numbers to

The case study scenario included a description of the process for membership renewal. This textual description was supported by a swim lane flowchart. Candidates were asked to analyse faults in the renewal process and to suggest solutions. This part of the question was worth 15 marks. It required an analysis of the business situation and the formulation of appropriate solutions. It did not require long theoretical descriptions of process redesign patterns, although these could have been usefully applied to the scenario.

This was a practical analysis question and it is disappointing that many candidates were unable to answer it effectively. Too many answers simply suggested that the computer system was at fault and should be fixed. Candidates failed to spot glaring errors in the process (sales and marketing received renewal confirmations before payment was cleared, delayed acknowledgement of payments led to renewal notifications being sent to members who had paid) and so many answers were too general and did not gain the marks on offer. Good answers needed to identify the fault, describe its consequences and suggest solutions, which could have been quite simple, and did not require any cross-reference to theoretical concepts.

Effective customer relationship management is essential to charities. Sheila Jenkins wishes to use email and website technology to facilitate the acquisition and retention of WET's customers and support WET's aim to gain increased revenues from members and donors. This part question was about effective customer relationship management; acquiring, retaining and exploiting customers. It was not a general question about the principles and benefits of web site and email technology. Too many answers were not in the context of the question. For example, independence of location (place) may be an attribute of the new media, but how can this be harnessed (if it can) in the context of customer relationship management? Many candidates probably thought they had answered this question relatively well (talking about 7Ps and 6Is) but in reality many answers did not score well and overall this part question was disappointedly answered. In many cases, candidates provided good answers to a very different question.

69 RELINK CO

Key answer tips

The layout in this question is unusual when compared to other past exam questions (there are less numbers and a diagram of the change kaleidoscope is included). Practising lots of questions is the best way to prepare for having to deal with a variety of exam layouts.

This question covers core exam areas that are regularly examined and, in the topic of contextual features, an area that students often have trouble with, the examiner even lists out the features to consider. The order of the requirements may confuse some students who would expect parts (b) and (c) to be in the opposite order, but the topics are key examinable areas. The key difficulty for students may be in time management as there will have been a temptation to spend too long on the SWOT analysis.

In part (c) it will be important to recognise that 4 different strategic suggestions will be needed but that only 12 marks are available in total. This means that only 3 marks per suggestion is available and students should not over-analyse one in particular. It will be more important to have 4 suggestions than it will be to have lots of detail on each one.

Demotivated staff: The employees are proud of their achievements and respect the technological expertise of Dexter. However, the attitude of senior management and the obvious financial problems of the company have combined to demotivate and demoralise them. A poorly thought out programme of cost cutting and staff regrading has compounded this attitude, and many are resigned to the company failing and are actively looking for other jobs.

The final weakness concerns *poor brand awareness*. Although ReInk is a technological leader, the public has little knowledge of its services and capabilities. Marketing has focused on the website, to the detriment of all other channels, where the company is up against competitors who appear to offer similar services and also have very similar trading names.

Opportunities

The continued decline of the economy provides a significant opportunity for ReInk. Both domestic and commercial users will be looking to reduce their printing costs and so the market place should be growing. Indeed, ReInk will have to monitor the economy to detect any upturn which could adversely affect the demand for its product.

Increased awareness of the need to reuse and recycle products should also provide the company with significant sales opportunities. The number of 'green consumers' is growing within the country. These consumers may have particular concerns about using printer cartridges which can only be used once, or which are expensive to recycle.

Government contracts: The economic problems in the country have accentuated the need for government departments to show value-for-money, as well as demonstrating excellent reuse and recycling practices.

Threats

Legal threats: It is important for the organisation to continually scan the legal environment to identify potential threats. Original Equipment Manufacturers (OEMs) have failed in their attempts to make refilling their products illegal. However, they continue to lobby political parties to change the law, citing their need for income from printer consumables to fund their investment in advances in printer technology. The company also has to be aware of threats to their patented process, or indeed to patents which might threaten their competitive edge.

Technical threats: Threats will continue to emerge from new technology. These threats might be to produce reusable ink services at a lower cost, or indeed to remove the need for ink replacement all together. The printer industry is very technology driven and ReInk will have to continuously monitor new innovations and product announcements to see if its services and products are threatened.

Competitive rivalry: The print consumables industry is very competitive. Entry costs into the industry are relatively low, and companies largely compete on price. This is partly why OEMs, with their higher costs, find it difficult to compete in this market. Consequently, they largely compete on quality and the generation of fear amongst consumers that unauthorised products could damage their printers, and, if they do, their printer warranty will be invalid. Thus it is an extremely competitive environment, with relatively low brand loyalty. If the potential damage to printers is overlooked, then there are no switching costs in moving to a different consumables supplier.

