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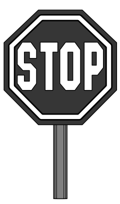
Interim Assessment – Answers



To gain maximum benefit, do not refer to these answers until you have completed the final assessment questions and submitted them for marking.

ANSWER 1

Key answer tips

This answer uses the General Electrics Business Screen but you could just as easily use the Boston Consulting Group matrix or even the product life cycle.

(a) **Introduction**

In many ways the financial health of PIT looks reasonably sound, if not exciting – at a company level the return on sales revenue is falling, reflecting an increase in fixed costs. Sales revenue and costs seem to be increasing more or less in line with one another. However, closer analysis of the performance of the individual factories or product groups reveals some disturbing differences.

Product Group analysis

The Cable Jointing Tapes product group is registering around a 13% increase year-on-year in sales revenue and clearly exceeding the increase in the cost of sales with a consequent improvement of the gross margin. It is likely that the 'little gems' referred to by the Marketing Manager are to be found here – if not identified! There would seem to be some correlation between a significant R & D spend and the development of products meeting the exacting demands of the cable manufacturers. PIT seems to be catering for the needs of a clearly identified customer base and, despite the threat of strong overseas competition, increasing sales and a stable market share augur well for the company.

The Industrial Tapes group seems very stable with sales revenue and costs increasing in line with one another and the gross margin predicted to stay a healthy 45% – the best margin achieved out of the three tape groups. Here the wide spread of customers is having some impact on transport costs but more worrying is the decline in market share, perhaps reflecting the impact of low cost tapes from Europe and the Far East. On further reflection PIT's inability to reduce its manufacturing costs may leave it exposed to further market share erosion. Here there is little likelihood of new products stemming the tide of foreign competition.

Finally, results from the 'problem child' – Paper Masking Tapes, do give cause for concern. Sales revenue is slipping while at the same time costs are increasing. The only consolation is that market share is being maintained, but at a price. Equally concerning is the increase in logistics costs, significantly outstripping the increases in sales volume. When the impact of the warehouse fixed costs are added in, PIT's ability to increase sales revenue, profitability, and market share is open to question. Of special concern is the loss of control over manufacturing and selling costs despite the investment in a modern factory. Moderate levels of R & D spend seem to be generating little, if any, benefit in competing against their main rival.

In terms of models that could be used to further analyse PIT's performance, one could use the Boston Box, recognising its limitations. The Boston Box, or BCG matrix, emphasises the relationship between market share and profitability. A company with a portfolio of products could expect some to be in low growth industries while others were in industries achieving high rates of growth.

There is little evidence in the case to suggest that PIT has any products in high growth sectors. In terms of the three product groups the Paper Masking Tapes group has a respectable market share compared to its main competitor, but its lack of competitiveness means that it more closely resembles a 'dog' than a 'cash cow' for the company. Using another model, closer analysis of the other two tape groups could suggest that industrial tapes are reaching the mature stage of their Product Life Cycle with flat profits and static sales revenue.

The only product group producing anything in the way of growth are the Cable Jointing Tapes. A respectable market share together with improving margins, supported by significant R & D, suggest that this has the potential to move into the 'star' category. However, using the Boston Box should be accompanied by a 'health warning' – beware of assuming a high market share and high market growth combination always brings profitability. There is little in the case scenario to suggest that overall market growth is very high, but the 'little gems' or niche products suggest that it is in these more sophisticated tape products where PIT's potential is greatest. Equally interesting is to plot the three tape groups against the GE Business Screen matrix, making an assessment of PIT's competitive position against the attractiveness, or otherwise, of each of its three main markets.

General Electric's Business Screen

	Competitive position		
	Strong	*Average*	*Weak*
High			
Medium	Cable jointing tapes	PVC tapes	
Low			Paper masking tapes
Industry attractiveness			

At the generic strategy level, one could claim that PIT is 'stuck in the middle' with few if any claims to be a cost leader and only in its Cable Jointing Tapes to have products with positive signs of differentiation. Here a focused differentiation strategy meeting the particular needs of the cable manufacturers seems to be yielding positive results. PIT's competitive scope seems to be fairly broad, covering a wide range of customers – from large multinationals through to the individual DIY enthusiast and, consequently a large range of distribution channels are used to get the product to the customer. Such channel complexity has to be managed and clear evidence of the consequences of such strategic decisions is seen in the shape of significant and increasing transport costs and the need to build a new warehouse facility.

