ACCA REVISION MOCK

Business Analysis

June 2012

Paper P3

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A: This question is compulsory.

Section B: TWO questions ONLY to be attempted.

Do NOT open this paper until instructed by the supervisor.

This question paper must not be removed from the examination hall.

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SECTION A

This question is compulsory

QUESTION 1

Introduction

Disbit provides display stands at exhibitions. It was set up by Nigel Chapman in 1984 and continues to be solely managed by him. It is close to the capital of Tocean, a large country with a high GDP and a strong infrastructure. The Toceanic Exhibition Centre (TEC), built in 1989, holds exhibits on 250 calendar days per annum for various events such as business conferences, wedding shows and government departmental exhibits (such as recruitment days for the armed forces). Exhibitors pay for space within the centre and must provide their own staff, equipment, displays and material. At the end of the exhibition the exhibitors must remove their exhibits and leave their space in a condition suitable for use for the next exhibition. Since 1989 many more exhibition centres have sprung up around Tocean, each following the same business practices developed by the TEC.

Most exhibitors contract out the bulk of their exhibits. The exhibitor will provide the staff on the day but arrange for various subcontractors to perform the provision of equipment and displays, the production and printing of material and removal of exhibits. Disbit is one such sub-contractor. It does not provide materials for displays, but does provide a combined installation and removal service to exhibitors.

Company Background

Disbit specialises in modular display and exhibition systems, the provision of corporate services to clients requiring management, maintenance, storage and installation of their own promotional equipment. Disbit's location near to the capital gave it an initial competitive advantage when many exhibitors were disorganised and confused about the exhibition process. This confusion meant that exhibitors would arrange their exhibits at the last minute and needed a company who could provide services quickly and effectively at short notice. So Disbit's proximity to the centre and Nigel Chapman's contacts at the TEC made Disbit a popular choice for these last minute exhibitors.

Over the next fifteen years Disbit grew in both reputation and size. It had a high level of repeat business as exhibitors would rarely look around for alternative suppliers and would stick with an existing contractor as long as each exhibit ran without any problems. Disbit developed a core team of staff who were experienced in the industry, had excellent product knowledge, and worked to a high standard (staff rarely caused any mistakes or errors when either setting up an exhibit or removing it). This led to the winning of Disbit's major customer – the Toceanic Department of Transport (TDT). The TDT became a major exhibitor following some high profile road accidents and the subsequent change in social attitude towards drink driving and speeding. The TDT exhibit on around 100 days each year at various locations across the country.

The TDT, along with the majority of Disbit's clients, needed "standard sized" exhibits. These were self assembly display units that were generally embossed with the department's logos and messages. This allowed Disbit to have a good control of its supply chain and to rely on only three suppliers for the display units:

Supplier	*% of Disbit's Supplies*
Arcan Displays	82%
Logic Units	14%
Plexic	4%

Typically the supplier would have a set list of standardized units which would be published at the start of each calendar year in a product catalogue. Disbit would then purchase from this catalogue based on their expected requirements. Large bulk orders tended to be placed with suppliers at the start of the year in order to secure discounts that could far outweigh the holding costs of the units. As the year progressed additional units could be obtained when needed and any excess stock was carried forward to the next year. Disbit's staff became familiar with the equipment and developed routines and practices that made them efficient and effective at their jobs. A staff supervisor was always on-site to oversee all installations and staff had clear definitions of their roles and responsibilities.

Because the TDT only wanted standard sized units it fit well with Disbit's business model. The TDT were happy to receive a consistent set of exhibitions that could be supplied and installed by a team of experienced staff at locations and times that fitted the TDT's requirements for flexibility. The winning of the TDT was a major coup for Disbit and in turn it allowed the company to expand across Tocean. The result was that by 2004 Disbit was a very successful provider and installer of display equipment. Its future looked secured.

A changing company environment

The development of internet sourcing had a major disruptive influence on Disbit. Prospective new clients traditionally visited existing exhibits and spoke to exhibitors for recommendations on sub-contractors. This meant that new business was often won from referrals and word of mouth. But the growth of the internet meant that lots of these new exhibitors used the internet as a primary source of information.

A further development was that existing customers also started to browse the internet when choosing suppliers. This gave greater transparency on pricing and services as well as streamlining bookings and arrangements. So subcontractors had to adapt or they would soon discover that customers would begin to outsource from rivals.

