



## Mock Two

# Business Analysis

P3BA-MK2-Z17-Q

**Time allowed:** 3 hours 15 minutes

This paper is divided into two sections

Section A – This ONE question is compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

**Do NOT open this paper until instructed by the supervisor.**

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# Paper P3

## **Section A – This ONE question is compulsory and MUST be attempted**

### **1 Shirtmaster Shirts Co**

Shirtmaster Shirts Co (SS Co) manufactures and retails men's shirts and ties. The company is based in Homeland, a European country. Tony Masters is chairman and chief executive of SS Co.

Tony's father, Howard Masters, set up SS Co in the 1950s as a shirt manufacturing company. By the 1960s it had built up a network of more than 2,000 small independent clothing retailers in Homeland. These retailers sold the full range of men's wear including made-to-measure suits, shirts and matching ties, shoes and other clothing accessories. Extensive and expensive TV and cinema advertising supported the Shirtmaster brand.

In 1991, SS Co acquired the Corporate Clothing Co (CC) which supplies workwear to large industrial and commercial customers. CC is located in the same town as SS Co. Both companies are now operated as two separate divisions, and Tony continues to act as managing director of both.

#### **SS Division – Operations and Market Environment**

Currently the market for men's shirts in Homeland is very different to that of the 1960s and 1970s when "Shirtmaster" had become one of the best known premium brands. In a mature market most of SS's competitors have outsourced the making of their shirts to low cost manufacturers in Europe and the Far East. SS is virtually alone in maintaining a manufacturing base in Homeland, where wages are high. Once a year Tony and the buyer for the division go to Asia and the Far East, visiting cloth manufacturers and buying for inventory. This inventory, stored in the division's warehouse, gives the ability to create a wide range of shirt designs but creates real problems with excessive inventory holdings and out dated inventory. SS prides itself on its ability to respond to the demands of its small retail customers and the long-term relationships built up with these retailers. Typically, these retailers order in small quantities and want quick delivery. SS has to introduce new shirt designs throughout the year, contrasting with the spring and autumn ranges launched by its competitors. This creates real pressure on the small design team available.

The retail side of the shirt business has undergone even more fundamental change. Though the market for branded shirts continues to exist, such shirts are increasingly sold through large department stores. There is increasing competition between shirt makers for the limited shelf space available in the department stores. Shopping centres and malls are increasingly dominated by nationwide chains of specialist clothing retailers. They sell to the premium segment of the market and are regarded as the trendsetters for the industry. These chains can develop quickly, often using franchising to achieve rapid growth, and are increasingly international in scope. All of them require their suppliers to make their clothes under the chain's own label brand. Some have moved successfully into selling via catalogues and the Internet. Finally, the Homeland supermarket chains have discovered the profitability of selling non-food goods. The shirts they sell are aimed at value for money rather than style, sourced wherever they can be made most cheaply and sold under the supermarket's own label. Small independent clothing retailers are declining both in number and market share.

The SS division, with its continued over-reliance for its sales on these small independent retailers, is threatened by each of the retail driven changes, having neither the sales volume to compete on price nor the style to compete on fashion.

## **SS Division's International Strategy**

Tony's answer to these changes is to make the Shirtmaster brand an international one. His initial strategy is to sell to clothing retailers in other European countries and once established, move the brand into the fast growing consumer markets in Asia and the Far East. He recognises that the division's current Homeland focus means that working with a pan European partner is a necessity. He has given the sales and marketing manager the job of finding major retailers, distributors or manufacturers with whom they can make a strategic alliance and so help get the Shirtmaster range onto the shelves of clothing retailers throughout Europe.

## **CC Division – Operations and Market Environment**

CC has, in recent years, implemented a major turnaround in its business as the market for corporate clothing began to grow significantly. CC designs, manufactures and distributes a comprehensive range of workwear for its corporate customers, sourcing much of its range from low cost foreign suppliers. It supplies the corporate clothing requirements of large customers in the private and public sectors. Major contracts have been gained with banks, airlines, airports and the police, fire and ambulance services.