Finally, *the government is considering privatising the DoRC*. This could jeopardise the continuation of the contract to supply this department with reusable ink products and services, on which ReInk is highly dependent as it contributes 20% of its revenue.

In summary, the company is operating in a very competitive industry where OEMs also compete aggressively on non-price criteria. However, economic and environmental issues provide ReInk with opportunities for growth if they can properly harness their strengths and address the financial and management weaknesses of the company.

(b) **Introduction**

The second part of this report looks at the contextual features which will have to be taken into consideration if strategic change is to be successfully implemented at ReInk.

Time: refers to the amount of time available to implement change. An organisation which faces immediate problems has a quite different context for change than one which is stable enough to be able to plan carefully for incremental change over a number of years. ReInk has pressing financial problems and so Vi Ventures (VV) will have to move quickly to make their investment. However, once that investment is made, VV will then have some time to make the changes necessary to address the financial performance of ReInk. For example, investing in initiatives to increase brand awareness and increase sales which will increase the company's operating profit.

Preservation: In most change situations there is a need to preserve some elements of the current organisation. In particular, the change will have to safeguard the competencies which are vital if the change is to succeed. In the case of ReInk, these are the skills and experience of the technologists. These employees are key to the success of the company, but have become demotivated and restless, and some are actively looking for other jobs. If VV makes their proposed investment in ReInk, then they must move swiftly to reassure the senior technical staff and dissuade them from leaving the company.

Diversity: Diversity refers to *diversity of experience*. Change can be assisted by a significant degree of diversity of experience, views and opinions within the organisation. It is hampered by a homogenous view, formed from pursuing the same strategy for years. The latter seems more likely at ReInk. The focus has been on technical excellence and innovation. There are no clear groups offering a different perspective. If the proposed investment does take place, then VV can expect some resistance to change as they bring in new ideas and directions.

Capability: Capability concerns the experience the organisation has in managing change. Some organisations have experience of effectively managing change and also have a workforce which has readily accepted and implemented these changes. At ReInk, the opposite appears to apply. The management team has been unable to formulate any changes which have improved the financial performance of the company. Moreover, the changes they have implemented have not been accepted by the workforce and indeed have led to a fall in staff motivation. VV's experience of implementing change will be an important capability which they will bring to ReInk.

As a whole, the sector is expanding. The market has grown from revenues of $2,850m to $3,200m dollars in four years – a growth of 12.28%. Stuart Roam Warehousing has experienced a 26.00% growth in this time period, although their market share is still less than 10% (9.84%). Operating margins are slightly higher than the road transport sector and the ROCE is also higher. Stuart Roam Warehousing contributes over 40% (40.47%) of the operating profit of the whole Group. In the Boston Box analysis, there is a practical problem in defining what is meant by 'high', so the company is either a question mark or a star depending on the assessment of its market share. However it is classified, it needs further nurturing and investment. In the context of the Ashridge portfolio model, the company appears to be a heartland business. The Group has a good feel for the business and there seems to be a good fit between the business opportunities and the characteristics and capabilities of the Group as a whole. Overall, its financial performance is largely in line with industry averages.

Stuart Roam Rail

The rail freight market appears to be expanding rapidly. There is a 26.00% rise in industry revenue between 20X1 and 20X5. Perhaps this reflects the increasing cost of road transport, increasing road congestion and fears about the environmental impact of road transport. However, Stuart Roam Rail is a very small player in this market. It has failed to match growth (only 6.6% growth over this period) and its market share has fallen (from 4.20% to 3.56%). Its financial performance is relatively poor, reporting lower operating margins and ROCE than the industry averages. Importantly, the acquisition of FDRC by the Group does not seem to have made a positive impact. In fact, despite an increase in revenues, overall financial performance appears to be worse. In 20X2 (the last year the company traded as FDRC) the company reported an operating profit of 4.95% (4.75% in 20X5) and a ROCE of 3.85% (3.50% in 20X5). This decline in performance is important to bear in mind when considering the possible acquisition of Godiva airport.

In Boston Box terms, Stuart Roam Rail is definitely a question mark (problem child, wildcat). The Group needs to investigate why the company is failing to grab an increasing market share of a rapidly expanding industry. There are at least three possibilities contained within the scenario. Firstly, the company is small and will find it difficult to match the economies of scale enjoyed by the two large rail freight companies. This probably contributes to high operating costs. Secondly, the company has no expertise in the bulk freight contracts (coal, iron ore, oil) which dominate the Meeland economy. This will make it difficult to take these contracts from the current incumbents. Finally, it is unclear whether the transport of consumer food and drink is really suitable for rail transport. The company is distributing to supermarkets, many of which are unlikely to be directly accessible to the rail network. Road transport is a much more flexible alternative.

