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ACCA – Paper P3
Business Analysis
September and December 2015
Final Assessment

Instructions

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

• Time management	• Handwriting	• Presentation and layout	• Use of English
• Points clearly and concisely made	• Relevance of answers to question	• Coverage and depth of answer	• Accuracy of calculations
• Calculations cross-referenced to workings	• All parts of the requirement attempted	• Length of answers equates to marks available	• Read the question carefully

2 For each question, please provide suitable constructive comments

Question Number	General Comments	Exam Technique Comments

ACCA FINAL ASSESSMENT

Business Analysis

September and December 2015

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 Choose two questions from three

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet 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

1 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)**

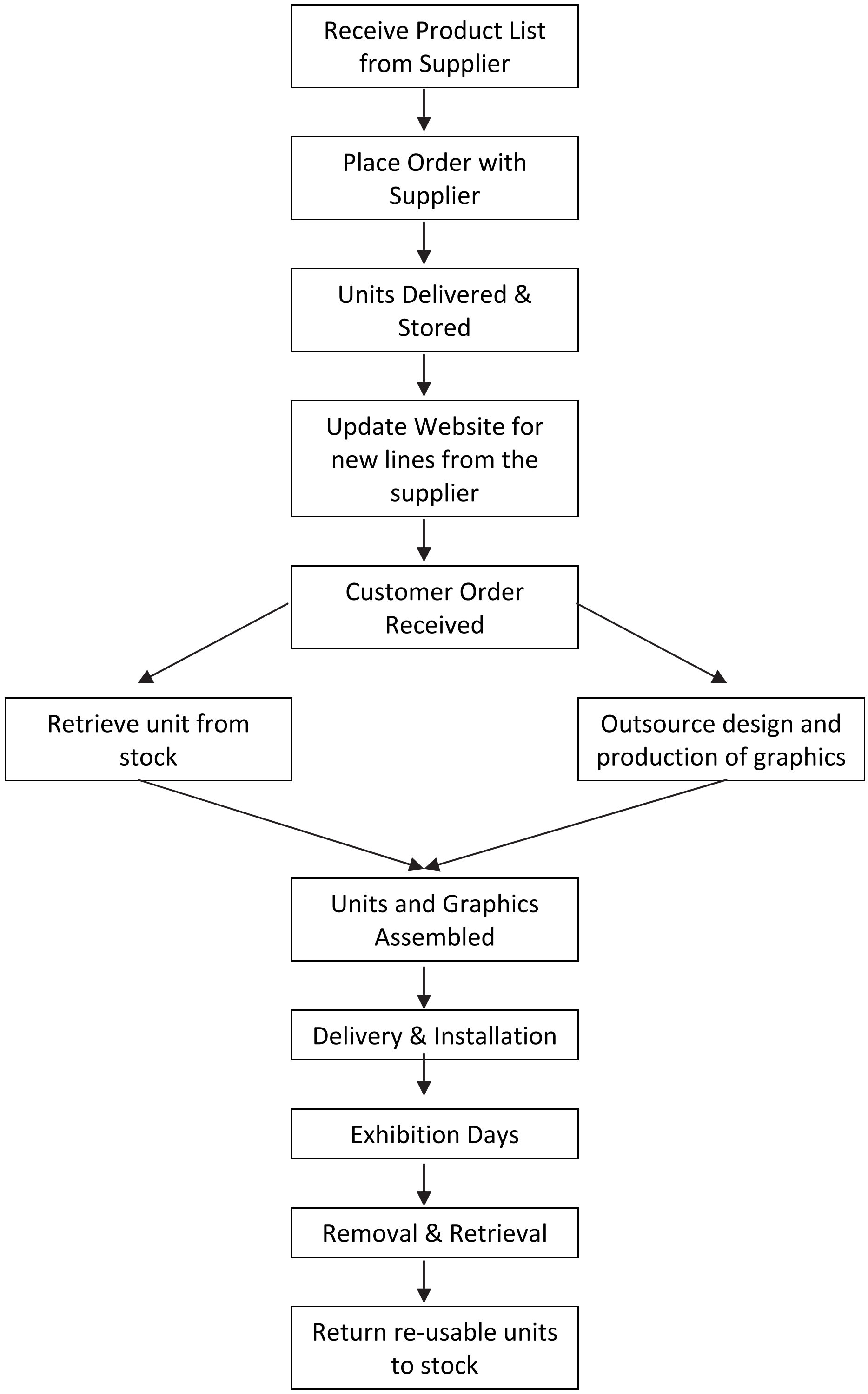
(b) **Disbit is attempting to redesign one of its business processes. Explain, using Harmon's methodology, how business process redesign should happen in Disbit.**

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

Two questions only to be attempted

2 Hazeldine is a well-established manufacturer of camping equipment. It has a large national distribution chain and 4 retail premises spread throughout the country. It manufactures a wide range of equipment as well as buying in and re-badging other equipment with the Hazeldine logo and branding. It sells its products through its retail sites as well as a through an online e-commerce store.