Porter's five forces model can also be used, as the two key forces seem to be the power of large industrial customers and the increasing competition for PIT in its key industrial and consumer markets. Little is suggested in the way of supplier power and substitutes, but overall the dynamics of the industry seem to be pointing to PIT's sales revenue and profits coming under increasing pressure. Some of their large customers may be sensitive to any price increases in their own markets and use their bargaining power to PIT's disadvantage.

Finally, both Porter's Value Chain and Value System offer insights into the challenges being faced by the firm. In terms of operations there is a question mark over the ability of the modern Paper Masking Tape factory to generate the low product costs achieved by its North American rivals. Clearly, the costs incurred by the new warehouse and PIT's own in-house transport operation are generating few, if any, benefits to the customer. Equally worrying is the lack of integration between primary and support activities. There is a lack of critical information on the profitability, or otherwise, of the extensive range of products offered by PIT. The links between sales and marketing and the R & D teams seem ad hoc and underdeveloped and there is little co-ordination of the overall R & D effort. In many ways there is evidence of both factories and functional departments operating independently of one another and, as a consequence, vital information not being shared.

Conclusion

Overall, there is evidence that the firm may be passively accepting the fact that many of its products are mature and suffering from severe price competition in these 'commodity' products. This relates to the usefulness of the product life cycle in shaping company strategy. Managers who see products as mature and commodities may create a self-fulfilling prophecy and ignore opportunities for innovation at their peril.

(b) **Strategic options**

PIT is owned by the three senior directors in the company and the 'suitability', 'acceptability' and 'feasibility' tests of strategic options could be carried out against the likely aspirations of these key players. Their background experience in the industry suggests that while being open to change – Richard Johnson's acceptance of the need to move to a more marketing led company is one example – radical change to either products or markets is unlikely to occur.

Evidence of being 'stuck-in-the-middle' was referred to above and while there is little to suggest the company could become a cost leader there is a need to establish which products can be developed and for which customers. Therefore, there is an opportunity to become a focused differentiator by concentrating on meeting the needs of manufacturers to whom innovation is important.

The generation of strategic options is usefully done against a framework such as Johnson and Scholes' alternative directions and methods. Where having decided on the generic strategy with which the firm is going to compete – focused differentiation – the firm then seriously considers the alternative directions it can take – largely based around Ansoff's growth matrix and the methods to get there. In many ways the analysis of performance to date should lead to withdrawal from unprofitable markets, divestment of poorly performing products and a closing down of company activities which are adding little value.

In so doing the company frees up resources to be redirected to areas identified as adding value. For PIT, despite the attractive market share, Paper Masking Tapes seem to be a product group with little opportunity for being turned around. The cost base is higher than its major competitor, its access to product and process innovation is determined by the license arrangement with the American manufacturer, significant over capacity exists and tape supplied to the automobile industry is under severe price pressure. Divestment seems to be the sensible option.

PVC tape products look to be a product group with some potential. The healthy margins and modest sales revenue increases, point to a product which can be looked at more closely to identify the winners and losers and the elimination of products not generating profitable sales – provided that significant customers do not require a full range. Here there is a question of the level of commitment to innovation – competition is increasing from competitors with a lower cost base. Once again the question of whether product innovation in a mature 'market' is a realistic strategy should be asked. There is evidence showing that companies can achieve impressive rates of growth in so-called mature markets as a result of product innovation. Such product innovation may require linked process innovation and as Rosabeth Moss Kanter, a leading writer on innovation, comments, 'As an industry 'matures' and both its products and its technologies become older and more stable, innovations are more likely to centre around saving costs and improving performance, thus encouraging creative efforts in manufacturing efficiencies, work methods or quality control'. Certainly, PIT needs to look closely at its value chain, its customer base and the way it can more cost effectively reach them.