Disbit reacted to this changing environment by launching its own website. The design and management of the website was outsourced to a website specialist. The website was able to detail a list of services provided by Disbit as well as prices for standard sized exhibits. But it was difficult to differentiate in this market segment and Disbit often found itself undercut by rivals with lower costs bases. The result was that Disbit's retention rates fell by 16% and company profits suffered accordingly.

The TDT, as a government department, have not considered online purchasing and have remained loyal to Disbit. To switch to online purchasing would need central government approval and this could take up to two years and would only occur if the government as a whole agreed that all departments should consider this source of supply.

Because of the TDT's ongoing orders, Disbit continues to make reasonable profits, but Nigel Chapman wants the business to regain market share and get back to a position of strength.

A strategic dilemma

Logic Units, one of Disbit's existing suppliers, recently undertook a major investment and restructuring programme. The result of which is that they will now be able to offer bespoke units within the existing, flexible agreement terms. This would allow Disbit to offer new and existing customers a bespoke product – often through the company's website. For any bespoke exhibits there would be a section of the website where customers could key in their requirements and an email address, and within 24 hours a quote would be emailed by one of Disbit's staff.

An additional advantage of the new process would be that the Disbit would have to hold significantly lower stock of units as each unit would be made to order for each particular customer, but this would mean the loss of bulk discounts on such products.

With existing, standard units, at the end of the exhibit it is often found that around 30% of units can be "recycled" for future use as often the client will require similar graphics for repeat jobs. The new bespoke products are unlikely to be re-usable.

The bespoke service would allow customers to not only upload measurements for exhibits but they could also upload any suggested logos and graphics and therefore eliminate some of the parts of the existing exhibit process. At present Disbit outsources the graphics production for exhibits, but Nigel Chapman believes that the new bespoke service would work better if graphics designers were employed and brought "in-house". Website design and management would similarly be brought "in-house" through the recruitment of an expert. The website would be overhauled to allow customers to easily navigate between standardised and bespoke orders.

The new service would run alongside current activities so that existing, satisfied customers could still (at least initially) use the company's existing processes. This process is illustrated in Appendix 1. But even the process for dealing with standardised orders would change due to the changes in website design/interactivity and the employment of graphics designers.

This new service would have a significant impact on the company's core process of managing customer orders. But Nigel Chapman believes that it will be critical to make these changes if the business is to get back to its previous strong position. Finances are in place for the investment required, new staff have been targeted, and Nigel has set aside nine weeks during the company's traditionally quieter months to achieve the introduction of the bespoke service.

Required:

(a) **Evaluate the decision to introduce the bespoke service strategy, justifying why it was chosen by Nigel Chapman.**

