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# ACCA – Paper P3 Business Analysis December 2015 Revision Mock

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## Marking Report

### Notice to Markers

- 1 When commenting about the script performance, please ensure on individual questions and on overall assessment your comments cover areas of examination technique including:

<ul style="list-style-type: none"><li>• Time management</li></ul>	<ul style="list-style-type: none"><li>• Handwriting</li></ul>	<ul style="list-style-type: none"><li>• Presentation and layout</li></ul>	<ul style="list-style-type: none"><li>• Use of English</li></ul>
<ul style="list-style-type: none"><li>• Points clearly and concisely made</li></ul>	<ul style="list-style-type: none"><li>• Relevance of answers to question</li></ul>	<ul style="list-style-type: none"><li>• Coverage and depth of answer</li></ul>	<ul style="list-style-type: none"><li>• Accuracy of calculations</li></ul>
<ul style="list-style-type: none"><li>• Calculations cross-referenced to workings</li></ul>	<ul style="list-style-type: none"><li>• All parts of the requirement attempted</li></ul>	<ul style="list-style-type: none"><li>• Length of answers equates to marks available</li></ul>	<ul style="list-style-type: none"><li>• Read the question carefully</li></ul>

- 2 For each question, please provide suitable constructive comments

Question Number	General Comments	Exam Technique Comments

**ACCA REVISION MOCK**

# **Business Analysis**

**December 2015**

**Question paper**

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

**This paper is divided into two sections:**

**Section A:** This 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.**

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

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**Paper P3**

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## SECTION A

### This question is compulsory

- 1 Land of Fotos (or LF) operates photographic processing shops in Astoria, a country with a population of around 20 million people. The company was started about ten years ago by Len Secap, and it is now run as a family firm. The business supports Len and his wife, and their two grown-up sons and their families.

#### Outlets

LF has three types of outlet, with a particularly strong presence in coastal resort towns.

**Professional** shops, each with its own developing and printing machinery, are aimed mainly at the professional photography market. These can offer processing of traditional photographic film and can provide printing up to a size of 64 square inches. LF previously had twelve of these spread around the region but in the last two years most of these have been closed and only two remain.

There are also **retail** shops which are aimed at the casual camera user. These focus mainly on digital processing for customers who have used digital cameras. Each shop will typically have eight digital processing machines. A user can insert their camera card, pay a fee and obtain the resulting images within a matter of minutes.

Finally there are **kiosks** that merely collect films or digital cards and give return the card and printed images one or two days later. Each major town has at least two kiosks; there may be several kiosks. Ideally, kiosks are rented temporarily for the holiday season, though this is difficult to arrange as most tenants in holiday towns want very short leases. Sometimes the kiosks are concessions within other retail businesses. All the kiosks in a town will use a retail shop in that town for their processing resource, and there is a three times-a-day courier service between kiosks and the shop. Besides selling photograph processing and printing services, each kiosk and retail shop sells replacement films, albums, frames, memory cards and simple cameras.

One professional shop is run by one of Secap's sons, John, who is very knowledgeable about photography. His shop sells a very wide range of photographic goods, new and second hand cameras and camcorders, and has recently begun to stock a range of personal computers. It has a strong reputation in the area as a source of good advice and fair deals on trade-ins. The other son, Mark, is less technically minded, but he has proved himself a capable general manager. He spends most of his time visiting outlets and dealing with any problems they have.

LF use high-grade, imported machinery to provide high quality printing outputs. The company typically makes around a 12% gross margin and 5% net margin. But over the last two years these figures have come under pressure as revenue has stopped growing and opportunities to cut costs have been hard to find.

#### The market profile

Land of Fotos's business is very seasonal and 60% of the company's business is in May to August. Losses are certainly made in most of the other months, despite laying off many employees who are hired temporarily in the summer. Although business is always better in the summer, it can vary greatly from year to year. The economy is very important as holidays, day trips and photographs are discretionary expenditure and are greatly affected during periods of economic recession. Another major influence is the weather, as poor weather means fewer photographs are taken; there are also fewer day trippers. A summer of bad weather also affects business the following year; if there has been a very poor summer, many people prefer to go abroad the next year to enjoy some sun.