The CC division supplies the whole range of workwear required and in the sizes needed for each individual employee. Its designers work closely with the buyers in its large customers and the division's sales benefit from the regular introduction of new styles of uniforms and workwear. Corporate employers are increasingly aware of the external image they need to project and the clothes their employees wear are the key to this image. CC has invested heavily in manufacturing and IT systems to ensure that it meets the needs of its demanding customers. It is particularly proud of its computer-aided design and manufacturing (CAD/CAM) systems, which can be linked to its customers and allows designs to be updated and manufacturing alterations to be introduced with its customers' approval. Much of its success can be attributed to the ability to offer a customer service package in which garments are stored by CC and distributed directly to the individual employee in personalised workwear sets as and when required. The market for corporate workwear in Homeland was worth \$500 million in 2016. Evidence suggests that the demand for corporate workwear is likely to continue to grow.

The CC division also has ambitions to enter the markets for corporate clothing in Europe and recognises that this might be most easily done through using a suitable strategic partner. There is friendly rivalry between the two divisions but each operates largely independently of the other. Over the past 10 years the fortunes of the two divisions have been completely reversed. CC is now a modest profit maker for the company – SS is consistently losing money.

## **Shirtmaster Co – Future Strategy**

Tony is determined to re-establish Shirtmaster as a leading shirt brand in Homeland and successfully launch the brand in Europe. He sees a strategic alliance with a European partner as the key to achieving this ambition. Though he welcomes the success of the CC division and recognises its potential in Europe, he remains emotionally and strategically committed to restoring the fortunes of the SS division. Unfortunately, his autocratic style of leadership tends to undermine the position of the senior management team at SS. He continues to play an active role in both the operational and strategic sides of the business and is both well-known and regarded by workers in the SS division's factory.

After pressure from some shareholders, a management consultant was asked to review the strategic position and options of the Shirtmaster group. The initial feedback meeting with the management consultant has confirmed the concern that he is not delegating sufficiently. The consultant commented that Tony's influence could be felt throughout the SS division. Managers either try to anticipate the decisions they think he would make or, alternatively, not take the decisions until he has given his approval. The end result is a division not able to meet the challenges of an increasingly competitive retail marketplace, and losing both money and market share.

**Table 1 – Financial Information – All figures in \$million**

	2014	2015	2016	2017 <i>Budget</i>
<i>SS Co</i>				
Domestic sales	24.5	23.2	21.0	22.7
Export sales	0.5	0.6	0.4	0.8
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	25.0	23.8	21.4	23.5
Cost of sales	17.7	16.8	15.2	16.3
	<hr/>	<hr/>	<hr/>	<hr/>
Gross profit	7.3	7.0	6.2	7.2
Marketing	1.7	1.5	1.2	1.7
Distribution	1.6	1.4	1.2	1.4
Administration	1.8	1.8	1.7	1.9
	<hr/>	<hr/>	<hr/>	<hr/>
Net profit	2.2	2.3	2.1	3.2
	<hr/>	<hr/>	<hr/>	<hr/>
<i>SS Division</i>				
Total sales	14.8	12.6	10.3	11.7
Domestic sales	14.3	12.0	9.9	10.9
Export sales	0.5	0.6	0.4	0.8
Cost of sales	11.1	9.8	8.2	9.1
	<hr/>	<hr/>	<hr/>	<hr/>
Gross profit	3.7	2.8	2.1	2.6
Marketing	1.5	1.3	1.0	1.5
Distribution	1.2	1.0	0.8	0.9
Administration	1.3	1.2	1.1	1.2
	<hr/>	<hr/>	<hr/>	<hr/>
Net profit	(0.3)	(0.7)	(0.8)	(1.0)
	<hr/>	<hr/>	<hr/>	<hr/>
Inventory	2.0	2.2	3.0	2.7
Employees	100	100	98	98
<i>CC Division</i>				
Total sales	10.2	11.2	11.1	11.8
Cost of sales	6.6	7.0	7.0	7.2
	<hr/>	<hr/>	<hr/>	<hr/>
Gross profit	3.6	4.2	4.1	4.6
Marketing	0.2	0.2	0.2	0.2
Distribution	0.4	0.4	0.4	0.5
Administration	0.5	0.6	0.6	0.7
	<hr/>	<hr/>	<hr/>	<hr/>
Net profit	2.5	3.0	2.9	3.2
	<hr/>	<hr/>	<hr/>	<hr/>
Inventory	0.9	1.0	0.8	0.8
Employees	84	84	80	79

**Required:**

- (a) **Write a report to the senior management team that assesses the strategic position of the SS and CC divisions.** (18 marks)

**Professional marks will be awarded in part (a) for appropriate structure, style and fluency of the report.** (4 marks)

- (b) **Analyse the financial position of the company during the period 2014 to 2016.** (13 marks)

- (c) Both divisions have recognised the need for a strategic alliance to help them achieve a successful entry into European markets.