There are also cultural problems within The Roam Group. The company is used to dealing with a transport method where the medium (roads) is free and drivers are relatively unskilled. In the rail network the transport medium (rails) is charged on a usage basis by a monopoly supplier. Train drivers have to undergo extensive training and are constrained in their route selection. Road and rail are both methods of transport, but they have quite different characteristics. In the context of the Ashridge portfolio model, this cultural

The software expertise of the company's information systems department can also be used to fulfil consumer's desire for increased purchases over the Internet. Up to now this software expertise has been mainly used to develop in-house production and retail systems which are acknowledged as being amongst the best in the industry. This expertise might be used to develop an innovative e-commerce site. This, of course, also opens up the possibility of sales outside Arnland, something that is unlikely at the moment, given that all the retail shops are within the country.

WO – options that take advantage of opportunities by overcoming weaknesses. To some extent this option contains the approach suggested by the Board, upgrading production machinery. This is addressing a known weakness (out-dated production facilities), simultaneously tackling another weakness, the cost of production. Here the approach is to reduce unit cost by improving productivity and reducing energy costs through the use of modern production equipment. The Board perceives that overcoming these weaknesses will allow the company to continue to compete in the market they are familiar with.

Reducing energy costs might also be used to appeal to the increasing number of green consumers of Arnland who take into account ethical issues when making purchasing decisions. The business analysts have identified these savings as an opportunity in their SWOT analysis. They should be attracted to a product that has been produced using an energy efficient process, and has not travelled thousands of kilometres (using energy consuming boats, road transport and trains). At the time of writing, there is an increased interest in measuring product miles or kilometres, a term used to assess the environmental impact of delivering a product from its point of production to its point of sale. Although the measures are controversial, this need not necessarily concern the messages put out by Hammond Shoes' marketing department.

Hammond Shoes might also use the negative impact of television programmes showing the use of cheap and exploited labour in the production of goods in Oriental as part of their marketing message. Although the consultants have suggested that the production of shoes in Arnland is a weakness (because of high costs) it could be turned into a strength if the country of origin becomes an important part of the buying decision for people who are willing to pay a premium for ethically sourced products. This might be supported by political initiatives, for example, the support of one of the political parties in Arnland for environmentally responsible purchasing. Their manifesto suggests that 'shorter shipping distances reduce energy use and pollution. Purchasing locally supports communities and local jobs'.

ST – options that use strengths to avoid threats. The company is an acknowledged leader in shoe design and distribution software. It also has significant retail competencies. The company might consider reviewing these to see whether innovative production and retail systems could not be combined and extended to provide economies of supply that partly compensate for the relative high cost of production. So, although production costs cannot easily be reduced, supply and storage costs might be.

The extensive property ownership of the organisation is also perceived as a significant strength. In the short term there may be an opportunity to buy time whilst the cost of producing overseas increases due to rising fuel costs and demands for better pay in the producing countries. Thus, cheaper competition might be seen as a short-term threat, which will eventually disappear. The property portfolio could be used to help finance Hammond Shoes through this period. It might do this by disposing of property, or perhaps more innovatively, by selling all of its property and leasing it back. This would provide liquidity which could be used to ease the company through the next few years.

WT – *options that minimise weaknesses and avoid threats.* The high cost of labour (weakness) and the continued provision of cheap imports (threat) may mean that Hammond Shoes should consider diversifying into areas of the footwear market where there is either less demand for raw materials or where a premium can be charged, either due to the quality of the product or due to appropriate branding. For example, focusing on shoes for children, which requires greater precision and less raw material, might be a possibility. The attraction of this is that it is a product which needs regular renewal (as feet grow) and because parents are conscious of getting exactly the right fit to avoid permanent damage to their children's feet. The acknowledged strengths of the retail experience, where employees have extensive product knowledge and excellent customer care, might also be harnessed to support this approach. Branding can reinforce the message, focusing on Hammond Shoes as primarily a supplier of children's shoes. Adult shoes may be given a lower marketing profile, but are available for cross-selling when parents are visiting for measuring and fitting shoes for their children.

Other niche areas might include high quality fashion shoes and boots, where customers are willing to pay a premium for the product. This might demand a certain amount of exclusivity, reinforced through appropriate marketing. Again, one of the attractions of the fashion market is the relatively short shelf-life of the product. Many consumers wish to renew their shoes each season as a fashion statement, not due to any desire to keep their feet dry and clean.

