Answers

1 **To: The board of MFP**
From: Accountant
Date: 8 June 2017

Subject: Strategic position of MFP

This report analyses the strategic position of the company by looking at the external factors and the market place (industry) factors which would likely affect MFP. It also explains the purpose and value of the models which have been used in the analysis. Finally, the report considers the potential role of critical success factors, key performance indicators and the integrated reporting in monitoring strategy at MFP

(a) A PESTEL analysis is designed to identify external factors which are currently, or potentially, affecting an organisation. These factors are largely outside the control of the organisation, although if the organisation is large, or if it can unite with other organisations to form a powerful group, it might be able to successfully petition agencies, such as the government, which influence these external factors. However, in general, companies undertake a PESTEL analysis to understand the drivers in the external environment and to help them prepare an appropriate organisational response to such drivers.

The PESTEL analysis contributes towards the threats and opportunities of the SWOT analysis. In such an analysis we should be able to identify internal strengths which allow us to counter threats and exploit opportunities. We should also be able to identify and address weaknesses which make us vulnerable to threats and unable to exploit opportunities. Addressing a threat might include withdrawing from the market place altogether.

In the PESTEL analysis for MFP, we have been asked to identify external factors from the perspective of four elements of the PESTEL analysis: political, sociocultural, environmental and legal. We have been asked to comment on the likely effect of such factors in the context of the strengths and weaknesses of MFP.

Political

The new government's manifesto has declared its intentions to make it mandatory for employees to pay 5% of their gross pay into a pension scheme of their choice. The amount paid in will be matched by the employer. It proposes that it will be the responsibility of the employer to ensure that payments are made into a government authorised scheme and to process these payments, through automatic payroll deductions, every month.

Possible implications:

(1) An increase in labour costs of 5% due to the requirement to match the deduction of the employee.

(2) An increase in administration costs associated with setting up, monitoring and processing pension payments.

(3) Possible demands for employees for pay rises to compensate them for the 5% of their gross income which the government intends to make them pay into a pension fund.

The cost of labour can be viewed as a competitive weakness of MFP. The fact that it pays its employees more than its competitors means that the 5% increase will have a larger absolute effect on its costs. Margins are already under pressure, and these proposals will lead to an increase in direct and indirect labour costs, cutting margins even further if prices are not increased. Although competitors will be affected, they will not be affected as much as MFP by these proposals.

Sociocultural

There are two significant sociocultural trends relevant to MFP.

First, there is increased nostalgia for the perceived personal service of the past. This appears to be a consumer reaction against large supermarkets which have increasingly followed a low-cost, no-frills approach. These supermarkets are stacked intensively with low priced products and customer service is both impersonal and kept to a minimum. However, there is now a trend within society for customers to value personal service. MFP ranks first amongst supermarkets for personal service, and so this sociocultural trend provides an opportunity for MFP to stress and exploit its strengths in this area. Furthermore, it is unique in having a network of smaller shops and so what, from a cost perspective, might appear to be a weakness, can be presented as a strength and emphasised in its marketing campaigns.

Second, there is increased reaction against large supermarkets which pay high salaries to their management and significant dividends to their institutional shareholders. The concept of co-operative ownership, where employees and customers are also shareholders, appears to be increasingly popular. MFP is again unique in that it is the only top-ten supermarket chain which is a co-operative. It should seek to exploit this opportunity by stressing this in its marketing approach.

Legal

The recent extension of disability access legislation requires shops and supermarkets to provide customers with unattended access to all shelf areas within the store. The previous legislation just required shops and supermarkets to provide disability access to the store areas. However, many customers found that goods were out of reach when they were actually in the store. This extension to the legislation addresses this issue.

Possible implications:

(1) Re-arrangement of products within the store to allow compliance with this legislation. Failure to comply will lead to $1,000 fines per incident.

(2) Possible reduction in stock displayed in the store because of reduction in high level storage.

Overall, this should have minimal effect if stock is held in external storage areas and moved to the shelves when required. This may be a problem in the smaller stores, where storage space might be at a premium, so again the small size of these stores is a weakness. However, the requirements of this legislation might be the stimulus MFP requires to streamline its supply chain and achieve economies. It is recognised that MFP has weaknesses in this area and has not exploited technological advances in product control, movement and storage. This threat from legislation provides an opportunity for addressing this weakness. This may also be an area where competitors are at a disadvantage. The 'pile it high' approach associated with no-frills retailing may be incompatible with the legislation.