Six months ago Hazeldine undertook a project to build a specialist display area close to its head office site. The plan was to build a mini camp site that could be used to display equipment manufactured by the company in a camping environment. This would be used to illustrate the equipment to potential overseas buyers who represent large international retailers. The sales team at Hazeldine believe that selling to these buyers will greatly increase the company's international presence, branding awareness and overall volumes.

A detailed project plan process was followed and the board reviewed the project plan and gave approval for project initiation. The plan was to build the facility within three months and a total budget of $500,000 was set for the project. Steve Mexes, the director of product design, was placed in charge of the project and created this initial cost plan:

		$
Materials		100,000
Equipment costs		40,000
Labour	(@$20 per hour)	90,000
Machinery hire	(@$30,000 per month)	90,000
Project salaries		90,000
Project planning costs		5,000
Specialist project software		20,000
Miscellaneous		15,000
Contingencies		50,000
Total budgeted cost		500,000
Expected extra contribution from international sales		600,000
Net project benefit		100,000

Two months into the project and Steve Mexes now believes that, not only will the project not be finished on time, but also that it is likely to be so far over budget that it is no longer viable (even taking a best case scenario). The latest reviews show that the project is around 50% complete and has incurred the following costs to date:

		Costs to date	*Expected cost to completion*
		$	$
Materials	(50%)	50,000	50,000
Equipment costs		0	40,000
Labour		90,000	90,000
Machinery hire		60,000	60,000
Project salaries		60,000	60,000
Project planning costs		5,000	0
Specialist project software		18,000	0
Miscellaneous		12,000	0
Contingencies		120,000	0
Total costs at end of month 2		415,000	300,000

Materials include items such as fencing, building materials, turf etc. This was purchased in full at the start of the project and is charged to the project at full. Equipment costs refer to the production cost of Hazeldine camping equipment which will be transferred from production at the end of the project.

Labour costs are expected to be low as the plan was to use idle time from factory production staff to perform the building work. When idle time was not available then these staff would be paid at their normal overtime rate of $20 per hour. The project specific salaries are incurred for specialist staff recruited to the project management team. They are employed on a fixed monthly contract with one month's notice period for termination available to either party.

Specialist software was purchased at the start of the project to help with project planning etc. and no further project planning costs are expected. Contingencies have increased due mainly to the unexpected need to build a drainage system to the camp and provide water access for those items of equipment that require it.

Steve Mexes believes that the best way forward would be to abandon the project completely. Machine hire could be stopped, project staff given their one month's notice and the area set aside for the new camp could be converted to product storage space at a cost of $10,000. Unfortunately, the remaining materials and the project software are unlikely to have any sell on value, but the project software could at least be used on future business projects.

Required:

(a) On the basis that the project is likely to take another two months to complete, consider whether, from a financial perspective, the project should be abandoned at its current stage. (5 marks)

(b) Explain the other responses that the project manager could take to resolve the project problems. (10 marks)

(c) The project benefits have not yet been derived and are likely to be long term in nature. Explain the process for establishing responsibility for the delivery of these benefits. (10 marks)

(Total: 25 marks)

3 Victor Isaac was a famous science fiction writer who sold millions of books around the world. The writer died in 1996 and his wife and friends founded a trust in his honour which would display original texts from his novels, character models, personal possessions and other material associated with his imagined worlds. The Victor Isaac Literature Exhibition Centre (VILEC) was founded in the 1990's to honour his life and literature. Based in the town of his birth it has attracted nearly 750,000 visitors since its inception.

The trust was originally managed solely by the trustees, but since a massive surge in growth and popularity, and the death of Victor's wife, Helen, a board of directors was appointed to run VILEC and the trustees took on a more advisory role. The trustees (made up mainly of former friends of the author) now focus on obtaining works for the centre but have little influence on the management or strategies of VILEC.

Funding

Initial funding for the centre came from a large donation from Victor's death estate. This was used to purchase the building where Isaac was born and convert it to a public museum with a visitor centre. The exhibits were mainly taken from Isaac's personal possessions, but over the years this has been supplemented by donations from fans and purchases on the open market. The visitor centre was set up as a free-of-charge exhibition but visitors were asked to make voluntary, nominal donations. These donations now make up an average of 20% of all income for the centre. A further 25% of income comes from an on-site café which, like the centre itself, is operated by volunteers.

The remainder of the funding comes from the government's central Culture Department. This department provides funding to cultural activities that the government believe is of national importance. The Culture Department want to prioritise funding towards the most popular cultural activities and therefore funding is provided on the basis of visitor numbers – the more visitors an activity can attract, the more funding it receives. VILEC has proven to be a popular museum and has seen a steady growth in this funding in the last 10 years.