(c) A mission statement defines the overriding direction and purpose of an organisation. Some organisations also have *vision* statements stating what the company aspires to. However, for the purpose of this answer, vision and mission are perceived as largely the same thing. Mission statements have their critics, with many believing that they are bland and too wide-ranging. There may be some truth in this view; after all there are only a limited number of ways that the words customer, quality and leader can be re-arranged. However, most organisations appear to have settled into an approach where a short snappy slogan or strap line is supported by a much deeper description of what the organisation is about, its stakeholders and how it wishes to interact with those stakeholders. It defines how the organisation wants to do business. At the time of writing Virgin Atlantic has three elements to its mission statement, all expanded into specific objectives on its website. *To grow a profitable airline, where people love to fly and where people love to work.* Part of ACCA's mission is to *provide opportunity and access to people of ability around the world and to support our members throughout their careers in accounting, business and finance.*

Furthermore, the existence of such objectives provides an opportunity for managers and employees throughout the organisation to align their own work with stated objectives and so see how what they do contributes to objectives that, in turn, serve the corporate mission. The company clearly fails to cascade objectives down through the organisation and, again, at a period of crisis, this may be a significant weakness. For example, the core value of treating suppliers fairly could have been enshrined within an objective of paying all suppliers within 30 days. The absence of this specific objective and hence the impossibility of cascading it down to those responsible for cash flow management and payment has meant that this section has imposed its own objective of extending payment terms as much as possible. Evidence suggests that they now stand at over 60 days, so the company is failing to meet one of its core values – fairness to suppliers.

Hence, Hammond Shoes does not have a clearly defined mission or explicitly stated values. Its objectives are restricted and rarely quantified. Its strategy is now under review, although it has made certain tactical decisions such as resisting outsourcing and commissioning updated production facilities in Petatown. Thus in the MOST analysis, there are some elements omitted and hence alignment is impossible. This needs to be addressed.

ACCA marking scheme

		Marks
(a)	1 mark for each appropriate point up to a maximum of.	14
(b)	1 mark for each appropriate point up to a maximum of.	20
	Up to 4 further marks are available for the style, structure and clarity of the answer.	4
(c)	1 mark for each appropriate point up to a maximum of.	12
Total		**50**

Examiner's comments

Part (a) provided comprehensive financial information in Figure 1 of the scenario, with extracts from income and financial position statements. This figure provided sufficient information to calculate some useful financial ratios; ROCE, gross profit margin, net profit margin, gearing ratio, interest cover and trade receivable days. Most candidates recognised this and, as well as calculating appropriate ratios, provided a good textual analysis of their results. However, the quantitative analysis of the proposed investment was less well tackled. Some candidates ignored the returns given in the scenario completely, confining their analysis to the figures presented in the financial statements and trying to apply the suitability, acceptability and feasibility criteria to the proposed investment. Other candidates were aware that the analysis should be based on the cost, income and probabilities described in the scenario, but surprisingly few were able to properly calculate expected values and so gain the marks on offer. However, despite this weakness, candidates still performed reasonably well on the first part of this question.

For part (b) no specific framework was given, although the inclusion of a SWOT analysis in the case study scenario might have suggested a TOWS analysis to candidates. However, the strategy clock, Ansoff matrix and Porter's generic strategies could all be successfully applied to the case study situation. There was no need for answers to include all these frameworks as their application often suggests the same strategic option. The examiner's advice is to only use more than one framework where a further framework gives an

The other two primary activities appear to have been given considerable attention. Sam sees **service** as one of his critical success factors to the extent that he almost seems obsessive about it – he feels unable to delegate here. Additionally the **branding decision** demonstrates that Hair Care Ltd is aware of the benefits that can accrue from such an approach. The company has been able to generate a premium pricing strategy by doing this. This not only generates more revenue, it removes the company from the danger of predatory commodity pricing.

The **support or secondary value activities** have been used to support and develop the primary activities. The firm's infrastructure is simple to operate and understand. Overheads have generally been kept under control. This area may show signs of deteriorating as the number of employees grow and as the debt levels rise, almost an inevitability given the current growth rates but Sam needs to be aware of the dangers that can arise from such a rapid expansion.

Human resource management needs addressing. Negligible staff turnover is often a sound indicator of reasonable morale and sound management. However there is a marked absence of managerial training and succession planning within the organisation. Everything depends upon Sam and Annabelle, understandable in a small and entrepreneurial company. But as the company grows there should be more rigorous structures and systems set in place.

Technology development appears to be satisfactory. There has been a large investment in warehousing, computing and in inventory control and retrieval systems. Sam realises that an efficient distribution facility is critical to the company's success and he is prepared to invest to ensure that this area does not fail him. Similarly **procurement** is central to the company's operations. The interface between suppliers and the company is seen as being of critical importance and, as such, is given high priority.

