# Examiner's report

## P3 Business Analysis
## December 2013

### General Comments

The P3 examination has two sections. Section A is worth 50 marks and has one question based around an extended scenario. Section B has three scenario-based questions, two of which have to be answered by the candidate. Each of these questions is worth 25 marks.

This particular examination included quantitative data in questions 1, 2 and 3 which the candidate could have used and interpreted to gain marks. However, many candidates only used the data superficially and often inaccurately. Where data was used, the back story behind the values was often not explored. For example; the declining performance of the two companies acquired by the case study company of question one (Machine Shop) was clear from calculated ratios. However, few candidates used this data to highlight a weakness in post-acquisition performance of a company that was considering yet another acquisition, this time in a foreign country where it had little trading experience. Similarly, the potential to use expected values in question three was rarely exploited, leading to answers that were general and rather thin, despite the fact that the question specifically asked the candidate to ***quantify*** the increased income or savings that their suggested changes would bring.

Question Two was rarely answered by candidates despite the fact that it had clear reference to concepts introduced and examined in F5. One commentator claimed that it was 'a gift - something straight out of F5!', but for many candidates it was a gift they chose not to accept.

### Question One

The company at the heart of question one (MachineShop), has been very successful in its home market of Arboria. It offers a range of products in a number of stores and is the only company at present, which operates in this way. Its mode of operation is a unique core competence. It is wholly owned by ambitious directors who now wish to grow the company through a combination of 'internal growth, acquisition and, possibly, strategic alliances'. It is this ambition that formed the basis of the first part of the question, where the candidate was asked to explain and evaluate each of these three methods of pursuing growth in the context of MachineShop's development to date and its ambitions for future growth and development. Up to now, MachineShop has grown organically and it has also made two acquisitions (LogTrans and EngSup) and is considering a third, FRG. This part of the question, worth 18 marks was relatively well answered. In fact, in a number of scripts it was *over-answered* with candidates quickly achieving the six marks on offer for a selected method. Candidates must be aware of this, and keep their answer to an appropriate length. This is part of good examination technique. Although many candidates scored well on this part of the question (many scored 15 marks or over), it was at the cost of time management problems late in the paper.

It was the potential acquisition of FRG that formed the basis of the second part of the question. Candidates were asked to write a report which used the criteria of suitability, acceptability and feasibility to evaluate the potential acquisition of FRG. Significant information from the scenario included the problem of acquiring a company in a foreign country (Ceeland), and also the post-acquisition performance of LogTrans and EngSup (both Arborian companies) suggested that the management of acquisitions was NOT a core competence of MachineShop. Candidate answers to this question were rather average. In general, not enough use was made of the financial information provided for FRG or the data showing the post-acquisition decline of LogTrans and EngSup. Candidates were clear about what the question required, but they often failed to provide an answer of sufficient depth to reflect the eighteen marks on offer.

The issues associated with acquiring companies in foreign countries linked to the third part of this question; Porter's Diamond. Here it was used to assess the relative attractiveness of Ceeland and Arboria in providing an environment for MachineShop's growth ambitions. Clues about factor conditions (fast digital communication network), demand conditions (affluent and demanding home market), firm structure (lack of competition) and government initiatives (waiving restrictions on machine use) were provided in the scenario. Candidates appeared to be aware of the constituent parts of the diamond, but they were less clear about their meaning. In many instances the diamond was confused with the Five Forces model and so assertions were made that were incorrect in the context of the question. For example; many candidates commented that the absence of competition was a good thing for Machine Shop (from the perspective of competitive rivalry). However, in the context of the diamond this could be interpreted as a weakness, because a strong, vigorous rivalry is required to produce and retain a nation's competitive advantage in an industry. Again, candidate answers were generally average. Most candidates knew enough to get some marks (two or three), but few candidates scored exceptionally on this part question (worth ten marks).