Environmental

Some consumers are increasingly concerned about the environmental impact of food and other products which they are purchasing. This is not only in terms of the excessive and elaborate packaging of the goods, but also in terms of the 'food miles' which the product has travelled before it reaches the shelves of the shop or supermarket.

MFP has always been sensitive to these green consumers, for example, by ensuring that new shops and supermarkets are energy efficient. It is aware that this image of environmental sensitivity, combined with its status as a co-operative, makes it the supermarket of choice for many such consumers. It is also aware that the average wealth of these consumers is above the national average. This image of environmental sensitivity can be reinforced by:

– Ensuring minimal packaging, or charging for packaging. As well as stressing the company's green credentials, this also has the practical effect of bringing down costs and improving profit margins.

– Stressing that local shops means fewer food miles. This is an advantage which MFP has over its competitors who have concentrated on building large stores to serve big catchment areas. Again, the network of local shops can be presented as a strength of the company.

Overall, exploiting external issues which concern the green consumer exploits a strength of MFP and these opportunities seem likely to continue into the future.

(b) Although customers are individual consumers, their bargaining power is relatively high and this is why supermarkets are so sensitive to price and so keen to establish schemes which tie the customer in some way, such as loyalty cards. At MFP the dividend scheme for customers plays such a role. The bargaining power of customers (buyers) is high because:

– Alternative sources of supply (shops and supermarkets) are available and easy to find;

– Switching costs are very low, from one supplier to another. In fact, if the customer is not in a loyalty scheme, then there are effectively no switching costs;

– Customers have knowledge about prices of products from the marketing campaigns of competitors. For certain products and services, comparison websites provide pricing information across a range of suppliers.

In contrast, the bargaining power of suppliers is low. A number of factors contribute to this:

The customers of the suppliers (the supermarkets) are much larger and more concentrated than their suppliers. In fact they are so large that they can usually dictate terms and prices of supply. This is essentially how margins are preserved. Lower prices to entice customers are paid for by lower prices paid to suppliers. The switching costs from one supplier to another are generally very low, and indeed suppliers often compete with one another for the privilege of having supermarkets stock their products. MFP's stance on ethical sourcing will almost certainly give them a price disadvantage because of higher payments to suppliers. Consequently, it has to be sure that customers are aware of the sourcing of the product and that they are also willing to pay a price premium for it.

The threat of new entrants should be relatively low. After all, substantial investment in infrastructure and marketing will be required to compete with the established supermarkets, who enjoy economies of scale and strong brand identities. Any new entrant might also have to establish its own distribution channels and will be entering a competitive market where aggressive marketing and price wars are rife. However, despite this, evidence from the scenario shows that two major supermarkets from overseas have entered the market in the last five years and made considerable gains. Both were well established in their own countries and so presumably had the capital to invest and the expertise to exploit the Arborian market. They also entered using a low-cost, no-frills model which distinguished them from established supermarkets. So, the threat of further new entrants from overseas remains, particularly as the Arborian economy remains strong.

The five forces framework also considers the threat of substitute products. In this context, supermarkets are essentially a mechanism for selling goods and services to the public. They were substitutes for the network of smaller shops which provided this in the past. In a sense, the smaller shops which remain are potential substitutes for the supermarkets, particularly now that sociocultural trends suggest that these should be valued, rather than avoided as uneconomic and inconvenient. Again, MFP is in a good place, as it can position itself as an organisation which recognises the relative values of both supermarkets and shops. A more significant substitute would be the direct supply of goods from suppliers to end customers. This indeed could be a virtual supermarket with customers picking products online and having them delivered directly to their home. In fact, many supermarkets already offer this service, although products tend to be selected from the physical supermarkets which customers can visit. However, there may be no need for such physical locations in the future, products might be held in large warehouses inaccessible to the public, or by the suppliers themselves who are given orders from the 'supermarkets' for products which are directly sent to the customer. This threat of substitution should be acknowledged because many trades and shops traditionally on the high street have disappeared to be replaced by virtual substitutes. Many bookshops and toy shops have closed to be replaced by online alternatives.