There are no obvious critical weaknesses. Overall the operations are geared towards accessing good value products as competitively as possible. The company operates with minimal overheads and aims to distribute products as efficiently as possible. Customer and supplier care are considered to be important, as is the image of the own-brand products. It appears that **Hair Care Ltd is using the value chain effectively**.

ACCA marking scheme

			Marks
(a)	Analysis of quantitative data		
	–	trend in costs	3
	–	level of debt	4
	–	range of products	3
	–	inventory levels	3
	–	non-current assets	2
	Maximum marks available for this section		10
	Future developments		
	–	exchange rates	2
	–	management succession	2
	–	relationship with competitors	2
	–	supplier rapport	2
	–	relationship with customers/branding	2
	Maximum marks available for this section		5

Stakeholder analysis usually involves some mapping of power against interest. This can be used to determine how they should be managed. The following represent the most likely stakeholders that the management of ABCL will need to manage. The suggested categorisation is arguable, so students do not have to agree completely with this analysis to gain the marks on offer.

Corporate customers: the scenario mentions that two corporate customers have recently switched their training contracts to Ecoba. They may be unsettled by the change, particularly as the person who negotiated those contracts (Gillian Vari) has now left the company. One of the customers specifically changed provider because they were impressed by the 'named' lecturers that Ecoba could provide. They would need to be reassured that these lecturers will remain under new ownership. In stakeholder mapping terms it could be argued that corporate customers have high power (because they can move their contracts elsewhere) and high interest. It is advisable for ABCL to actively manage these key players during the transition period, perhaps by appointing account managers with specific responsibility for each corporate customer.

Lecturers: these are the named 'suppliers' on contract to Ecoba. It is likely that these stakeholders will be anxious about the acquisition as they know that the two main competitors employ full-time lecturers. ABCL also employ full-time tutors in its operations in Arcadia. Lecturers will be worried that the business model of Ecoba will be changed by the new management. On the other hand, Ecoba will, at least in the short term, wish to retain these names to allow business continuity and to fulfil the expectations of at least one corporate client. This group of stakeholders might be classified as having high power (because they can work for established competitors) and some interest. A reasonable stakeholder strategy might be to keep these lecturers satisfied. An early move to prompt invoice payment may help keep them onside.

Full-time administrative staff employed by Ecoba. There is evidence in the case study scenario that administration is under pressure and this will have to be investigated. Failure to pay suppliers on time or chase up debts might be due to time pressure or incompetence. In stakeholder management terms this group can probably be defined as having high interest but very little power. They are best managed by keeping them informed about proposed changes. At most, they should be kept onside.

Individual students. This is a large, diverse group. As customers they are focused on passing examinations. Individually, they have relatively low power, and, in the context of the transition, they probably have very little interest. The size and diversity of the group make it difficult to agree a stakeholder management strategy. There could be an argument for ignoring this group completely. As long as lecturers and, to some extent, administrative staff, are properly managed then this group should see little tangible change. Minimal effort should be put into managing individual students.

EIoBA. The EIoBA run the certification scheme. They will wish to be assured that ABCL will maintain the standards achieved by Ecoba. The EIoBA is a powerful stakeholder as it could potentially withdraw accreditation. Hence it has high power. It is difficult to gauge its interest as the scenario gives little information about it. However, at worst it should be kept satisfied throughout the transition process, so that it does not become excessively interested and hence a key player in the success of the transition.

supplying computers at highly competitive prices. It must be recognised that *greenTech's* products could be sold initially at a premium price to reflect its niche position. However, if the market-place demands it, the major suppliers will have little difficulty in producing machines that directly compete with *greenTech.* The product can easily be imitated. Indeed the scenario reveals that *greenTech* already supplies two medium-sized computer manufacturers with components for green products in their range. These manufacturers might feel uneasy about greenTech becoming a significant competitor and consequently withdraw their business, so weakening this revenue stream. greenTech may be better advised to position their fully assembled computers as a complete kit, just as kit car manufacturers are prepared to provide assembled cars to customers without the time or expertise to assemble them.

Overall, Lewis-Read's proposal does not appear to be a particularly *feasible* strategy. Johnson, Scholes and Whittington suggest that an assessment has to be made about the extent to which the organisation's current capabilities (resources and competences) have to change to reach the *threshold* requirements for a strategy. In the case of *greenTech,* major investment would be required to overcome entry barriers and maintain market share. It is unlikely that the cash available would be sufficient to cope with the global players who already supply fully assembled computers.

