Mock Two

Business Analysis

P3BA-MK2-Z17-A

Answers & Marking Scheme

Paper P3

BECKER PROFESSIONAL EDUCATION®

Tutorial note: *These model answers are considerably longer and more detailed than would be expected from any candidate in the examination. They should be used as a guide to the form, style and technical standard (but not length) of answer that candidates should aim to achieve. However, these answers may not include all valid points mentioned by a candidate – credit would be given to candidates mentioning such points.*

1 SHIRTMASTER GROUP

(a) Strategic position

REPORT

To: The Senior Management Team, Shirtmaster Shirts Co
From: An External Consultant
Date: December 2017
Subject: Strategic position of the Shirtmaster Group

Introduction

This report considers the strategic position of the two divisions, Shirtmaster Shirts (SS) and Corporate Clothing (CC). Our analysis of the strategic position involves examining both internal strategic capabilities and external factors.

SS division internal analysis

SS has an established premium brand in Homeland, although it appears that this brand may have become rather dated. Current trends appear to show that the high street is now dominated by a number of new international brands. As such, it is probable that the "Shirtmaster" brand is not a great asset.

SS has the ability to respond quickly to changes in demand, and the division is able to introduce new designs throughout the year, due to the high levels of inventory. While the ability to be flexible to changing needs of customers is clearly good, it has led to high costs in terms of inventory holdings and obsolescence. It also puts the design team under a lot of pressure. Perhaps the benefits of this strategy do not justify the additional costs.

The shirts are manufactured in Homeland. While this is likely to result in higher costs, SS might be able to use this as a marketing message – perhaps associating home manufacture with higher quality or tradition. It is not clear that this potential strength has been realised.

SS has built up good long-term relationships with a network of small independent retailers. However, those retailers are declining in both number and market share as the large specialist retailers have come into the market.

The depth of management in the company is weak. Tony Masters dominates all decision making. Tony has been very conservative in his decision making and has failed to respond to changes in the environment or to identify alternative opportunities, such as selling online.

SS division – external analysis

First, it seems that threat of new entrants is high, as demonstrated by the new nationwide chains of specialist retailers, which develop quickly. SS's own brand does not appear to have acted as an effective barrier to entry.

SS's current customers consist of small independent retailers. They make large demands on SS, buying in small quantities and requiring new shirt designs throughout the year. This does suggest that they have a strong bargaining position over SS, perhaps because of alternative sources of supplies, or because SS does not have alternative distribution channels.

The competitive rivalry in the industry is clearly high. There is high competition within the department stores where premium branded shirts are sold, and the high streets and malls are dominated by new premium brand clothes shops that sell only their own branded products. These shops are putting great pressure on the independent retailers to whom SS sells.

An alternative market might be the supermarkets who are selling clothes – however, they are selling at the cheaper end of the market, so this would require SS to be able to compete as a cost leader – something that is very unlikely given the current nature of the company's value chain.

CC division

The corporate clothing division has managed to identify a new niche market for workwear that it is exploiting successfully. CC has won many contracts, which suggests that it has the knowledge and experience of this niche to serve it well, and it is building up a reputation.

This niche market appears to be growing, helped by the awareness of employers of the increasing importance of image. CC has plenty of opportunity to grow with the market. CC's share of the domestic market was only around 2.5% in 2016.

The division has built up good relationships with innovations such as the ability to distribute personalised workwear directly to customers' employees to demonstrate its commitment to meeting the needs of these customers.

The division has invested heavily in computer systems such as computer-aided design that allow it to continually update designs to meet the needs of customers. This should lead to customer loyalty and satisfaction, so providing a stable stream of revenue in the future.

Conclusion

There is cause for concern in the SS division, which has failed to change as the external environment has changed. That division needs to establish a new strategy to compete in the world that it finds itself in, which is very different when the company was founded. The CC division on the other hand has established a good and growing niche market, and is serving this very well.

Tutorial note: *The requirement did not ask for the use of any particular model(s). However, candidates would have been given credit for solutions that used appropriate models. SWOT analysis could have been used to analyse the strategic positions. Porter's five forces model could have been used to analyse the external environment – however, limited information was given in the scenario so it would not have been easy to comment on all the five forces – there is little information at all about the external environment for CC, and no information about the bargaining power of suppliers, for example. A flexible approach is needed in tackling such questions.*

(b) Financial position

Overall

The overall picture is not very positive. Revenue has declined by 14.3% between 2014 and 2016, while net profit has fallen by 4.5% over the same period. The fall in revenue is entirely due to the SS division, as revenue actually rose in the CC division. By 2016, the revenue of CC is more than that of SS for the first time. These trends are discussed in more detail by division.

SS division

The revenue of the SS division fell by 30.4% between 2014 and 2016, which is a significant amount. This most likely reflects the fact that the independent retailers to whom the company sells are facing competitive pressure from the new nationwide specialist retailers. This demonstrates the need to identify a new market for the company's products.