Finally, the framework considers the competitive rivalry in the industry itself. This is relatively high because:

– As we have discussed already, buyers can easily switch from one supplier to another.
– Products (in this context, supermarkets) are not particularly well differentiated and so there is little brand loyalty. Thus schemes to try to encourage brand loyalty (vouchers, loyalty cards, customer account discounts) are rife.
– Given how much investment is required to enter the industry, the consequent exit costs are high.
– The industry has relatively high fixed costs and so responding to price pressure is difficult. The usual response to such price pressure is to transfer this pressure to suppliers and to find, or demand, cheaper supply prices.
– There are many competing firms and potential substitutes.

However, despite this, the industry appears to still be attractive to a limited number of new entrants. The market has grown by almost 17% in the last five years and so this increased capacity in the market place has been particularly exploited by overseas-based supermarkets. MFP's revenues have increased by 10% over this period, which is almost as much as HypCo, the country's largest supermarket. Arboria remains a wealthy country and its economy is still growing and so the market may continue to expand, easing competitive pressure.

(c) CSFs refer to critical success factors. These are the few key areas where things must go right for the business to flourish and compete successfully. An often quoted example is a CSF of food hygiene in the food supply industry. History shows that food suppliers with a poor hygiene record find it very difficult to compete and many have made vigorous efforts to improve poor records to allow them to successfully continue trading.

Some writers have suggested that CSFs should be primarily associated with the organisation's customer and so provide value to that customer. Johnson, Scholes and Whittington believe that CSFs are those 'product features that are particularly valued by a group of customers' and, therefore, where the organisation must excel to outperform its competition. For example, if customers especially value after-sale service, then the fulfilment of this expectation is a critical success factor. So, in the context of MFP, if a group of customers values ethical sourcing, then this becomes a critical success factor for the company.

However, a wider perspective of CSFs also seems quite appropriate, perhaps with CSFs developed from each of the four quadrants of Kaplan and Norton's balanced scorecard. Admittedly, one of these quadrants is the customer perspective, but CSFs could also be defined for business processes (fast, secure payment systems), learning and growth (staff skills and accreditations) and finance – such as profitability. This final area seems particularly significant as it is no use the business meeting customer service aspirations if it cannot do it profitably. For example, MFP has to profitably deliver ethical sourcing if the business is to continue to exist.

CSFs have to be measures in some way so that their achievement can be assessed. This is the role of key performance indicators (KPIs). An appropriate KPI for profitability might be the return on capital employed (ROCE). An appropriate profitability target, such as 10% ROCE, represents a specific performance objective for a defined period. Importantly, the KPI remains the same across periods, but the desired level of achievement might change to reflect different circumstances and aspirations. So, the ROCE performance objective might be 10% for the next year, but fall to 5% the following year to reflect changes in the external environment. Thinking about KPIs helps sharpen the CSFs. Ethical sourcing might be a reasonable objective, but how are we going to measure it and what performance objective for that measure would convince customers that we had achieved it?

CSFs and KPIs are an important input into the setting of realistic strategic objectives. These objectives reflect the mission of the organisation. However, mission statements tend to be aspirational and generic. For example, fulfilment of employee aspirations might be an important part of the mission statement. However, what (if any) critical success factor does this relate to, how should we measure it, and what degree of success should we aim to achieve? Thinking about these helps better formulation of objectives and clearer determination of the strategies and tactics designed to achieve these objectives.

Integrated reporting provides the organisation with the opportunity to re-communicate and reinforce the organisation's mission to stakeholders and also to report on progress made to achieve the objectives which reflect that mission. Integrated reporting is much greater in scope than financial reporting. For example, CSFs associated with ethical sourcing can be re-stated in the report and progress towards desired targets (KPIs, performance objectives) can be reported. This means that strategy remains within the focus of all stakeholders. It is a continuing preoccupation, not just something developed or expressed once per year and assessed only at the end of the planning cycle.

ACCA provides a good example to follow, as it has embraced the integrated reporting concept in its own corporate reporting. For example, it set a strategic objective of sustainable growth. This was to be measured by the gross operating surplus, which is in effect a KPI. For a given period the performance target for this KPI was £15·83m. It was able to report in its annual report that the actual performance was $20·147m and so the target was easily exceeded. The wider scope of integrated reporting should fit well with the ethos of MFP which has important objectives beyond solely financial ones. It will be able to include key messages on strategic performance, value creation and the fulfilment of stakeholder aspirations, before reporting on financial performance.

2 (a) Although Itrus has provided its accounts, and a year-on-year comparison can be examined, it would also be useful to see industry benchmarks in order to compare. However, comparison between the two years will provide a basis for further evaluation.