The following are the main competitors of LF.

- (1) Other local shops such as pharmacists and newsagents which have agreements with Bonus-snap, a national photographic processing business. Photographs are returned after approximately 24 hours.
- (2) Covers, a national supermarket, offers a service to customers that allows them to leave memory cards at the start of their normal shopping and pay and collect the photographs when paying for their other shopping. The pricing of this service is typically 33% higher than the service provided by Land of Fotos.
- (3) Internet processing companies, such as Photobox, which return photographs after about a week, and can typically beat LF on price by as much as 40%.

There are no other direct competitors who specialise solely in photo processing. But Covers and the large internet processing companies can usually offer a more extensive range of products than Land of Fotos, such as enlargements up to 12' x 16', as well as jigsaws and 'T' shirts printed with customer photographs. LF has never considered offering these types of products in the past.

LF have not previously offered these products because Len Secap assumed that, as most trade is from tourists, most customers would have left the area before their orders were ready, so they would not place orders for such products whilst on holiday.

#### **New product development**

Mark Secap has employed the services of external consultants to assess potential new strategic directions for the company. There has been some reluctance from John and Len but Mark believes that the company is stagnating and without a new long-term plan the company will eventually decline and lose much its value. They also believe that, in the face of a local recession and falling exchange rates, this is a poor time to be expanding. But the retail shops and professional shops are owned by the family and the sale of some of the professional shops has given the company a large cash balance to fund further expansion if it was deemed necessary.

The external consultants assessed a number of potential strategies for the business such as geographic expansion, price cutting and even selling up the business as a going concern. But the consultants and Mark believe that the most viable strategy would be a product extension which would achieve further differentiation of the company's services. They have identified a unique t-shirt printing opportunity which they both believe would make the stores stand out and better match the changing social and technological needs of the market place. The strategy has worked very successfully in larger foreign markets, but no companies in Astoria have yet to introduce this service. The supplier has a strong patent which gives it an effective monopoly in the supply of this equipment.

#### **New machinery**

The company could invest in new machinery that would combine a 52 inch touchscreen display input for customers and a t-shirt printing press. It would allow customers to upload their own image from a memory card or USB stick and they could then add text, draw using finger gestures or personalise the picture in many other ways. The picture would then be transferred to the printing machine which would print out up to 16 t-shirts as well as photographs if necessary. The printing would take no longer than 2 minutes per t-shirt (although the item would not be wearable for a further 30 minutes). It is believed that these would appeal to young people, families with young children, and groups visiting resorts to celebrate special events. There is no other similar product available on the high street. Similar personalised t-shirts can be bought via the internet, but they are more expensive, take longer to deliver and are more difficult to personalise (requiring more complex editing software than a normal internet user is familiar with).

The machine would cost \$280,000 and have the capacity to produce 800,000 t-shirts per annum. It would have fixed running costs of around \$50,000 per annum (excluding depreciation) and cost around \$2 per set up for each t-shirt. The seller of the machine is willing to provide LF with a guarantee that it will not sell to any other companies in Astoria for the next four years. The machine would need replacing at this time and the old machinery can be expected to have zero residual value.

Mark Secap plans to set a selling price of \$26 per t-shirt so as to reflect the value for money quality service that LF typically portray. He hopes to add \$65,000 per annum to net profit in order to get the company moving in the right direction again and to provide a financial base from which to develop other strategies in the future.

### **Project management**

Mark Secap plans to assume the role of project manager for the new investment. He has purchased a text on project management but found much of it confusing. However he has understood the need for proper benefits management, and to that end has drawn up a draft benefits dependency network (see Table 1).

Because of possible resistance from Len and John, Mark understands the need to build a proper business case for the new project. He also plans to introduce a more formal budgeting process to the business. He wants to start setting budgeted sales targets for the new t-shirt system and build more budgeting initiatives from this starting point.