The gross profit margin also fell from 25% in 2014 to 20.3% in 2016, which could either mean that the company is cutting prices as demand slows, or that prices are remaining stable while costs are increasing as a portion of revenue. The latter seems the most likely, given the high cost base of the division, much of which is probably fixed – such as the annual trips to Asia to buy new materials.

Inventory levels are also rising, demonstrating the problems of excess inventory. This can be demonstrated by inventory days, which has risen from 66 days in 2014 to 134 by 2016. It seems that Tony is still ordering the same amount of inventory each year on his trips to Asia, in spite of the fall in demand for the shirts. This will lead to increased costs of obsolescent inventory.

The division made a small loss in all three years. Given the decline in revenues and gross profit, the increase in the loss was fairly small in absolute terms, rising by $0.5 million compared to a fall in gross profit of $1.6 million. Marketing, distribution and administration costs have all been cut. Of these three, marketing expenses fell the most. The decision to cut back on marketing may not have been a wise one, given the current decline in revenues.

Overall, the financial performance of the SS division is declining, due to the loss of its core market and the failure of management to respond to this.

CC division

In contrast to the depressing picture provided by the performance of the SS division, the CC division shows a successful performance. Revenue has increased by 8.8% between 2014 and 2016. This reflects the success that the division is having in servicing its niche, and increasing its reputation among its target customers.

Gross margins have remained fairly stable, reinforcing the message that this niche business is a good area to be in. There is no need to cut selling prices to increase revenue. It is also noticeable that the gross margins are higher than those obtained by the SS division, which is surprising given that the SS's products are supposed to be aimed at a premium market.

Inventory days have fallen from 49.8 days to 41.7 days between 2014 and 2016. These levels are below those of SS, demonstrating better control of inventory.

Although the revenues of the SS and CC divisions are fairly similar, spending on marketing, distribution and administration is much lower in the CC division. Total spend on these areas was $1.2 million in 2016, representing 10.8% of revenue, compared to the SS division, which spent 28.2% of revenue on these areas in 2016. This suggests greater cost control.

Overall, the CC division has returned a net profit of 26% of sales in 2016, up from 24.5% in 2014. The profit of $2.9 million in 2016 more than compensated for the loss made by the SS division, this enabling the company as a whole to make a profit.

(c) Benefits of a strategic alliance

Johnson, Scholes and Whittington define a strategic alliance as "where two or more organisations share resources and activities to pursue a strategy". There are a number of types of alliance ranging from a formal joint venture through to networks where there is collaboration but no formal agreement. The type of strategic alliance will be affected by how quickly market conditions are changing – swift rates of change may require flexible less formal types of alliance and determine whether specific dedicated resources are required or whether the partners can use existing resources. Johnson, Scholes and Whittington argue that for an alliance to be successful there needs to be:

- a clear strategic purpose and senior management support;
- compatibility between the partners at all levels – this may be complicated if it is a cross-border alliance;
- time spent defining and meeting performance expectations including clear goals, governance and organisational arrangements; and
- trust in terms of both respective competences and trustworthiness.

The advantages that may be gained by a successful strategic alliance include creating a joint operation that has a "critical mass" that may lead to lower costs or an improved offer to the customer. It may also allow each partner to specialise in areas where they have a particular advantage or competence. Interestingly, alliances are often entered into where a company is seeking to enter new geographical markets, as is the case with both divisions. The partner brings local knowledge and expertise in distribution, marketing and customer support. A good strategic alliance will also enable the partners to learn from one another and develop competences that may be used in other markets. Often firms looking to develop an e-business will use an alliance with a partner with experience in website development. Once its e-business is up and running a firm may eventually decide to bring the website design skills in-house and acquire the partner.

Disadvantages of alliances range from over-dependence on the partner, not developing own core competences and a tendency for them not to have a defined end date. Clearly there is a real danger of the partner eventually becoming a competitor.

In assessing the suitability for each division in using a strategic alliance to enter European markets one clearly has to analyse the very different positions of the divisions in terms of what they can offer a potential partner. The earlier analysis suggests that the SS division may have the greater difficulty in attracting a partner. One may seriously question the feasibility of using the "Shirtmaster" brand in Europe and the competences the division has in terms of manufacturing and selling to large numbers of small independent domestic clothing retailers would seem inappropriate to potential European partners. Ironically, if the management consultant recommends that the SS division sources some or all of its shirts from low cost manufacturers in Europe this may provide a reason for setting up an alliance with such a manufacturer.

The prospects of developing a strategic alliance in the CC division are much more favourable. The division has developed a value added service for its corporate customers, indeed its relationship with its customers can be seen as a relatively informal network or alliance and there seems every chance this could be replicated with large corporate customers in Europe. Equally, there may be European workwear companies looking to grow and develop who would welcome sharing CC division's expertise.