Itrus is a relatively small company, with turnover of less than $1m and this has reduced by 5·75% in the last year. This alone may cause concern in SOP, given that the price for the system to be implemented has been quoted at $200,000, or 27% of Itrus' total revenue for 2016. This may be beneficial, in that Itrus may focus their attention on such a key customer. However, it may also indicate that there is a lack of experience on major contracts such as this.

There are only 25 staff members and this has fallen 37·5%, from 40, in the previous year. The fall is likely to involve a redundancy programme, which could indicate a struggling company, or issues with staff motivation and morale, leading to a high staff turnover and an inability to recruit. Regardless of the reason, 25 staff members seems quite low to meet the needs of SOP and any other clients. Looking more closely, if we assume the staff allocation to contracts to be in line with contract size, this suggests that SOP could expect approximately seven staff to be allocated to their contract which should be reasonable. However, it does depend on how many of these staff are operational and how many have administrative roles. On an ongoing basis, there may be concerns about the ability to maintain the system, if employee numbers are falling.

Looking more closely at the financial data, we can observe the following:

Profitability

We can calculate three key profitability ratios from the data provided: gross profit percentage (GPP), net profit percentage (NPP) and return on capital employed (ROCE). None of these are looking good on initial examination. The ROCE has reduced from 11·8% to 6·8%. This means that the capital employed in the business is achieving lower returns over time. This is not necessarily a negative factor in the short term if it is as a result of greater investment in the business, but that does not seem to be the case for Itrus. Indeed, there appears to have been a disposal of non-current assets (from $80,000 to $50,000) as the reduction of 37·5% seems a little high to be as a result of depreciation alone.

The GPP and NPP are both falling too. GPP has fallen slightly from 6·4% to 6·1%, whilst NPP has almost halved from 2·8% to 1·6%. The NPP is as a result of increased finance costs (discussed further in the gearing section) and increased administration expenses. It would not be unreasonable to expect a decrease in other costs to occur with a decrease in revenue, so the increase of 25% in administration expenses warrants further investigation. It may be that these have risen in a bid to improve working capital management (see efficiency section below).

Efficiency

Itrus does seem to have improved its efficiency in all areas.

There is an improvement in trade payables. The overall value of payables has dropped 73% in the last year, a much greater drop than the 5% drop in cost of sales. This has led to an improvement in payable days, dropping from 123 days to 35 days, a reduction of approximately three months. However, it may be that this is driven by suppliers demanding earlier payment, as the previous payable days of four months would be very high for most industries. This needs further investigation.

Trade receivables have also reduced, falling by 32%. This has led to a decrease in receivable days, from 128 days to 92 days. This is beneficial as it means that Itrus is collecting amounts due quicker and thus improving its working capital. However, it is still high, taking approximately three months to collect amounts owing. As this is higher than payable days, there is an overall negative impact on working capital.

The reduction in staff has led to improved revenue per staff member, although it still seems quite low, increasing 51% from $20,000 to $30,160.

Liquidity

Liquidity has improved greatly over the year, with the current and acid test ratios both increasing from 1·2:1 to 2·5:1. This is well above 1 and indicates that Itrus can easily cover its liabilities with its assets. This is mainly driven by the large decrease in trade payables.

Gearing

Taking long-term debt over total capital employed, the gearing ratio has increased from 28·5% to 35·7%. Whilst this does not seem particularly high, the increase could indicate a reliance on long-term debt to finance the activities of the business.

The long-term debt has increased by 47% which is worrying in a business with declining sales. Short-term borrowings have also increased 250%, although this is on a low starting value. These have led to an increase in finance costs of 50%.

Interest cover has reduced from 7·75 times to 3·5 times, which may start to concern the debt holders in the business. This also warrants investigation.

Summary

Although Itrus appears to be working hard at improving its efficiency and liquidity, the accounts do not appear to present a positive future. The reduction in non-current assets and staff as well as deterioration in key financial ratios should provide cause for concern. SOP should further investigate all the issues raised before making a decision to award the contract to Itrus.

(b) In addition to considering the price, a company should assess both the supplier and the product being offered when evaluating a potential software solution. Considerations regarding the product are varied, but should include both technical and functional requirements.

Product issues

Technical requirements

System interfaces – it has been stated that the system will link all transaction processing systems at all sites. SOP needs to take this into consideration when selecting the system: will it allow all these links as well as easily adapt to future required interfaces?