**Critically evaluate the advantages and disadvantages of the divisions using strategic alliances to develop their respective businesses in Europe.** (15 marks)

**(50 marks)**

## Section B – TWO questions ONLY to be attempted

- 2 ABC has a chain of 20 supermarkets. When inventory items reach their re-order level in a supermarket the in-store computerised inventory system informs the inventory clerk. The clerk then raises a request daily to the ABC central warehouse for replenishment of inventory via fax or e-mail. If the local warehouse has available inventory it is forwarded to the supermarket within twenty-four hours of receiving the request. If the local warehouse cannot replenish the inventory from its inventory holding then it raises a purchase order to one of its suppliers. The supplier delivers the inventory to the warehouse and the warehouse then delivers the required inventory to the supermarkets within the area. The ABC area warehouse staff conduct all business communication with suppliers.

ABC recently contracted a consultant to analyse and make recommendations concerning their current supply chain briefly described above. Following the initial investigation the consultant reported.

“To enable an established traditional company like ABC to develop a Virtual Supply Chain system it may be necessary to employ a Business Process Re-engineering (BPR) approach.”

One of ABC’s competitors, Fresh has expanded into many other countries in the last 20 years. Each country operates as a semi-independent business unit, with local management, and locally sourced products to meet local tastes. ABC does not currently have the resources to expand overseas, but has been approached by a company in Awayland that would like to open some branches of ABC under a franchise agreement.

### Required:

- (a) **With reference to the above scenario, describe what is meant by Business Process Re-engineering.** (8 marks)
- (b) **Discuss the notion of a supply chain, identifying the major activities and supporting information systems that are required to develop a virtual supply chain.** (9 marks)
- (c) **Briefly describe each of the four business strategies: Domestic exporter, Multinational, Franchiser and Transnational.** (8 marks)

**(25 marks)**

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Electron, an electricity generating company based in Homeland, was a monopoly supplier until 2007. Homeland's Government de-regulated the electricity market in 2007 and since then Electron has faced increasing competition from eight other electricity generating companies competing in Homeland.

Electron currently generates its electricity using only fossil fuels. However, the electricity generating companies' customers (which supply electricity to the final users within Homeland) are increasingly concerned about environmental issues. Many of these customers are willing to change to a different electricity generating company, which generates some of its electricity from low carbon sources. Since 2015, Electron has lost 5% of its customers to competitors who generate electricity from low carbon sources.

Electron's organisational structure is hierarchical, its decision making is often slow, and its management style is bureaucratic. Many of Electron's employees belong to trade unions and there is usually much resistance to any new initiatives or changes to working arrangements.

In 2015, Homeland's Government agreed to conform to a target of generating 20% of electricity production from low carbon sources such as hydro, nuclear and wind generated power by 2022. In 2016, Homeland's Government announced plans for incentive payments to be awarded to those electricity generating companies investing in projects to generate low carbon energy. Through a government initiative called the "Low carbons Pledge", Homeland's electricity generators are all now required by law to provide a proportion of their electricity generation from low carbon sources or pay a penalty fee to the Government.

In January 2017, the Chief Executive Officer (CEO) of Electron, who had been with the company since the 1970s, retired. He had always been sceptical of the Government's drive towards low carbon energy and he had often blocked any initiatives for the company to move towards low carbon electricity generation. The new CEO is a strong supporter of wind based electricity generation and he recently stated to the Board of Directors "if Electron is to survive and thrive, it must develop a strategy for wind powered electricity generation. However, this cannot happen overnight as the old style of management must change so that we remain competitive in the industry. We simply must not continue to lose customers".