The second suggestion, from Fenix, has many good points. *greenTech* is currently reliant on its suppliers because it lacks a manufacturing capability. It appears to make sense to move upstream in the supply chain to secure supply. Flexibility in the products supplied and reduced costs are also attractive bonuses. However, the company has grown organically and it is still run by the management team that formed it in 1990. It has no experience in acquiring companies, integrating them and running them successfully. All evidence suggests that many acquisitions do not deliver the benefits that had been claimed for them, even when they are acquired by experienced managers. Furthermore, it is likely for cost reasons that the acquired company would be in another country, perhaps creating both language and cultural difficulties. Overall, greenTech appears to be a relatively conservative, risk-averse company and so it is the unfamiliarity and risk associated with this proposal that means it should be rejected. In the terms of Johnson, Scholes and Whittington, the Fenix proposal is not a particularly *acceptable* strategy to the existing management because of the risk involved with acquisition.

Professor Ag Wan's suggestion may have won by default; after all the television show has to have a winner! However, it also has two significant strengths. The first, central to his proposal, is that it allows the company to see itself in a new and exciting way. The recognition of these core green technology and know-how competencies and their significance in an important and expanding market should be very motivating to *greenTech's* management and employees. Secondly, it has to be recognised that most of *greenTech's* current business activities are with fellow electronics companies or enthusiasts. Professor Ag Wan's proposal continues that tradition. Transactions will be business-to-business, often at quite a technical level. *greenTech* is comfortable with and experienced in such transactions. Professor Ag Wan's suggestion appears to be suitable, in that the strategy addresses the situation in which the company is operating. It is acceptable because it is in line with the expectations and values of the shareholders. Finally, it appears to be feasible as it does not require excessive funding and most of this funding is focused in one specific area: market research. The proposal is an excellent cultural fit and so was justifiably selected as the winner in the programme.

Acceptability

The acceptability of a proposed strategy is concerned with the expected performance outcomes of a strategy in terms of return, risk and stakeholder reactions. A consideration of risk is very important here.

There are a number of mismatches that need to be considered. Firstly, GET has experience of operating a rail franchise where it has total control over the track and the trains. In Raziackstan there will be a different model. Punctuality, safety and efficiency will depend on both the railway (running the trains) and the state (maintaining the tracks). Conflicts of interest and responsibility are likely. GET has no experience of working under these terms.

Secondly, GET has no experience of managing outside Rudos. There are clear indications in the scenario that both the social and industrial culture of Raziackstan is very different.

For example, railway employees perceive that a 'railway job is a job for life' and it seems likely that there will be a clash between the management culture of GET and the organisational culture of both the railway operation and SOFR. The apparent improvements in productivity may be hard to achieve. The risk is even greater at SOFR because GET has no obvious internal competencies to bring to bear. It has no experience of running an engineering company, let alone one in an overseas country with a different culture and expectations. Stakeholders in Rudos may also be concerned that the management of GET might be distracted from running the East Rudos franchise, resulting in reduced performance.

Feasibility

Feasibility is concerned with whether an organisation has the resources and competences to deliver a strategy. Financial feasibility is considered under this heading, identifying the funds required and the sources of those funds. This will be an issue for GET. Although it does have some cash, the company is already highly geared and this was identified as a potential weakness in the previous analysis. The franchise in Rudos was financed by the Bank of Rudos, but it seems unlikely that it would wish to increase its exposure, particularly to an investment in a distant country. The financial infrastructure of Raziackstan is immature and so also seems unlikely as a source of funding for GET. There are also potential financial and commercial risks that the government could change its strategy on railway privatisation and GET cannot be sure how profitable or secure its investment in Raziackstan will be in the medium to longer term. Resource deployment considers the feasibility of specific strategies by identifying the resources and competences needed for a particular strategy. For example, is it feasible for GET to establish expertise in engineering, particularly in another country where it has no experience of managing at all?

Conclusion

At first sight, the bid for the Raziackstan rail franchise and the associated purchase of SOFR appears to be a reasonable strategy. However, more detailed analysis suggests that the rationale is not as strong as it could be and there are many risks involved. Eventually, it comes down to the company's ability to find funds and its appetite for risk. In the long term it may be better for the company to await the outcome of the audit report on the failing franchises in Rudos. Bidding for these might be a more profitable and less risky strategy.

Although Johnson, Scholes and Whittington focus their definition of a CSF on the customer, other definitions are much wider. John Rockart originally defined CSFs as:

'The limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organisation. They are the few key areas where things must go right for the business to flourish.'

In practice many organisations use the term CSF for other elements of the balanced business scorecard, even though these are not directly evaluated by the customer when they are making their purchase decision. The concern, here, is that internal CSFs will only be valued by internal stakeholders and not by the customers that they serve.