Transaction processing volume – as the system is to link all systems and sites, will it be able to cope with the volume of transactions required on a daily basis, without leading to a reduction in system speed?

User friendliness – the system should use familiar commands or be intuitive in nature to ensure that it does not lead to inefficiencies or errors on input. The charity relies on people to carry out the day-to-day operations, supported by the systems, so it is important that they find the systems easy to use. Given the decisions which will be based on the accuracy of these systems, the rehoming of animals to suitable homes, any errors are likely to have a negative consequence.

Functional requirements

Ultimately, the system must be able to carry out the functions for which it is being implemented. SOP has already discovered that there are not many suitable systems on the market to support their pet database and so they need to ensure that any system selected will adequately meet these needs.

*Operational processe*s – the system should support all processes within SOP. For example, the rehoming process is the core activity and will follow a set approach. If the system requires a different workflow, then this should be assessed to ascertain whether it would be an improvement in processes or would be detrimental to operations.

Data transfer – SOP currently use transaction processing systems for different functional areas and these will be combined into a single ERP. The data between the two systems may be incompatible if they are not currently linked. SOP will need to assess whether the new system will allow the transfer of all data, whether directly or with some modification. If the latter, it will need to be determined whether the supplier would incorporate this into the implementation process.

Reporting – as a not-for-profit organisation, SOP will have its own unique reports, not commonly used in a corporate environment, e.g. number of pets rehomed in a month or how long each pet remains in the care of SOP before rehoming. It will be important that the system is able to provide such reports or will allow the users to query the database easily to provide any ad-hoc reports needed.

Supplier issues

Past experience – it has already been discussed that this contract would form a large proportion of Itrus' revenue and it needs to be ascertained whether the company is more familiar with smaller projects, as opposed to a relatively large one like this. This is for a linked ERP system which would need to be adapted to SOP's needs. Itrus, and the other suppliers, should be assessed to determine whether they have previous experience of doing this.

Previous clients – a good indicator of future performance is the satisfaction of previous clients. References for each of the potential suppliers could help determine not only satisfaction, but also previous relevant experience.

Approach to training and support – the introduction of a new system will require training of SOP staff as well as ongoing maintenance and development. SOP needs to request details of the provision of these from each potential supplier, and to determine the terms of the service level agreements (SLAs). There should be a shared understanding of the level and responsibility for any major financial commitments in the future, as well as expected response times to reported problems with the system.

Company culture – as a charitable animal rescue organisation, SOP is likely to have a strong company culture of shared beliefs. It will be important to them that any company working with them has a supportive culture to avoid clashes during the implementation process.

Given its past experiences with poor supplier selection, SOP should certainly review how it evaluates suppliers and the goods being offered, and should take the above factors into consideration.

3 (a) The main characteristic identifying a project is the unique nature of the task and the fact that it is a step into the unknown for the company carrying out the project. It appears, although Rush has developed and grown as a company by implementing the ideas of the CEO, that 'Mud Rush' is a new activity for the company.

Projects need resources in order to complete them. This task would be unable to go ahead without the digital equipment mentioned, human resources to staff the race, product samples and financial resources for procurement of the venue and all other costs involved.

Whilst this may be a project for marketing purposes, it also fulfils the characteristic of requiring a cross-functional project team. The production manager will need to be involved if there is a requirement for product samples, the IT manager will need to be involved to ensure the display screens and digital timers are appropriate and working as required, the procurement manager will need to be involved for the race equipment, accounting will be needed for costing purposes and as it is to be a marketing project, that department is likely to be heavily involved.

Projects are distinct from routine day-to-day activities, and as such, have a defined end-point. This will be after the race is completed and all post-race entertainment ended, in this instance.

Projects also incorporate a number of inter-dependent tasks. For example, advertising for this event cannot go ahead until the venue has been sourced and the date of the race decided.

(b) The documentation will help to ensure success of the project as follows:

Project initiation document

The project initiation document (PID) is effectively a project charter which serves as formal communication within the project team as well as between them and other project stakeholders. If all details are documented and agreed by the parties involved, this should give a clearer view of expectations of all parties and therefore ensure that they aim to fulfil those expectations.

The PID is likely to include the following elements:

Background to the project – a brief summary of the background to the project and its importance as a marketing project; this allows the project to remain focused as it progresses.

