



Examiners' report

P3 Business Analysis

June 2008

General comments

Performance in this examination sitting was slightly less good than at the December 2007 sitting. This is largely attributable to candidates providing long but repetitive answers to question 1a and short, relatively poor answers to questions 1b and 1c. This meant that many candidates failed to gain pass marks on the compulsory case study question. In contrast optional questions 2 and 3 were relatively well answered, particularly question 2. Few candidates answered question 4 and, of those that did so, very few scored good marks. Candidates were not well prepared for that part of the syllabus.

The only general point I wish to make concerns the use of case study scenarios. Many candidates had a problem applying the theoretical knowledge they had learned to the context of the scenario. At this level, there are relatively few marks available for describing a model such as Porter's five competitive forces. The vast majority of the marks are for recognising the presence and effect of these forces in the context of the case study scenario. Many of the answers seemed to suggest that candidates had very little practice in the application of models. If this is the case, candidates should integrate such practice into their preparation for the examination.

It is important that the fifteen minute reading time at the start of the examination is used effectively. One of the ways of making it more effective is to read the questions before reading the case study! This allows the candidate to put the case study into the context of the questions. As in other papers, there is no irrelevant information in the case study scenarios. Candidates must concentrate on linking the scenario information to questions and (where applicable) to appropriate models. For example, the case study for section A stressed the value of the brand. This was relevant to question 1a (as an entry barrier to potential suppliers) and 1b (as a reason for not leaving the retail market).

Section A

Question One

The first question on the examination was based on a scenario of a mobile telephone company – AutoFone. There were three parts to this question. The first part asked candidates to analyse the competitive environment of AutoFone's retail sales division. This was worth twenty marks which included two professional marks. Two of the directors of AutoFone had suggested that this division should be sold off and that AutoFone should reposition itself as an on-line retailer of phones. The second part of the question asked candidates to write a briefing paper to the CEO to support the strategy of **retaining** the retail shops division. This was worth fifteen marks including three professional marks. The final part of the question (again worth fifteen marks) asked candidates to evaluate what changes the AutoFone retail sales division should consider making to both its business idea and its rewards system.

The first part of the question asked candidates to use an appropriate model or models to analyse the competitive environment. As expected, most candidates chose to use Porter's five competitive forces as a framework for answering this question. The scenario itself was constructed to encourage this approach. For example, there are very clear barriers to entry signposted in the scenario and the data summarised in table 2 provided information about industry competitors. Some candidates chose to use PESTEL and SWOT. PESTEL is concerned primarily with the macro environment and SWOT considers internal factors as well as external ones. However, candidates who used these two models could gain marks as they do identify relevant issues in the scenario. For example, the political perspective of PESTEL helps identify the issue of the government control of network licences and the long-term implications of this. Unfortunately many candidates penalised themselves by actually describing and using all three models (five forces, PESTEL and SWOT), leading to long answers with significant repetition. There is little to be gained by using different models to make the same points. It was also apparent that this repetition led to some candidates having time problems later on in the examination. This part of the question was only

worth 20 marks and time should have been allocated accordingly. In general, this part of the question was answered relatively well with many candidates making appropriate use of the model they had selected.

The second part of the question asked candidates to draft a briefing paper to support a particular strategy. The CEO is strongly opposed to the suggestion of the two directors to sell off the retail shops division and to reposition the company as an on-line retailer of phones. The three professional marks associated with this part of the question reflect the fact that candidates are given extra credit for a well-argued, coherent case for retaining the retail shops division. Candidates needed to extract the information in the scenario that could be marshalled to support the case for retention. This part of the question was not answered well by many candidates. Consequently, I thought it would be useful to look at this part of the question in some depth and to identify how marks might have been gained by using information from the scenario.