Appendix – calculations relevant to part (b)

	2014	*2015*	*2016*
SS division			
Gross margin			
= (Gross profit ÷ Total sales) × 100	25.0%	22.2%	20.3%
	(3.7 ÷ 14.8) × 100	(2.8 ÷ 12.6) × 100	(2.1 ÷ 10.3) × 100
Inventory days			
= (Inventory ÷ Cost of sales) × 365	66 days	82 days	134 days
	(2.0 ÷ 11.1) × 365	(2.2 ÷ 9.8) × 365	(3.0 ÷ 8.2) × 365
CC division			
Gross margin	35.3% (3.6 ÷ 10.2) × 100	37.5% (4.2 ÷ 11.2) × 100	36.9% (4.1 ÷ 11.1) × 100
Inventory days	50 days (0.9 ÷ 6.6) × 365	52 days (1 ÷ 7) × 365	42 days (0.8 ÷ 7) × 365

Percent changes in revenues and costs between 2014 and 2016

SS Co – revenue ((21 – 24.5) ÷ 24.5 × 100)	14.3% fall
SS Co – net profit ((2.1 – 2.2) ÷ 2.2 × 100)	4.5% fall
SS division – revenue ((10.3 – 14.8) ÷ 14.8 × 100)	30.4% fall
CC division – revenue ((11.1 – 10.2) ÷ 10.2 × 100)	8.8% rise

2 ABC SUPERMARKETS

(a) Business Process Re-engineering (BPR)

BPR is the fundamental re-thinking and rational design of the business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service and speed.

The tendency in the past has been to simply automate processes that were traditionally performed manually; this led to the development of information systems that may be less than effective. Worse still, they may be hindering the competitive advantage they once gave the organisation. In order to regain competitive advantage, rather than improve the current information systems, it may be more effective to change the way that the organisation actually goes about its business and provide a system or systems to support this new approach.

A central notion of BPR is to ask radical questions about why things are done in a particular way and whether alternative methods could achieve better results. BPR is undertaken to achieve order-of-magnitude improvements over the "old" form of the organisation. It is competitive restructuring that forms the current focus as distinct from competitive gain. At the heart of BPR is the notion of discontinuous thinking, of recognising and breaking out-of-date rules and assumptions that underlie current business operations.

A business strategy that involves the development of a virtual supply chain encompasses most of the ideas underpinning BPR. For many businesses it requires a radical rethink of the current methods employed in the supply chain. Theorists and practitioners alike, state the importance of restructuring bad purchasing practices. They see BPR as the only viable way to ensure organisations can receive the savings of up to 90% they perceive as possible. Without these changes, no real benefit can be gained because essentially a new way of doing business is being sought whilst still using old methods. Organisations have to be prepared to embrace change, as it will bring the benefits so clearly and readily available. The majority of businesses have existing supply chains where radical re-design can apply. The various stages in the supply chain requiring communication and transfer of data/information make it appropriate to re-design using new technologies.

Often cited examples of the implementation of virtual supply chain systems include Tesco and Walmart, who are seen as revolutionising supermarket trading.

(b) Supply chain and virtual supply chains

A supply chain is the physical entities required to supply goods or services to the customer. Those entities will include manufacturing places, distribution centres, retail outlets and couriers, etc who handle the goods or knowledge en route to the final customer.

Reference may be made to Porter's value chain model, where the primary activities relate to the major components of the supply chain. Primary activities are those activities involved in the physical creation of the product and its sale and distribution to the buyer as well as after sales service. These are the activities that add value to the product or service.

The supply chain is often viewed as the core component of E-business. Supply chain management is the coordination of all supply activities of an organisation from its suppliers and partners to its customers. Basic models of supply chains identify three main components: Supplier – Organisation – Customer. Realistic advanced models depict a rather more complex model: Supplier – Intermediaries – Organisation – Intermediaries – Customers. The additional intermediaries may well form several links in the chain. By applying information systems, companies can enhance or radically improve many activities in the supply chain.

There are four main characteristics of supply chain: location, manufacturing, inventory management and distribution. Each of these is linked together in the supply chain. The virtual supply chain is a reworked model of the existing supply chain. Old supply chains are often defined as being composed of distinct and independent components; each operated in an insular fashion. Virtual supply chain combines interaction with integration, seeing all organisation components becoming an integrated part of the supply chain as a whole and each component interacting fully with other components. Essentially the underlying feature of the virtual supply chain is communication.

A virtual supply chain implies using advanced technologies to coordinate the activities within the supply chain. These technologies tend to be allied to the umbrella term web based technology. The use of the internet, intranet, extranet, e-mail, web-based ordering, electronic order tracking systems etc have played a major role in facilitating new virtual models of the supply chain. By applying information systems, companies can enhance or radically improve many activities in the supply chain.

Advanced communication systems have permitted organisations to deal directly with some of the elements of the supply chain, thus in some cases eliminating subsidiary elements altogether. Benefits of deploying these technologies include:

- more efficient, lower cost execution of processes;
- reduced complexity of the supply chain (disintermediation);
- improved data integration between elements of the supply chain, enabling innovation and customer responsiveness.