Key dates – the start and end dates of the project will be detailed in the PID. This should ensure that Mary continues to focus on the end date when planning and executing the project. This would make her more likely to succeed in delivering the project, rather than if there was a rolling end date.

Constraints – time, cost and quality constraints will be identified and prioritised. The timing will be very important in this project as the date of the event will not be able to be delayed once set and advertised. However, the quality will also be important as there could be health and safety implications if not of a sufficient standard. Additionally, given that this is a marketing project, the budget should be set such that the costs do not outweigh the expected benefits from additional sales.

Scope – defines what will and will not be covered within the boundaries of the project. This will be very important to avoid scope 'creep' which may be an issue given the CEO's enthusiasm. For example, Rachel said that after-race entertainment should be part of the project. It will be important to set the scope of this such that it does not expand into a full concert.

Project team – the PID should include details of the roles and responsibilities of team members such that each knows what is required of them during the project, especially as they are a diverse team made up of different functional managers.

*Aims and objective*s – this should detail the broad aim of the project as well as any specific objectives and benefits which are expected to be achieved. For example, there should be a specific objective to be achieved from a marketing perspective, rather than simply to host a race. SMART objectives should be set, such that they are able to be measured and assessed when the project is complete.

Business case

The business case details the business justification for the project. It seems that Rachel has a tendency to drive projects without necessarily considering the financial impact. The business case would deliver a cost-benefit analysis in addition to determining the feasibility of the project.

This would require predictions of cash flows and future financial benefits from Mary, along with details of any assumptions made. For example, if there is deemed to be a link between the number of runners signing up for the event and the future increase in sales revenue.

Feasibility would be considered in terms of whether sufficient resources exist (financial, human and physical), whether there is sufficient time to carry out the project and whether it fits operationally with the way that Rush works. By carrying out a feasibility study, it ensures that projects are not undertaken which are likely to fail for one of those reasons. It is at this stage when the project can still be cancelled, before the execution phase begins.

The business case would also cover how this project fits in with the overall strategic direction of the company. As Rush is known for being innovative in its approaches, this may fit in well as an innovative approach to marketing.

Project plan

Project planning can have a major impact on the success or failure of a project, and is important, both in advance of the project formally being put into action and during the execution of the project. The documentation of such a plan will ensure that all aspects of the project are set in advance, preventing the project becoming different to what it is intended to be. This may be important in Rush, given the CEO's tendency to become obsessed with projects, and to let the ideas 'run away with her…regardless of the cost'.

The purpose of a written project plan is to establish the appropriate project management environment required to complete the project successfully, ensuring that all resources are defined in advance, and that stakeholders are aware of what will be necessary to complete the project.

Written elements of the plan will expand upon the PID to provide the detail necessary to execute the project, and may include:

Resources – all resources, human, physical and financial, should be identified such that they can be sourced in advance and the project team can ensure that the resources are available. For example, the procurement manager will need to know all the technology required in order to ensure it is available on the day. If he is not an expert in technology, it is important to document the specifications required to ensure he sources the appropriate equipment. There should be separate resource plans for human resources, physical resources and financial resources, taking into account any constraints identified in the PID.

Product breakdown structure – this will give details of the 'end-product' to be delivered, in this case the actual event, and break it down into smaller activities, such that each activity can be allocated an owner, and its own resources necessary for completion. Activities for this project may include deciding the venue, designing the race course, producing the samples, etc.

The product breakdown structure may be combined with a time-planning tool, such as network diagrams or Gantt charts, to identify when activities related to each activity should be taking place.

Project quality plan – this will consider all the required standards of the different elements of the project and will include legislative standards, e.g. health and safety regulations regarding hosting a public event as well as standards set by Rush itself.

Project evaluation plan – this will clearly state how the success of the project is to be measured. For example, will it be on the overall increase in company sales or will it be restricted to the products being given away as samples and treatments during the event? Will the measurement be entirely on sales or is the success to be measured in the change in the level of brand recognition following the event?

Risk analysis

Every project and company will have individual risk factors which need to be determined in advance, in order to minimise either the impact or the likelihood of the risk occurring. Anything which could pose a risk to the project's success should be identified, along with the likelihood of it occurring and the seriousness of the impact. The risk plan should also include ways in which these risks will be managed (avoidance, reduction, transfer or acceptance) and contingency plans should be defined should these risks actually occur during the project. For example, risks to this project may include inclement weather delaying the creation of the race course, or the actual running of the event. The likelihood of this could be minimised by creating a course which could be completed in most weather conditions, and beginning the course building with plenty of time to spare. However, the risk cannot be completely avoided and therefore the financial impact could be reduced by taking out insurance against such an occurrence.