Finally, Cable Jointing Tape products look to offer the most likely opportunity for improved market penetration and market development. The opportunity to link more closely with the major cable manufacturers and more effectively develop innovative products, such as Retardon, offers considerable potential. Growth to date has largely been organic, but there is an opportunity to link more closely with innovative larger companies.

Value chain analysis seems likely to suggest that PIT seriously reviews the real value of operating its own warehouse and transport system. Both are strategic decisions in terms of the commitment of significant resources and their influence over service levels experienced by the customer. There is little in the case study to support continuing commitment to either activity.

So, overall, a range of strategic options is open to the company within which a clearly defined strategy could emerge. This strategy would be preceded by the development of much more information on the revenue and cost sides of the business. Opportunities for both market and product development exist, but these are likely to be combined with an exit from Paper Masking Tapes, closing the warehouse and outsourcing the transport function.

(c) **Parenting styles**

Goold and Campbell identify three different 'parenting styles'. These suggest different levels of involvement by central management in the strategic planning processes of each business unit. The three styles identified by Goold and Campbell are discussed below:

Strategic planning companies

It would appear that, at the moment, PIT is operating as a strategic planning company. A strategic planning company has a focus on a limited number of businesses where significant synergies exist between them. For PIT, there will be synergies to some degree in production methods, purchasing, distribution etc. Central management will provide a degree of expertise over these areas and set the strategies for each SBU (as seen in the previous section).

This is a useful approach when strategic decisions occur infrequently because the SBUs operate in stable, predictable environments. For PIT, it can be seen that the changes in the environment for each SBU have been predictable and that PIT can react to these accordingly. The senior management can take a longer term view of the business environment and not get distracted by shorter-term concerns.

The role of the SBU working under this parenting style is to concentrate on strategy implementation. It will be their job to motivate staff, change marketing, change processes and systems etc.

Financial control companies

This approach to corporate parenting is most appropriate when there are many diverse types of SBUs held by central management. Central management focus on providing a better financial performance through imposing financial targets on SBUs with failure linked to divestment. There is little sharing between SBUs as synergies are less obvious and harder to achieve.

This style would seem inappropriate for PIT as it will remain important for central management to be involvement in strategy development to some extent and to actively pursue the synergies between the business units.

Strategic control companies

Strategic control companies sit somewhere between the two extremes mentioned above. Corporate management take a middle course, accepting that SBUs must develop and be responsible for their own strategies, whilst still being able to on draw on central management's expertise.

Central management will attempt to create links between SBUs in order to seek out competitive advantage and synergies and will review the strategic decisions of SBUs. They will also set out financial targets for the SBUs but these will be linked to longer-term corporate goals rather than focusing on shorter-term financial returns.

SBUs will create and develop strategies themselves (though these will be co-ordinated by central management). They will act autonomously and be responsible for their performance. Rewards and performance measures will be needed to reflect this.

PIT

It would appear that, going forward, PIT should operate as a strategic control company going forward. This will allow central management to continue to seek and employ synergies between the business units whilst at the same time seek new growth strategies for the group as a whole. SBUs will be able to rely on central expertise when needed, but will be better focused at ensuring their own growth and success in the future.

ACCA marking scheme			
			Marks
(a)	Evaluation of company performance	Up to 5	
	Evaluation of each product group (up to 5 marks each)	Up to 15	
	Use of appropriate models		
(b)	Source of competitive advantage – generic strategy	5	20
	Alternative growth directions	2	
	Alternative methods for growth	6	
	Preferred strategy – justification	3	
(c)	Up to 5 marks for each parenting style applied to PIT	5	15
			15
Total			**50**

ANSWER 2

Key answer tips

Part (a) requires you to justify PEST analysis as a tool to use to evaluate an overseas environment. Part (b) asks for a discussion of the issues arising from applying the framework. There are also other issues, particularly relating to the specific industry environment, not covered by PEST analysis which you need to suggest. In Part (a) you do not need to say why a PEST analysis might not be suitable. In Part (b) you do not need to describe Porter's Five Forces, the typical model also used alongside PEST analysis to examine the environment. Note: The answer given here is longer than you could be expected to provide in an examination.

