

# Examiner's report

## P3 Business Analysis

June 2011



### General Comments

The pass rate for the June 2011 Business Analysis examination was lower than for previous sessions. Questions 1a, 4a and 4b were relatively well answered. All other questions were less satisfactorily answered. Question 4 was the most popular of the optional questions. There was evidence of poor time management, probably caused by lengthy over-elaborate answers to question 1a. One supervisor commented that “poor performance has been compounded by some shockingly poor exam technique”. He went on to say “that there is clear evidence of candidates running out of steam having spent far too long on their first question. There is evidence of good work in scripts that simply just do not cover enough ground to get a pass mark”. A surprising number of candidates chose to omit complete part questions, suggesting a lack of knowledge in certain areas of the syllabus. Many scripts showed evidence of a declining quality of handwriting, perhaps as the consequences of poor time management began to be realised. There were fewer outstanding scripts compared to previous years. The content of the examination reflected recent changes in the syllabus to explicitly consider certain areas of management accounting. Although they have been dropped from the syllabus, Six Sigma and the V model still appeared in some answers, suggesting that some candidates were unfamiliar with the syllabus change.

### Specific Comments

#### Question One

Question one was built around a niche car maker called EcoCar. The company is both small and relatively immature, built on the enthusiasm and expertise of three academics from MidShire University. It has recently been bought by a large car manufacturer who now wishes to undertake an external analysis (part a) of the environment that EcoCar is operating in. It has also identified four weaknesses which it wishes to address. A possible strategy to address one of these weaknesses is outsourcing (part b), whilst an analysis of the other three weaknesses provides the focus of the final part (part c) of the question.

Question 1a asked candidates to analyse the external macro-environment and market place (industry) environment of EcoCar. Many candidates produced excellent answers that helped them pass the examination as a whole. Most used PESTLE and Five Forces and structured the answer well, leading to many getting all four professional marks on offer. However, despite this praise, specific comments have to be made about the way that many candidates addressed this part question.

- PESTEL is about the future and about external influences largely beyond the control of the organisation (EcoCar). Too many answers strayed into internal strengths (technology used by the company) and weaknesses (problems in budgeting). Furthermore, too many answers focused on issues that were relevant in the past. The existence of a skilled work force was significant when the company was established, but that was in the past. The problem now is finding skilled labour (due to retirement) and so labour pay rates have increased. This could have been identified within the Five Forces analysis, considering the power of suppliers. Too many answers included long, irrelevant social and political observations.
- Too many answers listed all the elements of PESTEL and Five Forces and then tried to find aspects of the case study to fit. When those aspects were missing, answers were simply made up. As a candidate, if you find yourself writing something like “the case study scenario did not include much information on.”, then you are probably going down an irrelevant path. There is no reason why a case study scenario should have all elements of the model under consideration, or that those elements should be equally weighted. This was certainly true in the EcoCar scenario.
- Finally, time management for this question appeared to be dreadful. It was only worth 16 marks (20 if you include the professional marks – although no professional marks are given for length) but many answers filled more than half the answer booklet. It seems likely that time pressures later on in the paper

were mainly caused by over-answering this part of the question. For example, the examiner marked one script which gained full marks for this question. However, the answer also contained a further four pages of discussion of strengths and weaknesses and a repetition of earlier points, now explored within the context of Porter's Diamond. The candidate only just scraped a pass overall. Time management is particularly important when answering a question you like and recognise. The examiner is aware that many candidates felt that the paper was time pressured, but he believes that much of this was self-inflicted through poor time management.

Question 1b asked candidates to evaluate the financial and non-financial case for and against outsourcing the EcoLite model. Many answers were too general, giving text book answers which were largely irrelevant in the context of the case study scenario. Little credit could be given for answers that just listed the advantages and disadvantages of outsourcing. Context is critical here. For example; what effect will this decision have on regional sales which are currently boosted by consumer's pride in a locally produced product? Will 'green consumers' still want to buy from a company who have used a significant amount of non-renewable energy to transport cars from the production plant to the primary market place? Some candidates tried to use the Harmon process/strategy grid when answering this question, but this was largely irrelevant in this context. Many candidates also failed to exploit the financial data that was made available in the question scenario. Most recognised that outsourcing was financially attractive because the cost of outsourced production was cheaper than the variable cost of the EcoLite model. Most also suggested that the EcoLite was the best candidate for outsourcing as it produced the lowest contribution. However, this assertion failed to recognise the production time of each car. When this was taken into account the EcoPlus has a lower contribution per machine hour than the EcoLite, and its lower demand might make it a better candidate for outsourcing. Similarly, many candidates recognised the extent to which production capacity was a limiting factor. However, very few performed a calculation to show that even the optimal production mix only produced a modest profit and so this was a powerful argument for outsourcing to meet demand. Furthermore, when EcoLite is taken out of the mix, the Lags Lane production plant makes a loss and has unused production hours, factors that could undermine its long-term future and so could be used in the argument against outsourcing. Overall, marks were disappointingly low for this part question.