As Rajesh pointed out, there may be a risk of injury during the race itself. Although this would not necessarily stop the race from going ahead as planned, the impact should be assessed from a company perspective: how would it affect the brand name and future sales, and would there be any financial impact, for example, compensation? The likelihood could be reduced in the design of the course, but this is unlikely to remove all risk. By determining the risk and the potential impact in advance, Rush could put appropriate contingencies in place including competitors accepting they take part at their own risk and that any injury is dealt with promptly and effectively. For example, they should ensure that a medical team is available on standby and has easy access to all areas of the course. The company should also ensure they have the appropriate insurance in place to run such an event.

By considering the risks in advance, and by documenting contingencies, the project is less likely to fail as a result of adverse or unanticipated events.

4 (a) Paul Harmon has proposed a process-strategy matrix which considers the strategic importance of the process on one axis and the complexity of the process on the other. This leads to four quadrants for which Harmon suggests different generic process solutions, as shown in Figure 1.

Figure 1 – Harmon's process-strategy matrix

Process complexity	Strategic importance: Low	Strategic importance: High
High	Complex processes but not part of company's core competency Outsource	Complex, dynamic processes of high value and strategic importance Undertake process improvement effort which focuses on people
Low	Straightforward, static commodity processes Use automated ERP type of application and/or outsource	Straightforward, static and valuable Automate to gain efficiency

Process one has already been determined to be of low process complexity and will be improved by the implementation of a commercial off-the-shelf (COTS) system. The location of the other two processes and suggested improvements is considered below:

Process two – Staff training and development

The allocation of housing to those in need is the core competency of the agency and represents a service to society. The people carrying out the service are a fundamental aspect of the service provision. DHA advisers are the front line of the service provision and will influence the effectiveness of the agency in meeting its objectives. Their training and development could therefore be seen as strategically important to DHA.

The role they fulfil is complex, as it will vary with each individual case. The needs of different clients, with different income levels or different reasons for social housing, will have to be treated as a unique case and handled sensitively, given the nature of the task. The complaints show that some advisers are currently unable to do this.

The current approach to training and development is routine in nature, providing a standard approach to all cases, with a training and development programme taking place only one week a year. As a complex process which is of high strategic importance, this needs to be improved by focusing on the advisers involved. Advisers should undergo continuous development focusing on their individual needs. For example, those advisers against whom complaints have been registered could be asked to attend remedial training or to shadow those advisers who are deemed to approach the customers in the most appropriate manner. High turnover of staff also points to the need for continuous staff development using mentors.

This should improve the effectiveness of the process, leading to fewer complaints and greater capability of the advisers to deal with difficult cases. Efficiency may improve if staff turnover reduces.

Process three – Legal advice and compliance

Given the complex legal system involved, it seems likely that this process must sit in the upper half of the matrix, as it requires a high level of knowledge of a complex changing legal environment. However, by employing an internal legal team, DHA is incurring high costs on a process which is not directly strategically important in the business, or part of its core competency. It is important to comply with legislation but, in doing so, this does not provide any specific advantages to the agency. It simply avoids any problems associated with failure to comply.

The complex nature of this process which is not part of the agency's core competency would suggest placing the process in the upper-left corner of the matrix, suggesting that outsourcing would be an appropriate process improvement.

Outsourcing to a legal consultancy would provide access to the most up-to-date knowledge, allowing DHA to be proactive in dealing with any changes in legislation. This could improve its effectiveness as an agency. The consultancy should also gain economies of scale in its operations, allowing the service to be provided more economically overall. This may free up some financial resources to be used on the core activities of the agency.

(b) (i) The advantages to DHA of using software to improve the scheduling process are clear: the use of up-to-date information for the scheduling of adviser appointments. However, is a COTS approach more suitable than a bespoke software solution?

Initial cost

The agency is subjected to budgetary pressures, and whilst the interviews themselves are important to assess and respond to the clients' needs, the actual scheduling is less so. Where possible, the budget should be spent on providing the core service of housing. Therefore costs need to be saved in other areas where possible. Because the COTS software is available to many clients, the costs are shared. With a bespoke solution the agency would have to incur the entire development costs.