The new CEO wishes to exploit Homeland's windy countryside in the north of the country for wind powered electricity generation. However, gaining planning permission for wind powered generators has proved to be difficult so far in Homeland. Many proposals have been delayed in the planning system, often due to local residents' opposition. On average, the planning application for a wind powered generator in Homeland takes 2 years for a decision to be made by local government. The national Government is introducing new laws to force local governments to make decisions more quickly.

The new technology needed to operate and manage wind powered electricity generation will require extensive investment and training in new techniques and skills and require changes to Electron's culture. Electron's engineers have threatened strike action in order to gain large pay increases to compensate for the new working arrangements. Large pay increases would make Electron uncompetitive in the industry.

**Required:**

- (a) **Evaluate the forces which are driving and restraining change in Electron.**  
(6 marks)
  - (b) **Evaluate the type of change, in terms of speed and extent, which needs to occur in Electron in relation to both the move to wind powered electricity generation and its management culture.**  
(5 marks)
  - (c) **Evaluate the effect of contextual features on the introduction of strategic change at Electron.**  
(14 marks)
- (25 marks)**

4 The Institute of Administrative Accountants (IAA) has a professional scheme of examinations leading to certification. The scheme consists of six examinations (three foundation and three advanced) all of which are currently assessed using conventional paper-based, written examinations. The majority of the candidates are at the foundation level and they currently account for 70% of the IAA's venue and invigilation costs.

There are two examination sittings per year and these sittings are held in 320 centres all over the world. Each centre is administered by a paid invigilation team who give out the examination paper, monitor the conduct of the examination and take in completed scripts at the end. Invigilators are also responsible for validating the identity of candidates who must bring along appropriate identification documents. At over half of the centres there are usually less than ten candidates taking the foundation level examination and no candidates at all at the advanced level. However, the IAA strives to be a world-wide examination body and so continues to run examinations at these centres, even though they make a financial loss at these centres by doing so.

Recent increases in invigilation costs have made the situation even worse. However, the principles of equality and access are important to the IAA and the IAA would like to increase the availability of their examinations, not reduce it. Furthermore, the IAA is under increased financial pressure. The twice-yearly examination schedule creates peaks and troughs in cash flow which the Institute finds increasingly hard to manage. The Institute uses its \$5 million loan and overdraft facility for at least four months every year and incurred bank charges of \$350,000 in the last financial year.

### **Examinations**

All examinations are set in English by contracted examiners who are paid for each examination they write. All examinations are three-hour, closed-book examinations marked by contracted markers at \$10 per script. Invigilators send completed scripts directly to markers by courier. Once scripts have been marked they are sent (again by courier) to a centralised IAA checking team who check the arithmetic accuracy of the marking. Any marking errors are resolved by the examiner. Once all marks have been verified, the examination results are released. This usually takes place 16 weeks after the examination date and candidates are critical of this long delay. The arithmetic checking of scripts and the production of examination results places significant demands on IAA full-time administrative staff, with many being asked to work unpaid overtime. The IAA also employs a significant number of temporary staff during the results processing period.

### **E-assessment**

The new head of education at the IAA has suggested e-assessment initiatives at both the foundation and advanced levels.

He has suggested that all foundation level examinations should be assessed by multiple-choice examinations delivered over the Internet. They can be sat anytime, any day, anywhere. "Candidates can sit these examinations at home or at college. Anywhere where there is a personal computer and a reliable broadband connection."

Advanced-level examinations will continue to be held twice-yearly at designated examination centres. However, candidates will be provided with personal computers which they will use to type in their answers. These answers will then be electronically sent to markers who will use online marking software to mark these answers on the screen. The software also has arithmetic checking facilities that mean that marks are automatically totalled for each question. "100% arithmetic accuracy of marking is guaranteed."



He has also suggested that there is no need to make a formal business case for the adoption of the new technology. “Its justification is so self-evident that defining a business case, managing benefits and undertaking benefits realisation would just be a pointless exercise. It would slow us down at a time when we need to speed up.”

**Required:**

- (a) **Evaluate the perceived benefits and costs of adopting e-assessment at the IAA.**  
(15 marks)
- (b) **Explain why establishing a business case, managing benefits and undertaking benefits realisation are essential requirements despite the claimed “self-evident” justification of adopting e-assessment at the IAA.**  
(10 marks)
- (25 marks)**

**End of Question Paper**