### **Required:**

- (a) **Using a suitable model or model, assess the competitive nature of LF's existing market with a view to supporting Mark Secap's business case for the new project.**

*This part of the requirement includes three professional skills marks.*

**(18 marks)**

- (b) **Mark Secap has started to develop a benefits dependency network as part of building a business case for the new project. Consider the following:**

- (i) **Evaluate the benefits and problems in using a benefits dependency network**  
**(12 marks)**

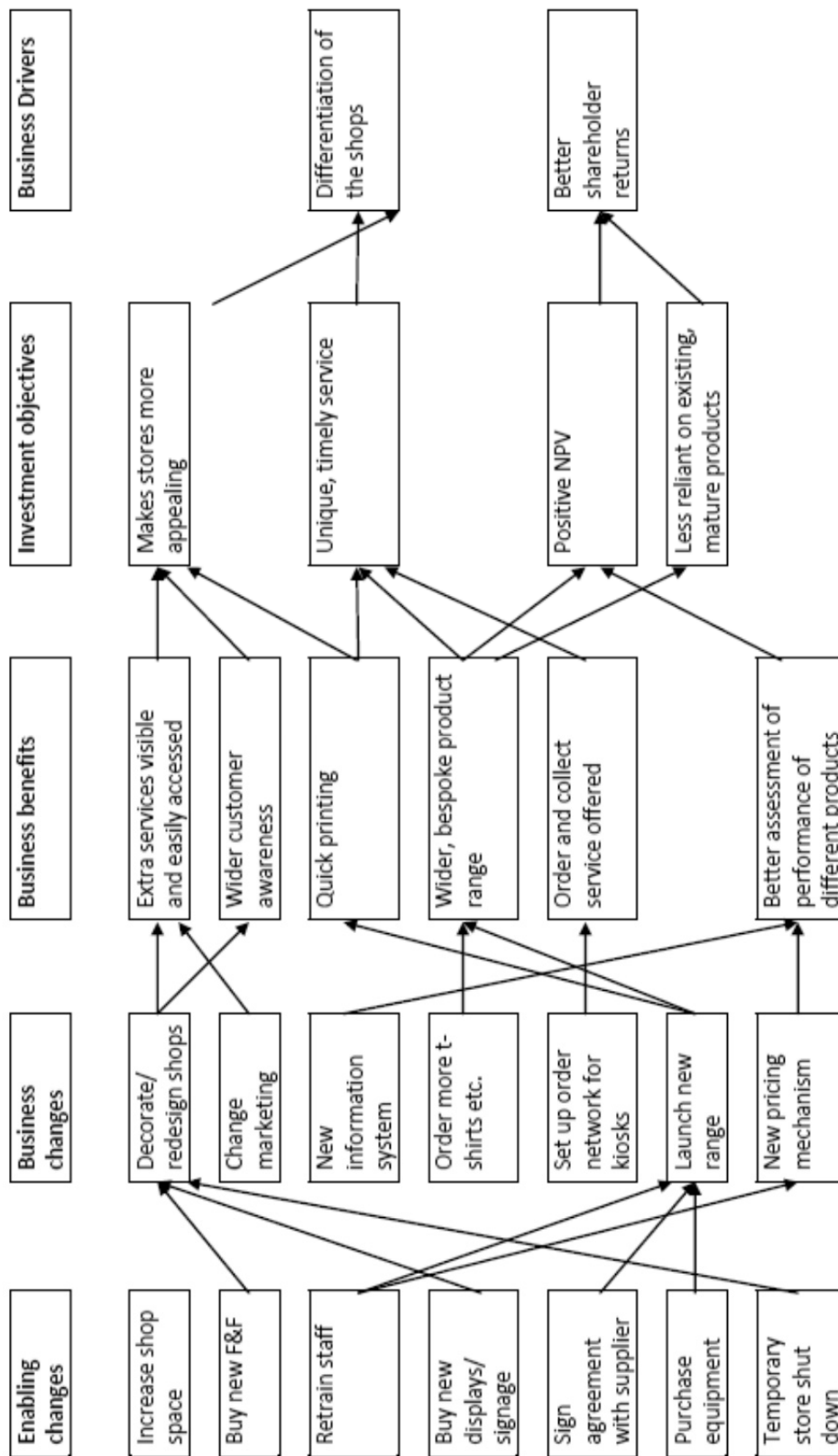
- (ii) **Suggest the nature and scale of other benefits that might be included in the network to help complete it.**  
**(8 marks)**