Globalisation also requires a re-design of the supply chain. Globalisation in terms of a virtual supply chain gives the potential for business to be spread out over a wider geographical region than normal supply chains would have permitted. In the globalised world, where businesses are becoming more organised and streamlined so too does the supply chain. E-supply chain ensures supply chain efficiency on a global scale. Increased competition is characterised by the many new entrants into markets, creating the need for organisations to become “cutting-edge” to withstand competition. This means enabling shorter product lifecycles to get products to market faster.

Specific examples

Some companies use the internet while others rely on Electronic Data Interchange (EDI) via networks or extranets for direct computer-to-computer exchange of business transactions and documents with their business customers and suppliers. An example of the extended use of EDI is Walmart who as part of their business strategy (procurement) allow suppliers to have access to their inventory control system – when inventory falls to an agreed level the suppliers automatically replenish the inventory items. The onus is now on the supplier to provide the goods, not on the customer to order the goods. This occurs without any formal human interaction. Orders, delivery notes and payments are handled in a similar fashion.

Payment management can be made more efficient by using Electronic Funds Transfer (EFT) to link all companies in the supply chain so that payments can be sent and received electronically.

(c) Four business strategies

(i) Domestic exporter

In this strategy, most of the global corporate activities are actually centralised in the "home" country, the main trading location of the organisation. The main corporate functions such as accounting, marketing and human resources are run from one central base, with local sales strategy in each country being determined from this central location. This approach leaves very little autonomy for subsidiaries in other countries. Thus, control is heavily centralised in one location.

(ii) Multinational

The multinational strategy is to concentrate some activities centrally while allowing other functions to be carried out at the individual country level. Centralised activities normally include financial management and recommendations for control in other areas such as human resources. Control of other activities such as production and marketing is devolved to the individual country level. This devolvement enables the company to develop flexible strategic policies to take advantage of "local conditions". Many financial service firms and manufacturing companies adopt this strategy.

(iii) Franchiser

This strategy usually begins with a product or service being successfully developed in one country, within that country the company expands using the same format (e.g. shop design, restaurant layout, similar promotions, etc). The company then expands into the international arena permitting individuals to market the product or service via franchise agreements these agreements normally stipulate that certain customs, policies and standards will be maintained. For practical reasons the franchisees are permitted to organise production and certain functions locally. For example, the main McDonalds product is designed in the USA: however, as the raw materials for producing the goods have to be obtained locally due to transport costs and practicality, then local control is accepted for procurement and manufacture of the product. Human resources and marketing are also carried out within the individual country to meet the specific conditions in that country.

(iv) Transnational

A transnational company has no national headquarters; activities are managed on a global basis without reference to national boundaries. Each country or region will have some form of central accounting and control base and there may be a central HQ to provide some element of overall autonomy and control, but the organisation is still managed as one large global unit. Certain activities that add value to the product or service provided is managed from a global view taking advantage of services required wherever they are available. These types of firms take the globe, not a home country, as their management frame of reference. Not many companies can currently be categorised as being truly transnational, several companies are however adopting strategies that will enable them to become transnational.

3 ELECTRON

(a) Driving and restraining forces

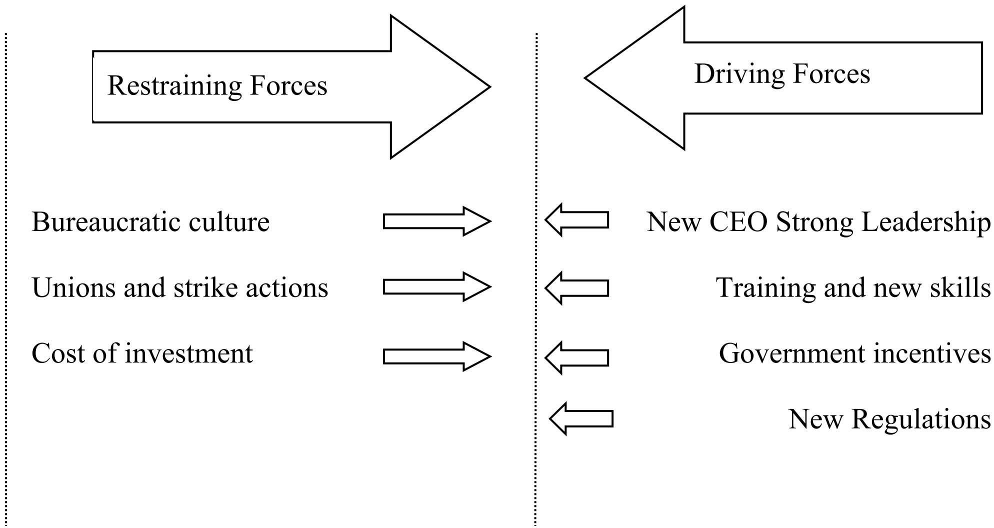
Lewin argued that organisations should consider change in terms of:

- factors which encourage and facilitate change (the driving forces);
- factors that inhibit change (the restraining forces).