The scenario explicitly defines two financial exit barriers. The first is the long shop leases that AutoFone have agreed in order to secure low initial rentals. It seems unlikely that these will all be immediately reassigned, particularly given their location on the edge of main shopping areas. The second is the cost of making the employees of the retail shops redundant. The scenario also makes it clear that brand image is a significant strength of AutoFone. Indeed it has been “rated by consumers as one of the top 20 brands in the country”. Closing retail branches sends the wrong message. The visibility of the brand is reduced as consumers no longer see the retail shops that serve to reinforce the brand image. Furthermore, if the shops are closed down and perhaps some lie empty for a while, the brand can be tarnished and AutoFone would be seen as a company in difficulties or, perhaps, as one that has ceased trading altogether.

Many candidates recognised that the closure of the branches removed the possibility of cross-selling that exists at the moment. It can be argued that internet sales will be affected by removing the pre-sales discussion and post-sales service and support provided by the shops. A further significant point is that table 1 shows that insurance is sold primarily to the age groups that purchase from the retail shops. 54% of retail shop sales are to people aged 41 and over. 71% of insurance sales are made to this age category. This compares with 22% of internet sales (AFDirect) made to people aged 41 and over. The inference is that AFInsure will suffer from closing the retail shops division. Many candidates also stated that people aged 41 and over had more disposable income than younger people and so were a more attractive market. This fact was not explicitly stated in the scenario, but it seems a reasonable assumption and credit was given for this observation.

The financial information that supported this case study primarily showed that the retail shops division is still in reasonably good shape. Nothing in the figures suggests that a radical change in strategic direction is necessary. The company is still profitable and indeed profit margins have improved in 2007, compared to 2006. Liquidity has remained fairly constant since 2003, and although gearing has increased it is not significantly geared given the type of retail operation it is running. Some candidates did recognise this, suggesting that the two directors were panicking to think of closing a division that produced 85% of the company’s revenue. They suggested that the two directors should just recognise that the product/market has reached a mature stage (table 2 and the financial figures support this) and so should scale down their expectations and adjust to new circumstances.

So, here in point form, are the main issues raised above. Each point (in suitably expanded form) would be worth one or two marks. It is not an exhaustive list, but it shows how marks can be gained by using the information in the scenario. There is a maximum of twelve marks for this question (remember the three other marks are for style, format and approach). However, more significantly, a candidate had to only make some of the following points to guarantee a pass mark on this question. Unfortunately many failed to do so.

- Cost of continuing leases, re-assignment costs
- Cost of making staff redundant
- Visibility of the brand
- Damage to the brand (closure, empty shops)

- Effect on internet sales of removal of pre-sales and post-sales support
- Effect on insurance sales and that division
- Age group analysis of retail and insurance sales (wealthy consumers)
- Financial figures do not support case for radical change
- Profitability has improved in 2007 compared with 2006 (corner turned?)
- Liquidity constant since 2003
- Gearing slightly increased but not significant
- Retail division generates 85% of the revenue
- Recognition of mature stage of product/market (table 2 supports this)
- Directors over-reacting, need to recognise change and manage accordingly

The final part of this question concerned the conflict between the business idea (independence, ethical choice) and the rewards system that did not really support the business idea. An example was given in the scenario of one of the shops achieving profitability by guiding customers to products that had higher profit margins. This not only showed up a contradiction between remuneration and the business idea it also illustrated a contradiction between the business idea and the monitoring of shops. Shops were monitored on their achievement of financial targets, not on the independence of their advice. In general, candidates were happier discussing the rewards system than revisiting the business idea. Suggestions were made for re-structuring the remuneration system by changing the rewards mix and appropriate credit was given for this. Fewer candidates questioned the central business idea. However, it could have been argued that impartial advice is most useful at the start of a product's lifecycle. There is now a lot of information readily available on competing products. Customers themselves are more knowledgeable and sophisticated and are making repeat purchases. In a mature market place the promise of impartial advice may be less enticing than price and so the central business idea may need re-visiting.

Section B

Question Two

The scenario for this question concerned a car club that was reviewing its processes. It had already decided to outsource the purchase and maintenance of its own vehicles. The advantage this outsourcing offered the car club was the subject of the second part of this question. This was answered relatively well, although some candidates confused the vehicles of 3C with the vehicles of the club's members. Other candidates failed to make their points relevant to the scenario, using Information Technology examples instead.