A consideration of CSFs highlights the significance of Raziackstan's decision to split track provision from rail travel provision. It is easy to envisage a situation where safety is compromised by poor track maintenance and track faults lead to poor punctuality. The Rudos model seems much clearer, where responsibility is for everything within the franchise.

ACCA marking scheme

		Marks
(a)	1 mark for each appropriate point up to a maximum of 20 marks.	20
(b)	1 mark for each appropriate point up to a maximum of 16 marks.	16
	1 mark each for report structure, style, and fluency up to a maximum of 4 professional marks.	4
(c)	1 mark for each appropriate point up to a maximum of 10 marks.	10
Total		**50**

Examiner's comments

The first part of this question was answered well with some candidates getting full marks. Most candidates made good use of the financial data provided in the scenario. However, some answers, despite scoring well, displayed elements of poor examination technique that probably led to later time problems in the examination. Specifically, candidates were not required to describe selected models and frameworks in depth. Some answers described frameworks such as Porter's Five Forces at great length and this was not needed. The question requires application, not description. Secondly, the injudicious selection of frameworks often led to the same points being needlessly repeated (for example, in the PESTEL and the SWOT analysis) and marks can only be given once. Candidates are also reminded that not all elements of a PESTEL analysis are bound to appear in the case study scenario or that relevant points will be evenly spread amongst the six influences. Also, technology (in PESTEL) refers to external technological change, not to the internal technological resources of the organisation.

The second part of the first question was less well answered than the first part of the question. Many candidates struggled to impose a structure on the answer and, although many used the suitability, acceptability and feasibility framework, they often repeated themselves and failed to make enough distinct points to get the marks on offer. Surprisingly few candidates tied their answer to their strategic position analysis, the first part of the question. The proposed strategy concerns an opportunity, and candidates might have considered this opportunity in the context of the strengths, weaknesses, threats and

(ii) **Organisational culture**

Johnson, Scholes and Whittington suggest that the culture of an organisation consists of four layers. Firstly, *values* which are often written down as statements of the organisation's mission. The visionary objective of the CEO might be an example of a value. The 'mission is to deliver health to the people of Midshire and, by that, I don't just mean hospital services for the sick, but a wider vision, where health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity'. *Beliefs* are more specific and concern issues which people in the organisation can talk about. The hospital doctors appear to firmly believe that the visionary objective of the CEO is unobtainable. 'You have to realise that poor health is often caused by poverty, poor housing and social dislocation. You cannot expect MidShire Health to solve these problems. We can advise and also treat the symptoms, but prevention and cure for these wider problems are well beyond us.' *Behaviours* are the day-to-day way in which the organisation operates. Certain aspects of these become clear in the scenario describing the strategic planning project. Finally there are the *taken-for-granted assumptions* that are at the core of an organisation's culture. In the scenario there is a contrast between the CEO's vision of delivering health and the perception of hospital doctors and nursing staff that the real work is really about treating the ill.

The *behaviours* of the organisation can be explored further through selected facets of the cultural web.

The *stories* told by the hospital doctors are primarily concerned with belittling the role of the professional administrator. 'As we know,' stated one of the doctors, 'we all agree that efficiency can only be achieved through giving control and budget to the doctors, not to the administrators *who are an unwanted overhead.* This is the first step we should take.' We can assume that the chief administrator (the CEO) present at the meeting could not have missed this slight. Secondly, the planning process does not appear to be perceived as real work. During one of the meetings the hospital doctors stated that they had to leave to get back to their *real job of treating patients.* It almost appears that the hospital doctors have agreed to participate in the planning process as a damage limitation exercise, trying to protect their power and status, rather than because they have any real interest or belief in the planning process and its goals.

A definite hierarchy in the *power structures* appears to exist during meetings. When the senior hospital doctors are present, the nursing representatives side with them and provide a powerful block to any of the initiatives proposed by the CEO. When the hospital doctors are not present, the nursing representatives appear to be more conciliatory, agreeing to actions and objectives that they renege on in subsequent meetings. The opinions of the support staff are clearly not valued by the hospital doctors. The hospital doctors showed their disdain by leaving one of the meetings when the objectives and role of the support staff were discussed. Their ideas, for example for preventative care, are quickly dismissed by the powerful coalition of the hospital doctors and the nursing managers.

The activities of MidShire Health are affected by the hospital doctors who, through their powerful professional organisation, have negotiated very favourable terms of employment. Not only do they enjoy high salaries for full-time positions, but they also have the right to undertake private practice

The EcoLite has fewer parts in common with the two other cars. The EcoPlus is essentially a slightly more sophisticated car than the Eco and the delay when switching production from Eco to EcoPlus is probably relatively small. In contrast, the EcoLite has only 70% of parts in common with the two other cars which suggests that it is the obvious candidate to switch to a different plant. Overhead costs at Lags Lane should be reduced as there is no need to build and stock sub-assemblies and parts which are only used in the EcoLite. It has been suggested that there will be a $1,250 reduction in weekly overhead costs at Lags Lane if the production of the EcoLite model is outsourced.