(a) **Using a PEST analysis to assist the environmental analysis**

PEST analysis examines the broad environment in which the organisation is operating. PEST is a mnemonic which stands for Political/legal, Economic, Social and Technological factors. These are simply four key areas in which to consider how current and future changes affect the business. Strategies can then be developed which address any potential opportunities and threats identified.

In entering a new overseas market, an environmental analysis is important to help the organisation understand the factors specific to that market so that the specific opportunities and threats posed can be assessed and appropriate action taken.

It is a useful tool for the following reasons:

1 **It ensures completeness**

The majority of issues relevant to an organisation will be covered under one of the four areas of PEST analysis. By reviewing all four areas, Don Mac can be sure that it has done a full and complete analysis of the broad environment.

2 **All four elements are relevant to examining new markets**

Political/legal

Each new country entered will have different political systems and laws. Don Mac will need to understand these differences to ensure that they operate within the law in Borderland. They will also want to ensure that there is political stability within the country which will ensure long-term viability of the new operations.

Economic

Economies are different in different parts of the world. Understanding the local economy in Borderland and how it is expected to develop enables Don Mac to assess the potential within that market as well as any economic issues which they need to consider.

Social

Each country will have its own cultural differences, and Don Mac can change how they operate depending on Borderland's culture. Don Mac has already shown its willingness to change for each country's different tastes and will want to do so in Borderland too.

Technological

Each country has a different level of technological expertise and experience. Don Mac might need to change processes to accommodate local systems, or implement training programmes for staff unfamiliar with their technology.

3 **It is a well-known tool which is easy to understand and use**

PEST analysis is a very simple tool that does not require detailed understanding. This means that it is easy to use by the team and simple for Directors to analyse and understand.

(b) **Main issues arising from applying the framework**

Various issues which Don Mac will need to consider include:

Political/legal factors

(i) Government grants

Some countries may have grants available for investment in the country. Considering the requirements to gain such grants may enable Don Mac to make use of these.

(ii) Political stability

Given Don Mac's worldwide penetration (over 120 countries) it is likely that Borderland is in a developing region which may be more politically unstable than many countries in which they currently operate. This may affect the long-term potential in the market.

(iii) Regulation on overseas companies

There may be regulation on how overseas companies can operate in the market. In China, for instance, it is common for joint ventures with local companies to be a prerequisite for western companies entering the market.

(iv) Employment legislation

Each country will have different employment legislation e.g. health and safety, minimum wages, employment rights. Don Mac may have to change internal processes from the US model to stay within this legislation within Borderland. Being a good employer is also one of Don Mac's specific strategies.

(v) Tax legislation

Tax laws will impact the profits available for distribution to the group. High tax levels may discourage Don Mac from entering the market.

(vi) Tariffs and other barriers to trade

Tariffs may be imposed on imports into Borderland. This may put Don Mac at a significant disadvantage compared with local competitors if they aim to import a significant number of items (unlikely on food items, more likely on clothing, fittings etc).

Economic factors

(i) Economic prosperity

The more prosperous the nation the more money people will have to invest in ‘fast-food'. Examining the current and likely future prosperity enables the organisation to understand the potential of this market and the likely future investment required.

(ii) Interest rates

This affects the cost of borrowing within Borderland. If high it may mean overseas funding is necessary. A big differential between interest rates in Borderland and the US is also likely to cause instability in the exchange rate (see below).

Interest rates also affect the availability of money for the people of the country. Low interest rates mean more disposable income to spend increasing the potential for Don Mac.

(iii) Exchange rates

Don Mac will be affected by exchange rates for items they export to Borderland (clothing, fittings). An unfavourable movement in exchange rates could make exporting to Borderland expensive and reduce profitability. It can also affect the value of profits when converted back to US dollars.

(iv) Position in economic cycle

Different countries are often at different positions in the economic cycle of growth and recession. The current position of Borderland will affect the current prosperity of the nation and the potential for business development for Don Mac.