Note: requirement (a) includes 3 professional marks. **(18 marks)**

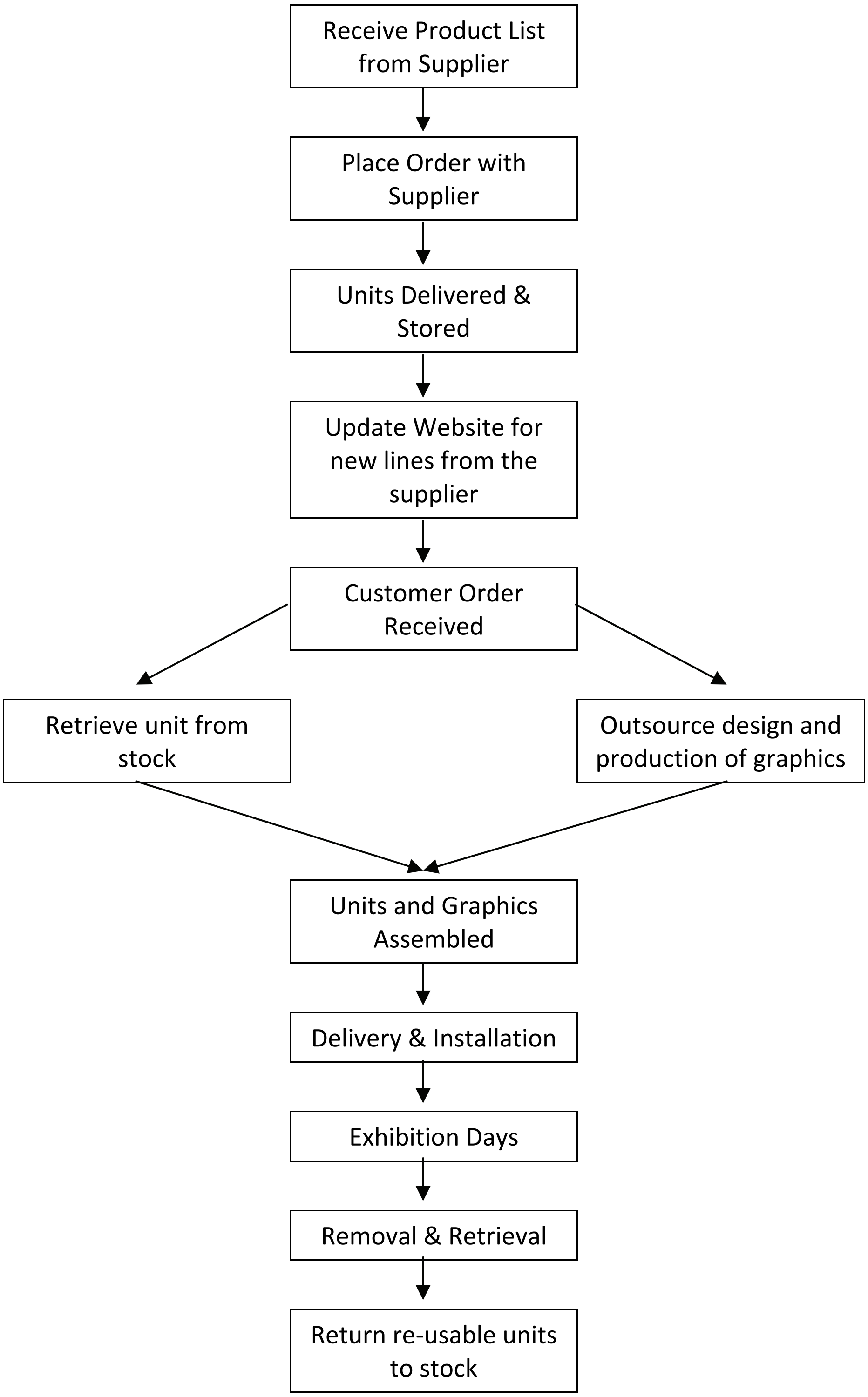
(b) **Disbit is attempting to redesign one of its business processes. Explain, using Harmon's methodology, how business process redesign should happen in Disbit.**

Note: requirement (b) includes 2 professional marks. **(22 marks)**

(c) **The new process is likely to mean that the company's pricing system is likely to change. Describe the process by which a pricing policy will be determined and suggest a suitable pricing strategy for Disbit's bespoke products.** **(10 marks)**

(Total: 50 marks)

Appendix 1: Current Business Process



SECTION B

Choose two questions from three

QUESTION 2

Dr John Clarkson is currently Managing Director of BlueSky Analysis, a research company which obtains data gathered from satellite observations, analyses this data and then sells the information to client organisations. Together with four other scientists he formed the company in 1996. These five scientists were the only shareholders. Most of the work was then focused on obtaining new customers, and as the technology had, until then, been primarily used for highly confidential military information gathering there were few other potential competitors. It was now possible to buy from both military and civil satellite owners data obtained from a variety of sources. This data could be usefully interpreted and could provide valuable information on a wide range of topics including climate change, crop forecasts, soil conditions and mineral deposits. The potential customers for such information were mainly governmental agencies, operating both nationally and internationally, including organisations such as the United Nations Food and Agricultural Organisation. Many mining and oil exploration companies also found the information invaluable in helping to select geographical locations for exploration and development.

The initial growth was rapid. The company had to employ more scientists and within two years the company had grown to number about 45 employees including 15 clerical staff. It was an attractive company for the scientists to work for. There was little management structure. Each analyst worked on an individual client's project, specialising on either a geographical area or on a specific industry such as mining, helping to identify the location of mineral deposits. The analysts could concentrate solely on scientific work and were not diverted into administrative activities involving long meetings and planning programmes. Staff turnover was very low. All the scientists required was a project to work on and secretarial support to prepare reports for clients. Otherwise they usually worked alone.