Question 1c focussed on three syllabus areas; budgeting, human resource development and risk management. Many answers were too general and superficial (for example; get everyone together to have a meeting, improve the effectiveness of the training) and so failed to score the marks on offer. EcoCar is a company with a very limited and poor budgeting process and the concept of proper budgeting was the key to answering the first issue considered in this part question. Similarly, human resource development (succession planning, learning organisation, perceiving training as an investment rather than a cost) was the key to the second issue under consideration. The issue of risks and risk management was better answered, perhaps reflecting the overlap between P3 and P1 learning. It was their answer to this issue which lifted many candidates to a pass mark in this part question.

### **Question Two**

The scenario for question two concerned a domineering manager (Barry Blunt) who questioned the business case and investment appraisal of two internal jobs. He criticised the approach used to financially evaluate internal projects (jobs) and he made certain assertions about payback, the discount rate, the IRR, intangible benefits and benefits realisation. In the first part of the question, candidates were asked to evaluate his assertions. This should have been very straightforward for accountancy students. However, the question was relatively unpopular and was not particularly well answered. Perhaps its unpopularity was due to the second part of the question which asked candidates to discuss the principles, benefits and problems of introducing a matrix management structure into the company (8-Hats) described in the scenario. This required the application of knowledge first introduced in paper F1. However, many candidates seemed unfamiliar with the term often claiming that the approach

currently used at 8-Hats (functional, distinct organisational silos) with all its attendant problems was, in fact, an example of matrix management. Perhaps the problem with the first part of the question was that most of Barry Blunt's comments were wrong, borne out of ignorance and folly. The point has been made before; case study scenario characters are not always correct or virtuous. Some candidates tried to defend Barry's incorrect assumptions and conclusions and so scored few of the marks on offer. In general, the first part of this question was not well answered, with many candidates only offering definitions of the terms on offer, with a review of their general advantages and disadvantages. There was little attempt to apply answers to the tone and slant of Barry's comments.

### Question Three

This question described a process for handling questions for the certification programme of the Institute of Analytical Accountants (IAA). It asked candidates to identify a range of re-design options the IAA could consider for improving the question handling process and to evaluate the benefits for each option. The process was described in text, supported by a flow chart with defined swim-lanes. This part of the question was satisfactorily answered by some candidates. They applied themselves to the scenario and generally came up with solutions that addressed the problem. However, a significant number of candidates did not relate their answer to the scenario at all. They described general re-design principles and patterns and made, at best, fleeting reference to how these could be applied to the scenario. Such answers, many of which went on for several pages, could be given little credit. What is the point of the examiner developing a scenario, if the question can be answered with abstract textbook descriptions?

The second part of the question asked candidates to explain the advantage of fulfilling users' requirements using an off-the-shelf software package and to discuss the implications of this solution *to process re-design at IAA* (my italics). The first part of this question was relatively academic, with the usual advantages of cost savings, time savings and quality characteristics all scoring marks. However, the question was also focused on the implications of the solution to process re-design at IAA, not to the IAA as an organisation. Too many candidates answered this part of the question with long answers giving the general disadvantages of a package solution (erosion of competitive edge, problem of long-term lock-in) which were irrelevant to the actual question asked. Consequently marks on this part question (and indeed for the question as a whole) were relatively low.

### Question Four

Question four described a car retailer and asked candidates to evaluate how the principles of interactivity, intelligence, individualisation and independence of location might be applied in the e-marketing of the products and services of the company. The second part of the question asked candidates to explain the principles of e-procurement and evaluate its potential application to the enterprise. This second part (worth nine marks) was particularly well answered although many candidates focussed on the problems of procuring stationery and motor parts, rather than the actual cars themselves – the company's primary procurement activity. However, despite this narrow focus, many candidates scored 7 marks or more for this part question. The first part of the question was also relatively well answered, although the independence of location was something of a red herring. The scenario paints a picture of a company that stresses its physical location (café, children's play facility) and its commitment to it (long lease) in a commercial environment where the physical proximity of customer and supplier is important. The better answers identified that the principle of independence of location was NOT particularly relevant to the case study organisation. This is an important point. Just as you must not assume that case study characters are correct or virtuous, you must also not assume that all academic assertions and principles are always relevant to the case study environment. However, overall, this was a popular and relatively well-answered question.