Change can only happen successfully if the driving forces are greater than the restraining forces. Therefore, Electron needs to evaluate both the restraining and driving forces and ensure that the driving forces are strengthened and the restraining forces are weakened or removed.

The diagram below highlights the main driving and restraining forces, with the arrows indicating the forces exerting the main pressure on the change process:

Ideal State **Current State**



Driving Forces

The new CEO is a key driving force behind the change to wind based electricity production as, without him, the old ways of operating would have continued. It will require his continued drive, commitment and leadership to ensure that this change occurs and is successful. Therefore, his commitment to the strategy and drive should be a major force for change.

In addition, the Government and legislation are a major driver of change, as it would appear that Electron has little alternative but to ensure that it undertakes low carbon electricity delivery. In addition, the Government is trying to drive though change more effectively through improved processing of planning applications, which should increase the success of the planning process. Therefore, as a driving force, the Government are likely to be the strongest force for change.

A further driving force is Electron's customers. They are increasingly demanding low carbon energy sources and, should Electron not provide this, then they are willing to move to other energy generators. This is clearly not sustainable for Electron and it must make sure it retains its customers in such a highly competitive market. It is likely that their strength as a driving force will grow and become more significant as competitors move more towards low carbon energy production.

Restraining Forces

The attitude of the engineers and the unions could be a major restraining force for Electron. Should strike action occur, this will be very costly, but increased wages would make Electron uncompetitive. This will be a significant opposing force as the unions are clearly not afraid of taking strike action. However, Electron needs to manage this force carefully in order to reduce its impact by clear and open communication with staff regarding the future viability of Electron.

The current bureaucratic management structure may also make change difficult, as management is likely to resist any changes to working arrangements and "the way we do things". Cultural change is always likely to be very difficult and a slow process to change. However, as a restraining force, this should be something that Electron can manage if it clearly communicates the importance of the change to staff.

The slow planning processes are not likely to be highly significant as the Government is introducing legislation to speed up the application process. However, local residents concern for their local environment could be a major concern for Electron, as they may become powerful stakeholders who could lobby Government to relocate wind farms elsewhere in the country. Therefore, local residents could become a powerful restraining force if they form alliances and lobby Government.

Management of the Forces

Electron is trying to move towards its ideal state of being a wind powered electrical generating company. Electron must ensure that it strengthens its driving forces and weakens or eliminates the restraining forces. Therefore, it must ensure that all legislation is adhered to and the benefits of training and restructuring are communicated to staff. In addition, customers must also be made fully aware of Electron's strategic development towards generating electricity from low carbon sources.

Tutorial comment: *The solution above refers to Lewin's force field analysis model as this is widely used to analyse the forces in a change management situation. Candidates would not be penalised for not using or referring to this model.*

(b) Type of change

Change can be classified in terms of the speed of change (i.e. whether it is a "big bang" all at once change versus an incremental, step by step approach) and the extent of change (i.e. it results in an overall transformation of the organisation's paradigm or merely a realignment of its existing operations and assumptions). Balogun and Hope Hailey identified four main types of change based upon these classifications:

The changes currently occurring in Electron could be classified as **Evolutionary** as the nature of change is likely to be incremental and occur over a period. It will result in a change of paradigm for Electron as it will transform Electron.

Nature of change		*Scope of change*	
		Realignment	*Transformation*
	Incremental	**Adaptation**	**Evolution**
	"Big bang"	**Reconstruction**	**Revolution**

(c) Contextual features and their effect on the introduction of strategic change

The contextual features model was devised by Balogun and Hope Hailey to describe the situational factors within which change occurs. These will have a large impact on how easy the change is to manage and therefore how likely it is to succeed. The contextual features are:

- Time
- Preservation
- Diversity
- Capability
- Capacity
- Readiness
- Power
- Scope

The meaning of these and their impact at Electron are discussed below:

Time

Time refers to how quickly the change must be achieved. Generally, if the change has to be effected quickly (e.g. because the organisation is at risk of failure) there will be little time to plan the change sufficiently. In the case of Electron, there is not pressure to introduce the change to low carbon energy immediately – the government's appears to be encouraging, rather than forcing generators to switch to alternative sources, and the CEO also recognises that change will not occur overnight. This is positive as the organisation can plan and control the change much more carefully.

Preservation

This refers to those resources or competencies that an organisation has that must not be lost during the process of change. There seems to be little at Electron that needs to be preserved, and much that needs to change. Possibly the skills and knowledge of the engineers needs to be preserved, but those engineers appear resistant to the change and it may be advisable to consider replacing them if engineers with similar skills are available on the labour market.