### Question Two

Question two concerned a medium-sized engineering company and its approach to sales forecasting. The current forecasting approach depended upon a 'combination of experience, intuition and guesswork' and was resulting in increasingly erroneous forecasts, which were putting pressure on other managers. The first part of the question asked candidates to consider two statistical approaches to forecasting; least squares regression and time series analysis. Data provided by a business analyst, who had since left the firm, was included in the scenario and candidates were asked to explain and analyse the data. This was a relatively unpopular question. Candidates who answered this question did not score well on this part question. Not enough points were made to get the marks on offer and many obvious points were missed. For example; most candidates did not explain the meaning of the correlation coefficient, calculate the coefficient of determination or explain the resulting value. Very few candidates were able to recognise that the least squares approach was inappropriate when applied to values which had such a marked seasonal variation. Overall, this was poorly answered.

The second part of the question asked candidates to consider forecasting within a budgeting process and to explain how introducing such a process would help address the issue of inaccurate forecasting. The introduction of an inclusive budgeting process might also address low morale and would also help evaluate the assertion of the production manager that he was 'working tirelessly to keep costs down'. A flexed budget and variance analysis would help address the problems of the production manager and the inventory manager. Furthermore, it would also help evaluate the cost cutting suggested by the CEO. The CEO's suggestions might be valid, but there is real concern that they might cause more harm than good. A formal budgeting process would greatly assist in defining a controlled response to the failure of the company to meet sales targets. Unfortunately, many candidates did not explain budgeting in the context of the scenario at all. Answers tended to be general and lacking in detail and again marks for this part question were relatively poor.

### Question Three

This question was centred on a heritage garden which was having problems meeting its running costs. Only the income from a declining residue of a legacy allowed it to keep operating. The first part of the question asked candidates to suggest some short-term changes (defined as within three months) that could be made, *quantifying* the increased income or cost savings that these changes might bring. Price is the part of the marketing mix that can be immediately changed and the scenario contained a significant amount of pricing and margin information to assist the candidate in quantifying their suggestions. Candidates were relatively adept at identifying short-term changes (such as changing the admission price, moving the café) but were less prepared to attempt quantifying these in any way. A number of expected values could be calculated from the scenario (based on percentage take up) but very, very few candidates used this information. Many answers were too general and did not include the quantitative support required to get the marks on offer.

The second part of the question asked the candidate to recommend longer-term marketing strategies. Again clues to these strategies were included in the scenario. For example; increasing the opening hours (because the garden would still fulfil customers' need for a 'walk in a peaceful, beautiful and safe environment') and changing the focus of the product (only 5 out of 200 respondents were interested in the work of William Wessex). All elements of the marketing mix could be used to come up with reasonable suggestions. Many candidates seem to quickly run out of ideas, yet the five other facets of the marketing mix; promotion, place, process, physical evidence and product could all have provided the basis for potential strategies and helped candidates easily gain most of the ten marks on offer for this part question.

Question Four

This question concerned a monthly subscription magazine whose survival was threatened by the emergence of new technologies. Costs are rising, reading habits are changing and advertisers are increasingly sceptical about the effectiveness of conventional, printed media. This is not an uncommon scenario. Most magazines and newspapers are changing their business model to react to these issues.

The first part of the question asked candidates to analyse how the principles of interactivity, individualisation, intelligence and independence of location offered by the internet and new media could be exploited by the owner of a conventional, printed magazine. Clues were given in the scenario. One reader claimed that many articles were irrelevant (individualisation), another felt that reader's letters demanded better response (interaction). Magazine production is in an expensive location, with high labour rates (independence of location) and there are demands for the magazine to provide more technical articles (intelligence). This part question was fairly well answered by candidates, although again very few developed their answer to get the marks on offer. There was also significant repetition; with the same point being made in two or more 'I's. The independence of location was particularly poorly answered, with relatively few candidates recognising the fact that the company was based in a high cost area.

The second part of the question asked candidates to write a short report addressing specific concerns about the effect of technology change on advertisers, subscribers and the overall financial viability of the country. The owner of the company cannot see 'how harnessing new technology will make him money'. This again is a common problem. Technology offers change; but how can that change be made and the company remain viable? Many answers were not well structured. Most candidates did score some marks, but few really got to the heart of this question and score significant marks (eight or more) for this part question. Many answers were short and superficial and did not really address the specific requirements of the question.