*This part of the requirement includes two professional skills marks.*

- (c) **Calculate the budgeted number of t-shirts LF would have to sell each year in order to achieve Mark's target profit and explain the principles behind an effective budgetary control system.**  
**(12 marks)**

**(Total: 50 marks)**

Table 1: Benefits dependency network





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## SECTION B

### Two questions only to be attempted

- 2 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 Ruritania 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 Ruritania 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)

**3** Gateway Leisure is a travel business with a network of 50 branches in a number of major cities throughout Ruritania. Gateway Leisure offers three types of holiday product, known within the company as Family, Outdoors and Golden Travel.

'Family' provides holidays mainly for families with children aged up to their late teens, whilst 'Outdoors' caters for people aged mainly between 20 and 30, who want relatively cheap adventure based holidays such as trekking. 'Golden Travel' provides expensive and bespoke holidays mainly sold to couples whose children have grown up and left home. The company supports its main products by offering travel insurance and foreign currency exchange.

**Staffing**

Gateway Leisure employs 550 full-time equivalent staff. Turnover of staff is relatively low. High performance rewards in terms of bonuses are paid to staff in each branch if it meets or exceeds its quarterly sales targets. Staff also receive an additional bonus if they are able to sell travel insurance along with a holiday product to customers.

Staff undertake a two day induction programme at the commencement of their employment with Gateway Leisure. The emphasis of the induction programme is on customer service not on details relating to the products as it is expected that new staff will become familiar with such product details as they gain experience within Gateway Leisure.

After analysis of the relative profitability of each type of product, Gateway Leisure has identified that its 'Golden Travel' packages – while making up a significant proportion of company revenue - have been returning relatively lower profits compared to its other product ranges due to lower than expected take up.

**Operations Director proposal**

The Operations Director (OD) has recommended that Gateway Leisure sets up a new brand to cover its premium, Golden products, called 'YourWay'. Gateway Leisure's 35 largest stores would be partly redesigned to create a new dedicated section for YourWay customers.

Two members of staff from the existing team in each store will be required to work predominantly on the YourWay counter in each store (all staff currently sell all product ranges within the stores). Given the bespoke nature of the YourWay product range, the OD feels that it would be sensible to offer additional training in customer service for the YourWay staff members.

Due to the increased amount of training given to staff, the directors feel that it would be appropriate to offer them a higher basic package than the remaining staff in each office. A bonus will be paid to YourWay staff if they meet a number of performance indicators – these will be based on expected levels of customer feedback on the quality of service provided on YourWay products (no part of their bonus will be based on sales of Gateway Leisure's other product ranges).

**Pilot feedback**

The Board of Directors authorised a pilot of the OD's proposals in three major stores. After four months, customer feedback on the new-look stores has been favourable. However, there have been complaints that the waiting time in-store to speak to an assistant (for all products) has risen.

Feedback from employees has been more mixed, with a number of complaints being made about the new operations. These included:

- Non-YourWay staff (or 'standard' staff, as Gateway Leisure's management refers to them) have complained about the additional training received by YourWay staff members. They have repeatedly asked for regular product training in the past, but it has been rejected on the grounds that it was not cost effective and that staff members should be able to do this in their own time.
- There have also been complaints about the new pay structure, with standard staff feeling that they are undervalued, while YourWay staff have complained that their bonuses are more strict and harder to achieve than those of standard staff members.
- Several standard staff members have suggested that they have heard YourWay staff giving customers inaccurate information and poor service when selling other products. Management's response has been to recommend that YourWay staff should be focusing on the sale of YourWay products, and avoid dealing with non-YourWay customers where possible.

There have been reports of some breakdown in working relations at the pilot stores, with some standard staff refusing to speak to YourWay staff members. This sharply contrasts with the excellent team spirit in Gateway Leisure's non-pilot stores, where all the employees work together to sell all of Gateway Leisure's product ranges and are assessed as a group based on total store sales.