Diversity

Diversity refers to the diversity of experience within the organisation. If the organisation includes people with a more diverse range of experience and opinions, then it will be easier to drive new change. If the experience is more uniform, perhaps because the organisation has been pursuing an accepted strategy for a number of years, and there is a set of entrenched beliefs within the organisation, then change will be more difficult. At Electron, there appears to be little diversity – the organisation has been generating electricity for years using fossil fuel; the old CEO was sceptical about the move towards low carbon sources of energy, and the organisation has always been resistant to change. Similarly, the Unions are resistant to changes to working practices. So there is little diversity of experience at Electron. This will need to be overcome.

Capability

Capability refers to having the capabilities to support change. With the exception of the new CEO, the existing management have little experience of change management, and therefore are unlikely to be the best people to lead it. It may therefore be necessary to use external consultants.

In terms of resources, the change will require a large investment in new machinery and in training staff to work with it.

Capacity

This refers to whether the organisation has the financial and management resources required to carry out the change. In the case of financial resources, it will be necessary to make large investments in new plants to generate electricity using low carbon resources. While no information is given in the scenario about the organisation's financial resources, it is mentioned that the government is providing incentives for companies that invest in green energy.

If an organisation has the capability to manage change, it may or may not have the capacity, depending on how much management resource is available. If the organisation does not have the capability to manage change then it cannot have the capacity, and this appears to be the case with Electron. Some management changes will be necessary for the change.

Readiness for change

This looks at how ready the organisation is for change. It can been seen from the scenario, and from the discussions on field force analysis in part (a) that the organisation appears far from ready to accept change. The existing management have always rejected change, and the engineers do not like any changes to their working practices.

Power

For change to be successful there has to be a powerful person in the organisation pushing the change. In the case of Electron, there is such a person – the new CEO. Without the support of the other members of the board of directors however, this may not be sufficient. The CEO will have to persuade the other members of the board of the importance of change – indeed he has already started to try to do this.

Scope of change

This relates to the type of change required, transformational change or realignment, and whether a big bang approach is required or an incremental change is sufficient. As discussed in part (b), the nature of the change is transformational, which means it will require a change in the paradigm – that is the entrenched beliefs and culture of the organisation. That is clearly more difficult than a realignment. Fortunately, incremental change is sufficient rather than a big bang approach, and this allows the organisation to plan the change more thoroughly which should lead to a better thought out change.

Conclusion

In conclusion, the context within which change will occur at Electron will not make the change easy. A large change is required in an organisation with little experience of change, and little willingness to change. The new CEO will have a challenge trying to persuade the board and staff or Electron of the need for change. On the positive side, there is time, as the change is not required overnight.

4 INSTITUTE OF ADMINISTRATIVE ACCOUNTANTS

(a) Business case evaluation

Benefits

Reduction in venue and invigilation costs

Approximately 70% of these costs are associated with the foundation level examinations. Using internet-based assessment (anytime, anyway, anywhere) the IAA will reduce costs which the scenario suggests are currently increasing. This is particularly significant for smaller centres which only offer foundation level examinations. These smaller centres have long been acknowledged to be uneconomic and have only been retained because of the IAA's accessibility objective.

Reduction in financing costs

The accessibility of foundation level examinations throughout the year should help address the cash flow problems associated with two large diets of examinations. The scenario suggests that the association uses its $5m loans and overdraft facility for at least four months of the year, incurring bank charges of $350,000 in the last financial year.

Reduction in marking costs

Moving the foundation examinations to on-line multiple choice assessment will eliminate marking costs completely for examinations at this level. The candidate's answers are automatically marked and the result presented within seconds of the paper being completed.

Elimination of checking costs

These are eliminated at both foundation and advanced levels. At the foundation level, multiple-choice examination answers require no checking at all. At the advanced level, on-line marking software accurately totals the marks allocated to each question, so no manual checking process is required.

Reduction in central administrative costs

In the current system, temporary administrative employees are employed in peak periods to help with processing results. Using on-line multiple choice examinations for the foundation level examinations should reduce the need for temporary staff.

Elimination of courier costs

Courier costs (from invigilator to marker and from marker to IAA central checking) will be eliminated, delivering considerable savings.

The benefits identified above have all been concerned with cost reduction and should be relatively easy to quantify. There may also be benefits associated with the following.

Increased fee income

The anytime, anyway, anywhere principle of the foundation examinations may lead to more students registering all over the world.

The ability to process results quickly may tempt students to study with the IAA, rather than competitors. This may again lead to increased income.

Costs

Security costs

The removal of formal twice-yearly foundation level examinations creates significant security issues. It is not clear if the head of education has yet recognised these issues and it may not be technically feasible to address them. They are listed here as costs, because if the problems can be solved it will be at a cost. Three immediate problems to overcome are:

- Ensuring that the specified candidate has taken the examination and that they have not employed a more able substitute to take their place. At present, the invigilator checks the validity of the identification presented. It will be costly for the IAA to guarantee that personal identification checks are in place in all places and at all times when examinations are being sat.
- Ensuring that the candidate does not consult books and texts during the examination. Again, it will be costly to ensure that candidates are checked for the presence of such materials whenever and wherever these examinations are taken.
- Ensuring that all centres used for on-demand examinations can be trusted not to assist candidates, many of whom may be students who are being taught at the venue, or employees whose employers want them to pass so that they qualify sooner.