New Managing Director

VILEC have recently taken a decision to re-organise senior management, starting with the appointment of Tanya Daly as overall managing director to the centre. Tanya, a qualified accountant, had worked for the last fifteen years as the chief executive of a popular leisure park, and under her leadership the park became one of the most profitable leisure activities in the country. VILEC want to become more commercial and the appointment of Tanya is seen as a way to bring commercial experience onto the board. One of her key aims is to seek out new sources of revenue so that the centre becomes less reliant on central funding.

The VILEC board has a mixture of executives such as the museum curator, the exhibit director and the catering director, as well as non-executives appointed by the trustees. These board members will provide advice, experience and balance to Tanya's decisions, but Tanya will always have the final say in any key matters.

At their first quarterly question-and-answer session with Tanya, the trustees were dismayed to find that Tanya had no definite strategies as to how the centre should proceed. Tanya's argument was that her approach to strategic planning is to first determine how much finance was available over the next year or two and base her strategies on that, rather than waste time considering strategies that would not be possible to fund.

Required:

(a) **Comment, using an appropriate strategic model or models, on Tanya's approach to strategic planning.** **(12 marks)**

(b) Having reviewed how much financing is available for investment, Tanya's first suggested strategy for the business is to build a conference centre adjacent to VILEC. The plan is for this to be a profit making activity that would provide finances to provide extra features and exhibits at VILEC.

Analyse the principal stakeholders in VILEC in the context of this proposed investment **(13 marks)**

(Total: 25 marks)

4 Sparkle manufactures headlights for the car industry. Most of the shares are owned by Mr Ford who is also chairman.

Company history – pre 2005

The company was founded by Mr Ford 38 years ago, shortly after he left his employment as a research physicist with a large engineering company. Sparkle manufactured a range of 30 different low voltage, commercial lighting appliances for sale to over 500 different customers throughout the UK. For many years operations changed very little.

Each product was made by a group of employees on a batch basis, with the product manager of each group reporting directly to Mr Ford. There were also directors in charge of each function, including engineering, financial, research and marketing. Product managers also reported to these directors who in turn reported to Mr Ford. There was significant employee satisfaction from producing good quality output.

Mr Ford's management style made clear that he alone took the major decisions, but he was prepared to listen and consult before doing so. Wages have been maintained above industry norms and there have never been any compulsory redundancies.

The argon headlight

In 2005 Mr Ford invented the 'argon' headlight and obtained a patent. It was much brighter than the standard halogen headlight used on most cars, and it was much cheaper than the xenon headlight used on the most expensive vehicles.

There had been significant interest in the new headlight from major car manufacturers from all over the world. In consequence, the whole of the factory's output was changed to the production of the argon headlight, resulting in the abandonment of existing customers and products. The headlight was manufactured on a production line using a process basis, rather than batched production as previously. A functional structure was adopted, and the small groupings ceased to exist. Employee numbers trebled and there was a change from working a single shift to 24 hour production using three shifts.

After two years of argon production one employee commented: 'This factory has changed out of all recognition in the last few years. Many of the old employees have left because they cannot cope with the new technology; all the old skills seem to be worthless. The new employees do not have the same values of producing a decent quality product. Mr Ford also seems to have changed; there is no longer any meaningful consultation. All that matters is that the volume of output meets demand.'

The takeover bid

Mr Ford overcame any barriers to change that existed and the argon light became very successful and the company's performance was excellent. So much so that by early 2008 it became clear that if demand was to be satisfied there needed to be a major new investment in plant and factory space. Mr Ford was, however, approaching retirement and was unwilling to make such a commitment.

In October 2008 Mr Ford was approached by an American-based, major international car manufacturer, Robin Inc., with a very substantial offer to buy Sparkle Ltd. Mr Ford accepted the offer in December 2008. Robin had been a large customer of Sparkle and was looking to secure its supply chains via backward integration.

Prior to the acquisition, Robin Inc., in common with other car manufacturers, only provided argon headlights as an optional extra. But six months after the acquisition it has decided to fit them as standard to all its cars. As a result, it intends to use the whole of the Sparkle factory output of argon headlights on Robin cars.

It was made clear that further expansion and efficiency savings would be needed. Mr Ford would be expected to continue working for two years to help to implement change, but a manager would be appointed to control the factory, and Mr Ford would report to him. The final value of the takeover would partly depend upon the profitability achieved in these first two years.

The structure of Robin Inc. is one of close bureaucratic control, tight monitoring of costs and an integration of the corporate philosophy of total quality. Pay is below industry norms and is based largely on performance. There is a tight disciplinary code for employees.

Required:

(a) The strategic changes that have happened at Sparkle have often coincided with a change in organisational structure. Briefly describe the structural changes that have occurred and analyse the relationship between organisational structure and business strategies using the context of Sparkle and Robin to illustrate your analysis. (15 marks)

(b) Consider the barriers to change that were faced by Sparkle when it changed to the production of the argon light and whether Robin will face the same barriers post-acquisition. (10 marks)

(Total: 25 marks)