(v) Inflation rates

High inflation rates create instability in the economy which can affect future growth prospects. They also mean that prices for supplies and prices charged will regularly change and this difficulty would need to be considered and processes implemented to account for this.

Social factors

(i) Brand reputation/anti-Americanism

As a global brand, the reputation of Don Mac might be expected to have reached Borderland. If not, more marketing will be required. If it has, the reputation will need to be understood and the marketing campaign set up accordingly.

This is particularly relevant given the anti-Americanism which is prevalent currently in some countries. Don Mac may have a significant hurdle to climb to convince people to eat there if this is the case in Borderland.

(ii) Cultural differences

Each country has its own values, beliefs, attitudes and norms of behaviours which means that people of that country may like different foods, architecture, music and so on, in comparison with US restaurants. By adapting to local needs Don Mac can ensure it wins local custom and improve its reputation.

Different cultures also need to be considered when employing people, especially given the importance to Don Mac of employee relations. People might have different religious needs to be met or may dislike being given autonomy so the management style needs changing.

(iii) Language problems

Different local languages can create problems, firstly in communication with staff. Secondly, product names need to be considered to ensure they are acceptable in the local language. General Motor's Nova suggested that ‘it won't go' in Spanish, for example.

Technological factors

Don Mac may need to train people in the use of their technologies if the local population are unfamiliar with them e.g. accounting systems or tills. In addition, technology might have to be adapted to work in local environments, such as different electrical systems.

Tutorial note

Note that there are far fewer factors to consider under technological factors. Do not assume the same mark allocation for each section in a model like this; instead tailor your answer to the points you have generated ensuring you have enough points in total covering all four PEST areas. Here a total of about 10 should be your target.

Other information required on Borderland

Other information which would be useful to find on Borderland might include:

Supplier information

The availability of materials, particularly food which being perishable would need to be sourced from Borderland, is important. They should look at local prices, quality of local produce, number of alternative suppliers, reliability of supply, and the supplier power in the market – it may for instance be a government monopoly who would have significant power and hence control over prices.

Competitor information

The extent of competition in Borderland is important to consider since it will affect the strategy adopted. If, for example, there are already many competitors providing very similar products to Don Mac's, then an aggressive marketing campaign and low prices initially might be a suitable strategy to build market share.

Information that might be collected on competitors might include:

(i) number of competitors

(ii) prices

(iii) market share of existing competitors

(iv) reputation/brand awareness

(v) products sold.

Threat of new entrants

The likelihood of other competitors, King Burger for instance, entering Borderland needs to be considered, since this will affect the profitability of the local market and the strategy adopted will need to be different.

If Don Mac is the first overseas company to enter the market but if other entrants are expected soon, it may adopt a market penetration policy – keeping prices low, advertising heavily and opening up many outlets to build barriers to entry and deter new entrants.

ACCA marking scheme		
		Marks
(a)	General introduction to the PEST framework – 1 mark Each relevant point JUSTIFYING the use of the PEST framework for Don Mac in their environmental analysis of Republic of Borderland – up to 2 marks each	8
(b)	Each issue arising for Don Mac from applying the PEST framework – up to 2 marks each, maximum of 4 marks per element of the framework. Maximum 12 marks for PEST Relevant additional information needed by Don Mac on Borderland – up to 2 marks each, maximum 8 marks	17
Total		**25**

ANSWER 3

(a) **Levels of planning**

There are three levels of planning: strategic, tactical and operational.

- *Strategic planning* aims to give a business a long term direction that allows it to cope with its environment and use its resources and competencies in a way that best achieves competitive advantage. It aims to satisfy the business' goals and choose actions that can be implemented to the best effect.
- *Tactical planning* concerns making decisions for each business unit that will let it compete in particular markets. It is about ensuring strategic plan are achieved and focuses on the medium term success of the business.
- Operational planning is concerned with managing resources, processes and people in the short term. It is performed to ensure that tactical plans are achievable.

The strategies at all levels should be consistent and one should flow from the other.