Against outsourcing

The economic argument for outsourcing is weakened if the complete product range is considered.

	Eco	*EcoPlus*	*EcoLite*
Selling price per car ($)	9,999	12,999	6,999
Variable cost per car ($)	7,000	10,000	4,500
Weekly demand (cars)	6	5	6
Production time per car (machine hrs)	9	10	8
Contribution	2,999	2,999	2,499
Contribution/machine hour	333	300	312
Production time (hours)	54	50	48

Figure 2: Further information relevant to the outsourcing issue

At present the following production combination represents the best product mix with the limited resources. See Figure 2 for supporting information.

- Six Ecos consuming 54 hours of production contributing $17,994 (6 × $2,999)
- Six EcoLites consuming 48 hours of production contributing $14,994 (6 × $2,499)
- One EcoPlus consuming 10 hours of production contributing $2,999 (1 × $2,999)

This total contribution of $35,987 per week exceeds the estimated $35,000 per week overhead cost.

However, if the EcoLite model is made elsewhere, then the following combination of cars will be made at Lags Lane

- Six Ecos consuming 54 hours of production contributing $17,994 (6 × $2,999)
- Five EcoPlus consuming 50 hours of production contributing $14,995 (5 × $2,999)

This total contribution of $32,989 is less than the forecast $33,750 per week overhead cost.

There are also eight unused production hours. It is possible that the future of the Lags Lane production facility could be in doubt if the EcoLite model is outsourced.

The issue of the capacity of Lags Lane could be addressed by becoming a seven-day week three-shift operation (pushing capacity up to 168 hours per week) which would also allow 16 hours for maintenance, given that total demand currently comes to 152 hours. Whether this maintenance time would be sufficient would have to be investigated. There still remains, however, the problem of finding skilled labour in the Midshire area.

Finally, the companies order forward order book has also reduced over the period. In 2007 it stood at 73% of sales revenue. This has declined to 37% by 2010.

The overall financial picture is of a company that failed to control costs as it sought increases in revenue. This appeared to work relatively well whilst revenues were increasing (the company was profitable in 2007, 2008 and 2009) but it was a problem as soon as revenues dropped. Costs were not cut at the same rate as revenue decline, leading to a trading loss in 2010.

(ii) Ray Edwards has effectively undertaken an informal time to payback calculation. His assertion that the machine will pay for itself after five years is correct. A more formal representation of the approach is given below.

All figures in $000s

Year	*0*	*1*	*2*	*3*	*4*
Brought forward	76	60	42	22	
Cost of the machine	90				
Maintenance costs	5	5	5	5	5
Reduced staff costs	15	15	15	15	15
Reduced wastage	2	4	6	8	10
Energy savings	2	2	2	2	2
Carried forward	76	60	42	22	0

There are two issues that need further consideration. The first concerns the approach to investment appraisal. Time to payback is a legitimate approach, but Ray has to be sure that it is a reasonable way of evaluating project investment in the context of NMS. It does not take into account the time value of money and so future cash flows are not discounted, unlike the Net Present Value (NPV) approach. This is significant here, because most of the cash outflows of the project are almost immediate (half of the costs are incurred in year zero), whilst significant benefits do not accrue until years three and four. If time to payback is acceptable, then Ray has to consider whether the payback time (five years) is acceptable and, more importantly, whether there other investments within the company which might pay back sooner, given that projects will be competing for limited resources.

Secondly, the costs of buying the new machine are very tangible. However, Ray's classification of benefits requires further consideration. Although all three categories of benefit have been given a financial value, these values are not of the same degree of reliability. Ray has already calculated that less labour is needed to use this machine and has estimated a reduction of $15,000 per annum based on observed performance. This appears to be a relatively tangible financial benefit. In Ward and Daniel's term this is a quantifiable benefit, because sufficient evidence exists to forecast how much benefit should result from the change. Wastage is currently being measured in NMS, but there is a risk of transferring the manufacturer's claims of savings of 'up to 10%' directly to the NMS environment. It is impossible to predict how much will be saved in advance in the specific context of NMS. It will be possible to measure reduced wastage once the machine has entered into service, but it is difficult to predict accurately in advance. In Ward and Daniel's terms this is a measurable benefit for which a reliable measure currently exists and the improvement can be measured once the machine is working.