Maintenance and upgrade costs

With bespoke software it is difficult to predict the maintenance and upgrade costs which will be incurred. As a public sector organisation, DHA only has one form of income: the annual government grant. It is important to the agency to be able to forecast cash flows as part of its budgeting process. A COTS solution should include regular annual payments for all maintenance and upgrade requirements. This will enhance budget forecasting in the agency.

Quality of the software

Many software packages are available and have been tried and tested. In a competitive environment, it is easy to seek customer reviews online. Bespoke software will be developed uniquely and the quality not fully known until final implementation. DHA is considering the use of a scheduling system currently used in doctors' surgeries, for example. Given the importance of appointments in this profession, they must be confident that the quality of the appointment system will be good. If the surgeries are themselves public services, DHA may be able to request direct feedback before selecting the final system.

Speed of implementation

The agency is keen to improve its service provision and is likely to appreciate relatively quick solutions to its problems. Given that COTS packages are already developed and available, the procurement and implementation should be relatively quick. On the other hand, a bespoke solution will take many months, perhaps years, to design, develop, test and implement.

Efficiency of process

The current process seems poorly designed, leading to inefficiencies. The problems could be resolved by introducing a system which has built in past experiences to overcome such inefficiencies. The introduction of a COTS system can gain the benefits of best practice without having to carry out a full benchmarking process.

COTS appointment systems used by doctors' surgeries are presumably selected with both efficiency and effectiveness in mind. The problems of spare capacity and scheduling of appointments to unavailable doctors are unlikely to be tolerated.

Therefore any systems selected by DHA should have already considered and accounted for these problems in the system design.

However, if the system were bespoke, it may be that it is designed on current processes, rather than what is possible, thus building the same inefficiencies into the new software.

(ii) No solution comes without potential limitations and disadvantages and DHA should take these into consideration. The use of a COTS solution will mean that DHA has to adapt its processes to the way in which the system works. This may not necessarily be a long-term problem (see discussion of efficiency) but in the short term may lead to familiarity problems with the new system.

The advisers will need to learn to access and update the system, rather than simply providing updates either manually or verbally to the receptionist. There is a risk that they will be unable or unwilling to do so, depending on how easily the system can be accessed.

These risks could be mitigated by ensuring that the package selected can be accessed using all forms of technology, e.g. those advisers currently out of the office could use their mobile phones to access and update the system remotely. The advisers should also be given full training on the new system to ensure they are familiar with its use.

The receptionist will also need to become familiar with the entire process. This could lead to some short-term efficiency problems. To mitigate this, he/she could be seconded to another agency for a short period of time, to see the system in use.

DHA will also become dependent upon the software supplier. If contracts are not water-tight, there may be unexpected costs when upgrades are required. The legal team, whether internal or outsourced, should be employed to check the terms of the contracts and ensure that there are no potential disputes.

There is no mention of existing systems in use in DHA, but the agency will need to ensure it has the appropriate hardware to run the system and that it will link to other key systems. To mitigate this, most COTS solutions have a try-before-buy option. DHA should ask to trial the software on its existing systems to ensure that the system can meet this requirement. Indeed, this try-before-buy option can help to mitigate many of the risks, allowing the agency to see how this software will work for them and will fit into its current structure and processes.

1 **(a)** 1 mark for each appropriate point, up to a maximum of 18 marks.

(b) 1 mark for each appropriate point, up to a maximum of 18 marks.

(c) 1 mark for each appropriate point, up to a maximum of 10 marks.

1 mark each for the structure, coherence, style and clarity of the answer, up to a maximum of 4 professional marks.

2 **(a)** Up to 2 marks for each appropriate calculation with associated discussion, up to a maximum of 15 marks.

(b) Up to 2 marks for each additional factor. To gain the 2 marks it must be in the context of SOP. Up to a maximum of 10 marks.

3 **(a)** Up to 1 mark for each characteristic, up to a maximum of 5 marks.

(b) Up to 1 mark for each appropriate point, up to a maximum of 20 marks. Allow a maximum of 16 marks if the requirement to discuss how each element can help to ensure success is not considered.

4 **(a)** Up to 1 mark for each appropriate point, up to a maximum of 10 marks.

(b) **(i)** Up to 1 mark for each appropriate point, up to a maximum of 7 marks.

(ii) Up to 1 mark for each appropriate point, up to a maximum of 8 marks.