Unfortunately this informal style and structure did not run smoothly. Although the company provided a good social and challenging work environment, it was inevitable that this analyst-led approach should lack direction and that errors in administration would create problems with clients. There was inadequate integration and teamwork within the company, with most of the scientists working independently on their own projects. The five senior scientists began to spend much of their time 'fire-fighting' – correcting mistakes which should never have occurred. Fortunately the company was still a leader in this small specialist field and so did not lose much business to emerging competitors.

However, over the last year it has become apparent that this loose management structure was inhibiting the growth of the company. The market for data collection and analysis was becoming more global and competitors were eroding BlueSky's market position. Its projects were frequently going over budget and many were taking too long to complete. A lack of cohesion and cooperation between the analysts within the company meant that when such delays occurred other staff members could not help to sort out the problems. Furthermore, as the senior managers acted as intermediaries between the client and the scientist responsible for their particular research contract, any negotiations for changes in requirements tended to be lengthy and confusing. The problem was that a move towards greater discipline and structure, necessary for keeping work on target and profitable, was likely to alienate the analysts who enjoyed their independence.

The senior management, now facing declining orders, decided that they could not continue in such as undisciplined manner. They were approached by a much larger company, United Data System (UDS), whose main business was as a software company, providing information systems for major clients throughout the world. These contracts were with both public and private sector clients ranging from automobile manufacturers to governmental tax agencies. UDS was accustomed to dealing with multi-million pound contracts, serviced by specialist teams, and accordingly had the infrastructure and systems to suit such a business. Recognising their lack of interest in administration, Clarkson and his four fellow shareholders agreed to the acquisition by UDS, but still maintained a significant share of the equity. Although technically UDS now own BlueSky it was not seeking to absorb it. The larger company, seeking to diversify into more innovative areas, saw BlueSky as providing the expertise and access into a rapidly expanding and lucrative market. They did not wish to destroy the research-centred culture of BlueSky because the company's success depended upon the scientists' continued goodwill and commitment.

They agreed to allow the smaller company to continue operating as a subsidiary company in an innovative manner – no large company bureaucracy being imposed upon the scientists. However UDS would now require that all new contracts be investigated by themselves for financial attractiveness. A charge was levied from the centre for this service. Also, UDS demanded that the individual contracts should be more professionally managed. UDS want project specific sponsors and managers to be appointed and for all projects to work within pre-defined constraints.

Required:

(a) Establish the role and responsibilities of the project sponsor and project manager.

(14 marks)

(b) Identify and explain the key constraints which a project manager must take into account when managing a project. (11 marks)

(Total: 25 marks)

QUESTION 3

Alan Ormerod, the senior partner at ASG, a medium-sized Paranian based accounting firm, was worried. The firm had developed an active policy towards the recruitment of graduates from various academic disciplines who were then sponsored to take professional accounting qualifications.

The graduate trainees were given a week's induction course into the firm and then placed on a six month training programme organised by the personnel department. The programme consisted of six weeks spent in each of the main areas of the firm's business – taxation, auditing, business services and financial planning, so that they could get an overview of the firm's activities and the services provided to clients. At the end of the six month training period they were assigned to one of the main areas of business as assistant accountants.

The partners of ASG believe that this six month training is vital for all new starters in the firm. They argue that the training allows staff to understand the critical success factors within each department, understand that pressures that each unit is under, and to get a feel for what area they might want to specialise in as the student's career progresses. The partners have all been through this process themselves and this has always been the cornerstone of the induction process.

ASG, as an accounting firm, could be termed to be a professional bureaucracy where the qualified accountants have considerable discretion in their work and co-ordination is achieved by the standardisation of skills and the graduate training programme is clearly seen by the partners as a key method to achieve such skills. The graduates will also be undertaking professional examinations to complement the practical experience they gain in the firm and to ensure that they have the professional skill base to work as accountants in the partnership.

The programme had been in existence for many years and had the support of the senior partners in the firm and also the personnel department, whose budget reflected both the time taken by the graduates in training and the number of graduates on the programme. Unfortunately, there was no clear consensus amongst the partners about what, precisely, the graduate trainees should be able to do on completion of the programme. Successful completion of the programme was important to the graduates as it signalled the end of their probationary period and was linked to a significant rise in salary. The graduate trainees, however, were not happy. They felt that the lack of clarity over what precisely they should be able to do and the time taken to move them through areas of the firm which were of little interest to them was affecting their morale and commitment to the firm. Even more significant was the number who either failed to complete the training programme or who left to join one of ASG's rivals. Despite this problem, the partners insisted that to get a full appreciation of the firm the graduates needed the full six months training experience.