Josh's plan seems very operational. He has not considered his environment (such as buyer needs, economic climate, barriers to entry etc.) or set definite goals for his business. So there appears to be little strategic planning. There is a small element of tactical planning in terms of approaching shops and using the internet to promote the game(s) but this needs to be expanded further. He has also considered some elements of operational planning (in terms of buying a top level computer) but he needs to extend this into other key resources such as staff, premises, distribution etc.

(b) **Approaches to strategic planning**

There are a number of ways in which a business might choose to carry out its strategic planning process:

The rational approach

This breaks the process into three distinct steps: strategic analysis (examining the businesses external and internal environment), strategic choice (choosing how best to succeed within this environment) and strategic implementation (putting strategic choices into action). It is a very logical process with clearly defined steps and aims to make a business proactive towards its environment.

Johnson, Scholes and Whittington suggested that each step was interdependent and that each step should be reviewed and possible re-performed after each other step. They also suggested that any step could be the starting step in the process.

The emergent approach

This suggests that strategies emerge over time rather than being developed from an in-depth analysis of the businesses environment. It aims to recognise the difficulties that some businesses have with strategic analysis and suggests that such businesses should instead focus on their core competencies and ensure that these can lead to critical success factors as market needs emerge/ are identified.

Freewheeling opportunism

This system is designed for those businesses that do not like planning (either because it is difficult or because it is time consuming). There is no formal planning carried out and the business simply aims to grab any opportunities that might arrive – lurching from one strategy to another. This is an approach often used in the early stages of entrepreneurial businesses. It should not be used long term, and once the business is up and running it should switch to a rational or emergent approach.

From the above, it would appear that Josh would be best to use the freewheeling opportunism that he seems to want to use. So, although his plan is not very long-term and strategic, it is best for him to get the business up and running, create a viable product and survive for the first six months or a year. After that time he can be more rational and focused and expand his plans over the longer term.

(c) **Critical success factors**

A critical success factor (CSF) can be defined as the performance requirements that are fundamental to an organisation's success. CSF's come from two sources – the resources used in the organisation, and the competencies that the organisation possess.

However, not every resource and competency will lead to success. Some, known as the 'threshold' resources and competencies, are simply the minimum capabilities needed to compete in a market. They tend to be common to most rivals in the industry, are easily copied, and do not make a business stand out nor necessarily contribute to its success.

CSF's go beyond these threshold capabilities. CSF's will be made u of unique resources and core competencies which are not common to all rivals, are not easily copied, can make a business stand out and lead to the organisation's success

For the computer games industry unique resources might be technically adept staff, technologically superior computing power and efficient distribution networks. Core competencies might lie in the ability to reduce bugs, graphical prowess, innovation and marketing.

Josh appears to have identified some threshold abilities (having a top-range computer and his own technically ability) that are unlikely to be particularly valued by customers and easily exceeded by rivals. Having "great graphics" could be a core competency (though the statement is a little vague). But there are lots of areas missing, for example, he has not considered production, distribution or quality.

Josh needs to review these core competencies and determine what resources might make his business stand out and he also needs to develop competencies that will make his games stand out in the market place.

ACCA marking scheme		
		Marks
(a)	1 mark for explanation of each type of planning	3
	Need for consistency between levels	1
	Application to Josh's plan	Max 3 marks
		7
(b)	Explanation of different approaches	Up to 3 marks
	Application to Josh's business	Up to 3 marks
		9
(c)	Explanation of critical success factor	1
	Distinction between threshold and unique capabilities	Up to 2 marks
	Suggested CSF's for industry	Up to 4 marks
	Comment on Josh's CSF's	Up to 4 marks
		9
Total		**25**

ANSWER 4

Key answer tips

Section (a) asks for a Porter's five forces analysis of the environment in which CCC operates. Your answer should thus focus on the specialist car industry rather than the car industry in general. A lengthy explanation of the model was not required.

In part (b) ensure you assess the options you suggest, and conclude.

(a) **Porter's five forces analysis**

Porter's five forces model analyses the profit potential in an industry (industry attractiveness) by examining the competitive forces involved. The collective forces will determine the overall industry profitability and a firm's ability to deal with the forces better than competitors will determine individual profitability.