The first part of the question listed five major process areas and asked candidates to suggest and justify recommendations for outsourcing or improvement in each of those areas. Many candidates provided excellent answers, often using Paul Harmon's framework as a reference point. The suggested answers have specific recommendations; for example, outsourcing of vehicle insurance services. However, there is no absolutely correct answer and so candidates who provided coherent justification for retaining such services in-house were also awarded appropriate marks.

Question Three

This question concerned a professional accountancy education and training provider who wished to exploit the marketing opportunities of electronic media. The first part of the question asked candidates how such media differed in characteristics from that of traditional marketing media such as advertising and direct mail. Many of the candidates used the McDonald and Wilson (quoted in Chaffey) '6Is' framework and this was a particularly effective approach because it allowed each I to be explored in the two contexts, supported by examples from the scenario. For example, electronic media allows communication to be tailored to the individual or defined group of individuals. In contrast, traditional media tends to deliver the same message to everyone. Within the context of the AEC case study, AEC could provide tailored service and support to the employees of the global accounting company whose training contract they have just won. The content, image and service could be adapted to focus

on this particular group, rather than just serving them through a general web site. This part of the question was relatively well answered by candidates, many scoring seven marks or more out of the ten marks on offer.

The second part of the question asked candidates to evaluate how the marketing manager might use electronic marketing to vary the marketing mix at AEC. The best answers adopted the marketing mix as the basis of the answer; using the Ps (price, place etc.) to structure points in the context of AEC. Unfortunately, many answers did not use the context of AEC at all, despite it being a context which all the candidates taking this examination should have been familiar with. Too many answers repeated points already made in the first part of the question, without referring to AEC and, in some cases, without reference to the marketing mix. This was a relatively straightforward question which, although answered quite well, should often have been answered better.

Question Four

This question concerned strategic change. It was the least popular of the optional questions. Candidates who attempted this question seldom scored more than half marks. The question relates to section C2 of the syllabus and it was clear that candidates, by and large, were unfamiliar with this area of the syllabus. The suggested answer is based around two models. The first part of the question asked candidates to analyse the nature, scope and type of strategic change at PSI (the company considered in the scenario). The suggested answer uses the Balogun and Hope Hailey model which specifically addresses these issues and uses these terms. Some candidates were familiar with this model and scored well as a result. The second part of the question asked candidates to identify and analyse the internal contextual features that could influence the success or failure of the chief executive's proposed strategic change at PSI. The suggested answer again uses a model attributable to Balogun and Hope Hailey. The cultural web would also have been an appropriate basis for answering this question.

However, notwithstanding a lack of familiarity with this part of the syllabus, there were plenty of clues in the case study scenario that could have provided the basis of an answer. For example:

- Issues concerned with moving from supplying a specialist niche market (retail pharmacies) to a general retail market. This is quite a substantial change for a company of this size operating in a marketplace which they are currently struggling to service
- Issues concerned with the clash between the chief executive and sales director on one hand and the software development director on the other. The software development director (and his staff) are key to the success of the new strategy but are unenthusiastic about proposed changes.
- Issues concerned with leadership style of the chief executive, particularly in the context of a relatively small private limited company. The chief executive has significant power and can impose change, even though this change may be wrong for the organisation. As a private company it is unclear how the organisation will finance the software product development.
- Issues concerned with the problems currently experienced with the software product and the demands of existing retail pharmacy customers for new features and facilities. The company is failing to satisfy customers even in its established niche market.
- Issues concerning the conflicting goals between the sales force and the software developers. There is increased pressure on the software development team which is bound to intensify if the generic software package is developed and delivered.
- Issues around the need for change. The company is not facing any immediate financial or business problems and there is no evidence of a crisis requiring immediate remedial action. The exit strategy of the chief executive appears to be driving the strategy.

Even if the candidate was unfamiliar with this syllabus area, an answer to this question (particularly part b) could probably have been crafted out of the general points listed above, without resorting to any specific published model.