Alan was perplexed as to how he could reconcile the traditional view of training taken by the partners with the needs of the graduate trainees and their desire for a more focused and shorter period of training. The firm certainly needed committed, well-motivated graduate accountants to meet the increased expectations of clients and the competition from rival firms.

Required:

(a) Using change theory, help Alan understand the conflict between the partners and the graduate trainees. (15 marks)

(b) Recommend an action plan whereby the differing attitudes of the partners and graduate trainees could be reconciled. (10 marks)

(Total: 25 marks)

QUESTION 4

Susan Grant is in something of a dilemma. She has been invited to join the board of the troubled Marlow Fashion Group as a non-executive director, but is uncertain as to the level and nature of her contribution to the strategic thinking of the Group. Susan has a reputation for helping ailing businesses and is an advocate of company benchmarking which she believes encourages businesses to perform an in-depth internal analysis, to identify areas for improvement and to strive for achievable efficiencies and improvements in performance.

The Marlow Fashion Group had been set up by a husband and wife team in the 1970s in an economically depressed part of Ruritania. They produced a comprehensive range of women's clothing built round the theme of traditional Ruritanian style and elegance – Ruritania is known internationally for its traditional, conservative values, and patriarchal leadership.

The Group had the necessary skills to design, manufacture and retail its product range. The Marlow brand was quickly established and the company built up a loyal network of suppliers, workers in the company factory and franchised retailers spread around the world. Marlow Fashion Group's products were able to command premium prices in the world of fashion. Rodney and Betty Marlow ensured that their commitment to traditional values created a strong family atmosphere in its network of partners and were reluctant to change this.

Unfortunately, changes in the market for women's wear presented a major threat to Marlow Fashion. Firstly, women had become a much more active part of the workforce and demanded smarter, more functional outfits to wear at work. Marlow Fashion's emphasis on soft, feminine styles became increasingly dated. Secondly, the tight control exercised by Betty and Rodney Marlow and their commitment to control of design, manufacturing and retailing left them vulnerable to competitors who focused on just one of these core activities.

Thirdly, there was a reluctance by the Marlows and their management team to acknowledge that a significant fall in sales and profits were as a result of a fundamental shift in demand for women's clothing. On a recent visit to a franchised retailer Susan Grant recorded the following random comments from some store visitors:

"I've been buying Marlow clothes for over 25 years and I love them. I don't think I'd ever consider going anywhere else for my dresses and shoes."

"I've only popped in for some underwear. My mum shops here all the time but I prefer trendier outlets. But I sometimes buy some of my "sensible" underwear from Marlows."

"I often browse at Marlows. But generally I find that you can get clothes from Harpers which are almost as good and half the price. Harpers may not always have exactly the same quality, but I'm happy to buy their items and replace them more regularly."

On discussion with the Marlow's marketing department Susan found that these comments were fairly typical of what store visitors were saying. The marketing department explained that these comments had been heard for a few years but Betty and Rodney continued to believe that this was a short-term phenomenon that would disappear as quickly as any other "trend".

Susan Grant discovered that the market had changed significantly. At one end, the Ruritanian government had removed quota systems that had been in place to limit the amount of products that could be sourced overseas. This meant that new retailers sprang up who could source quality products overseas at prices that were significantly below the production costs of traditional Ruritanian manufacturers. At the same time, some rivals spotted the growth in sales of women's magazines and women focused television programmes. They then started to use these avenues to promote their products through product placement, endorsements and traditional advertising. Marlow however continued to rely on repeat business and word of mouth.

The result was that the share price of the company fell dramatically. Betty and Rodney Marlow retained a significant minority ownership stake, but the company had had a new Chief Executive Officer every year since 2000.

Required:

(a) Write a short report to Susan Grant identifying and explaining the strategic strengths and weaknesses in the Marlow Fashion Group. (14 marks)

(b) Assess the contribution benchmarking could make to improving the position of the Marlow Fashion Group and any limitations to its usefulness. (11 marks)

(Total: 25 marks)