Given the relatively small number of YourWay staff in each branch, they report directly to Gateway Leisure's regional managers, rather than the individual store managers.

**Required:**

- (a) Analyse the culture in the pilot YourWay stores and explain why it is likely to have caused behavioural problems with staff members. (15 marks)
- (b) Evaluate FOUR potential leadership approaches that Gateway Leisure could use to deal with staff resistance if the YourWay pilot is extended to Gateway Leisure's remaining stores. (10 marks)

(Total: 25 marks)

- 4 DRB Electronic Services operates in a high labour cost environment in Western Europe and imports electronic products from the Republic of Korea. It re-brands and re-packages them as DRB products and then sells them to business and domestic customers in the local geographical region. Its only current source of supply is ISAS electronics based in a factory on the outskirts of Seoul, the capital of the Republic of Korea. DRB regularly places orders for ISAS products through the ISAS web-site and pays for them by credit card. As soon as the payment is confirmed ISAS automatically e-mails DRB a confirmation of order, an order reference number and likely shipping date. When the order is actually despatched, ISAS send DRB a notice of despatch e-mail and a container reference number. ISAS currently organises all the shipping of the products. The products are sent in containers and then trans-shipped to EIF, the logistics company used by ISAS to distribute its products. EIF then delivers the products to the DRB factory. Once they arrive, they are quality inspected and products that pass the inspection are re-branded as DRB products (by adding appropriate logos) and packaged in specially fabricated DRB boxes. These products are then stored ready for sale. All customer sales are from stock. Products that fail the inspection are returned to ISAS.

Currently 60% of sales are made to domestic customers and 40% to business customers. Most domestic customers pick up their products from DRB and set them up themselves. In contrast, most business customers ask DRB to set up the electronic equipment at their offices, for which DRB makes a small charge. DRB currently advertises its products in local and regional newspapers. DRB also has a web site which provides product details. Potential customers can enquire about the specification and availability of products through an e-mail facility in the web site. DRB then e-mails an appropriate response directly to the person making the enquiry. Payment for products cannot currently be made through the web site.

Feedback from existing customers suggests that they particularly value the installation and support offered by the company. The company employs specialist technicians who (for a fee) will install equipment in both homes and offices. They will also come out and troubleshoot problems with equipment that is still under warranty. DRB also offer a helpline and a back to base facility for customers whose products are out of warranty. Feedback from current customers suggests that this support is highly valued. One commented that 'it contrasts favourably with your large customers who offer support through impersonal off-shore call centres and a time-consuming returns policy'. Customers can also pay for technicians to come on-site to sort out problems with out-of-warranty equipment.

DRB now plans to increase their product range and market share. It plans to grow from its current turnover of \$5m per annum to \$12m per annum in two years' time. Dilip Masood, the owner of DRB, believes that DRB must change its business model if it is to achieve this growth. He believes that these changes will also have to tackle problems associated with

- Missing, or potentially missing shipments. Shipments can only be tracked through contacting the shipment account holder, ISAS, and on occasions they have been reluctant or unable to help. The trans-shipment to EIF has also caused problems and this has usually been identified as the point where goods have been lost. ISAS does not appear to be able to reliably track the relationship between the container shipment and the Waybills used in the EIF system.
- The likely delivery dates of orders, the progress of orders and the progress of shipments is poorly specified and monitored. Hence deliveries are relatively unpredictable and this can cause congestion problems in the delivery bay.

Dilip also recognises that growth will mean that the company has to sell more products outside its region and the technical installation and support so valued by local customers will be difficult to maintain. He is also adamant that DRB will continue to import only fully configured products. It is not interested in importing components and assembling them. DRB also does not wish to build or invest in assembly plants overseas or to commit to a long-term contract with one supplier.

**Required:**

- (a) Analyse the primary activities of DRB and the value that they offer to customers. (9 marks)
- (b) Explain how DRB might re-structure its upstream supply chain to achieve the growth required by DRB and to tackle the problems that Dilip Masood has identified. (10 marks)
- (c) Explain how DRB might re-structure its downstream supply chain to achieve the growth required. (6 marks)

(Total: 25 marks)