Hardware costs

This is the cost of the computers that will be used for the advanced examinations. It is likely that these will be rented. Appropriate word processing software will have to be available on these computers. Support will have to be provided during the examination.

Software licence costs

Software licence costs will be associated with the software for delivering the multiple-choice examinations and for the on-line marking of the advanced examinations. There will be initial purchase costs and continuing support costs for both of these applications.

Increased setting costs

There is likely to be a significant one-off cost in producing a large enough bank of multiple-choice questions for the foundation examinations. These questions will also need continuing review and renewal.

On-line support costs

Anything relying on technology requires back-up and support teams that can react when that technology fails, particularly during an assessment session. The provision of support incurs a continuing cost.

Redundancy costs

There may be redundancy costs associated with reducing the number of internal IAA staff required for checking.

Some of the costs incurred above are capital costs which have to be incurred to launch the e-assessment process. The IAA is not cash rich and so the launch of e-assessment will incur significant initial financing costs.

(b) Characteristics of building a business case

Business case development

There are still significant cost issues that need to be considered, particularly concerning the delivery of appropriate security. The requirement to define a formal business case will mean that the head of education will have to quantify the amount and timing of costs and benefits. Dependent on the investment appraisal method used, this will lead to a suggested time to payback, an Internal Rate of Return (IRR) or a Net Present Value (NPV) for the project. Such quantification will be particularly valuable where costs and benefits are difficult to define because of the intangible nature of the benefit or issue. For example, the potential benefit of attracting more students and the potential cost of providing adequate security requirements for on-line assessment require considerable definition. The need for a formal business case will force the head of education to define the features of the project more accurately and with that precision will come a realistic assessment of costs and benefits. It will also allow the project to be compared with other projects that might be considered by the IAA as well as seeing whether it is feasible overall, given the Institute's cash flow problems.

Benefits management

Managing the benefit through the progress of the project ensures that it remains on track to deliver value to the organisation. During the conduct of a project, there are often changes in requirements, and these are particularly likely in a project as innovative as e-assessment. Without proper benefits management the initial business case might not be re-visited and so costs may soar and the proposed benefits may not materialise. Consequently, even if the justification of the project was initially "self-evident", benefits management would be necessary to ensure that justification remained.

Benefits realisation

Finally, a formal benefits realisation review should take place sometime after the project has been completed and the product (in this case e-assessment) has been implemented. It will assess whether the benefits promised in the original business case have actually been delivered. One of the primary advantages of benefits realisation is that it forces the sponsor to carefully define the nature, timing and value of each benefit that is being claimed. It thus provides a yardstick against which success can be monitored.

Conclusion

The business sponsor at IIA is extremely enthusiastic about e-assessment and this could easily lead to it being adopted without careful consideration of the costs and benefits. The existence of a business case and benefits management programme is that the business case will have to be carefully defined and its validity monitored throughout the process, culminating in a formal review. Organisations where such a process is missing often adopt projects based on enthusiasm and political will, usually to the long-term detriment of the organisation. The expectation that the sponsor will be formally held to account for the delivery of the benefits is a good discipline. It should discourage the development of business cases based on spurious benefits which are unlikely to be delivered.

Marking Scheme

1 SHIRTMASTER GROUP

(a)	SS division		
	Up to 2 marks for each strategic capability discussed	8	
	Up to 2 marks for each factor relating to the external environment	6	
	CC		
	For identifying a niche marketing (focus) strategy	2	
	For discussing the potential of the market for CC	2	
	Up to 2 marks for each additional capability discussed	4	
		——	max 18
	Professional marks:		
	Report format (To, From, Date Subject – do **not** award the mark if any of these are missing)	1	
	Introductory paragraph	1	
	Conclusion – this must contain some substance – not merely "please contact me should you have more questions")	1	
	Use of professional language	2	
	Structure of the answer – use of sub headings, short paragraphs	1	
		——	max 4
(b)	Financial Position		
	Up to 2 marks for overall comment	2	
	SS – up to 2 marks per comment	6	
	1 mark for each ratio calculated (for all three years)	2	
	CC – up to 2 marks per comment	6	
	1 mark for each ratio calculated (for all three years)	2	

Marker's note: *Award marks for comments as follows:*

½ mark for saying what happened
1 mark for explaining/relating to the scenario
½ mark for an opinion

		——	max 13
(c)	Up to 3 marks for general discussion about the nature of strategic alliances	3	
	Up to 3 marks for each advantage of an alliance	max 9	
	Up to 3 marks for each disadvantage of an alliance	max 9	
	3 marks per full point (1 for explanation, 1 for relating to LT)	——	max 15

Marker's note: *Award marks for advantage/disadvantage as follows:*

1 mark for explaining how the alliance would work
Up to 2 marks for stating the advantage/disadvantage