Porter's five forces model can be applied to the specialist sports car industry as follows:

Competitive rivalry between existing firms

There are only six specialist sports car manufacturers in Europe who appear to have carved out separate niches for themselves through product differentiation. Major car manufacturers are not considered to be rivals as they do not offer the same level of individual bespoke work as firms like CCC. (Note: This is probably unrealistic as major manufacturers own brands such as Ferrari and Aston Martin who would probably be considered as competitors.)

Overall competitive rivalry is a low/medium threat.

Tutorial note

Notice how the answer finishes with a conclusion on each force before proceeding.

Threat of entry of new firms

New entrants can compete away profits so barriers to entry need to be considered. Within the specialist sports car industry the main barriers are:

- brand name and reputation
- expertise (note: high salaries make poaching of key staff more expensive)
- capital requirements – e.g. design, sales promotion and marketing.

Overall these are high enough to make the threat of entry low.

Threat of substitute products

The availability of substitutes puts a ceiling on the price firms can charge for their products. Substitutes for luxury sports cars include many other 'expensive toys' such as yachts, helicopters and powerboats. However, the types of customers who might consider such vehicles can probably afford the substitutes as well, so overall this threat is considered to be low.

Power of suppliers

Powerful suppliers can force up prices, eroding manufacturers' margins. Supplier power is linked to the size and number of suppliers and the availability of alternative sources of supply.

Where suppliers provide products that are easy to source elsewhere, such as tyres, then supplier power is low. If, on the other hand, a manufacturer is dependent on a supplier with a strong brand name who supplies a major component, such as an engine, then supplier power is higher. This is the case with CCC and SSS, discussed in more detail below.

Power of customers/buyers

Powerful customers can force suppliers to cut prices, eroding margins. Buyer power is linked to the size and number of buyers and the availability of alternatives. Customers for specialist sports cars can easily switch to alternative suppliers and are in a position to negotiate prices down, due to the bespoke one-off nature of the work.

Overall, customer power is high.

Summary

Overall competitive forces appear to be strengthening, as shown by a decline in CCC's profit margins from 20% in 20X2 to 7.5% in 20X5. It is vital that CCC examines how to deal with key forces, such as supplier power, more effectively to halt this trend.

(b) The power of SSS can be overcome by a mixture of the following:

More aggressive bargaining

It is likely that CCC is a major client for SSS and could thus exert more customer power to force SSS to drop prices. However, this approach does not appear to have succeeded to date and a more aggressive stance could undermine CCC's relationship with SSS, resulting in even worse terms. At present CCC's customer's place a high value on SSS's input, so CCC would not want to risk a situation where SSS refused to supply them.

Seek alternative sources of supply

CCC could investigate finding an alternative supplier with a reputation as good as (or better than) SSS. Key concerns here would be:

- whether customers view the new supplier as being as good as SSS
- the time and costs involved in switching to a new supplier.

Bring tuning services in-house

CCC could bring tuning in-house by recruiting mechanics and engineers with the appropriate skill base. Given the high salaries CCC pays to staff, this should be feasible. This could involve headhunting key staff from SSS if necessary, though there should be many possible 'targets' from the arena of professional motor sport.

As with seeking alternative suppliers, the issue would be whether customers would perceive the quality of cars to fall without SSS's involvement.

In the UK when TVR decided to reduce their reliance on Rover for engines in their sports cars, they set up works teams to compete in motorsport to raise the company profile.

Acquire SSS

Backwards vertical integration by buying SSS would reduce supplier power without the risk of eroding customers' perceived value. It would give the benefit that CCC could prevent SSS from doing work for CCC's competitors.

The main concerns here would be:

- Whether the existing owner would be willing to sell, particularly given the strong position SSS currently enjoys. Offering a mixture of cash and an equity stake in CCC could make the offer more attractive.
- Financing a possible acquisition as SSS is likely to be expensive, though again offering shares would make this easier.

ACCA marking scheme		
		Marks
(a)	Up to 3 marks for each force – marks will only be awarded if the factors are made up relevant to the scenario	15
(b)	Up to 2 marks for each sensible piece of advice that relates to the scenario	10
Total		**25**