Total	**50**

2 ABC

(a)	Up to 2 marks for each point made and then explained. The model answer would be marked as follows:		
	General description of business process reengineering approach	2	
	Explain aim to avoid simply automating existing business processes	2	
	Explain aim to find better ways/cut out non value adding processes	2	
	How virtual development of virtual supply chain at ABC supermarkets Incorporates BPR:		
	Radical re think about current methods	2	
	Relevance of BPR to purchasing practices	2	
		——	max 8
(b)	Up to 3 marks for describing the supply chain	3	
	– Up to 2 marks each for describing the major activities	4	
	– Up to 3 marks for describing the use of IT	3	
	– Focused promotion and communication		max 9
(c)	Up to 3 marks for describing each of the four forms		max 8
			25

3 ELECTRON

(a)	Up to 2 marks for identifying and evaluating each force		6
(b)	Correct speed of change (incremental)	2	
	Correct scope of change (transformation)	2	
	Therefore correct type of change (evolution)	1	
		——	5
(c)	For each contextual feature:		
	1 mark for explaining the meaning and relevance	8	
	1 marks for discussing the context at Electron	8	
		——	max 14
			25

4 IAA

(a)	Benefits and costs of adopting e assessment		
	Up to 2 marks for each benefit	8	
	Up to 2 marks for each cost described	8	
		——	max 15
(b)	Why items are essential		
	Up to 4 marks for business case	4	
	Up to 4 marks for managing benefits	4	
	Up to 4 marks for benefits realisation	4	
		——	max 10
			——
			max **25**
			——

Markers' note: *To get four marks for explaining why each of the above is essential, the following structure is suggested:*

1 mark for explaining what the item is; and
Up to 3 marks for explaining how it helps to ensure that only worthwhile projects go ahead.

Q	Part	Topic	SS ref	RQB	Commentary
Section A (Compulsory) – 50 marks					
1	(a)	Strategic position	Sessions 2–4	Q12 (a) Moor Farm	This question required students to assess the strategic positions of two divisions of a clothes manufacturing company. Good candidates discussed both internal strengths and weaknesses as well as the external environment. They also analysed the information in the scenario, adding value rather than simply repeating what was already stated. Poorer candidates focused mainly on the external environment using PESTEL analysis or Porters five forces. Strategic analysis also includes *internal* factors. Some candidates also simply repeated information from the scenario. A good answer takes information and then discusses the implications of it.
	(b)	Financial position	Session 18	Q38 OneEnergy	This part required an analysis of the financial performance of the two divisions and produced some excellent answers. Good candidates were able to identify the key financial ratios and discuss the "story" behind these. Poorer candidates limited their comments to stating whether ratios had increased or decreased over the period without offering further insight.
	(c)	Strategic alliances	Session 8	Q19 Graffoff	This part required an evaluation of strategic alliances and how they could have been used by Shirtmaster. There were some good answers, which demonstrated the advantages and disadvantages of strategic alliances to Shirtmaster. Weaker answers gave a list of generic advantages and disadvantages, with no attempt to apply these to the company in the scenario.

Q	Part	Topic	SS ref	RQB	Commentary
Section B (2 from 3) – 50 marks					
2	(a)	Business Process Reengineering	Session 11	D14 Q2 Stella Electronics	Most candidates were able to provide a definition of business process re-engineering. Weaker candidates did not illustrate their definition using the scenario, as required by the question.
	(b)	Supply chain management	Session 13	M/J16 Q1 QTP (a), (b)	This part required the discussion of a supply chain and the major activities required in establishing a virtual supply chain. Few students appeared to be aware of what a virtual supply chain is, so it is important that they read the model answer.
	(c)	International strategies	Session 7	Q16 Excalibur	This part required a description of four different international strategies. Most candidates provided good definitions of the strategies, but many answers would have been improved by more depth of discussion – in particular by showing how they could be applied at ABC.
3	(a) (b) (c)	Managing strategic change	Session 10	Q25, Pharmacy Systems International	A question that dealt comprehensively with Strategic Change Management. Parts (a) and (b) which dealt with Force field analysis and identifying the nature of change were well answered by many students who clearly had studied this area. Performance in part (c), which required a discussion of the contextual features was less well answered. Many students were able to remember most of the contextual features, and to explain them, but were not able to apply them to the case. A few students did not seem to know what the contextual features were.
4	(a) (b)	Business Case management	Sessions 11 & 14	Q32 Institute of Independent Analysts	Part (a) required students to evaluate the benefits and costs of adopting e-assessment at IAA. Students could usually identify most of the benefits and costs, but evaluate also implies offering an opinion – in this case explaining in more detail the benefits and costs, and this was often lacking from students' answers. Part (b) required students to explain why building a business case, managing benefits and undertaking benefits realisation are essential. Many students' answers focused only on building a business case, and did not discuss benefits management or benefits realisation, which suggested that students did not know what these terms mean. This is a popular area for exam questions, so students are advised to read the model solution to this part question particularly carefully.