Examiner's report

P3 Business analysis
June 2015

General Comments

Overall performance in this examination was not as good as at recent sittings. This was mainly due to very poor performance in question 1b. In general, question 3, focusing on project management, costs and benefits and stakeholder management was well answered. The first part of question 2, concerning the quantitative and qualitative aspects of outsourcing, was also answered well by most candidates. However, the second part of this question, looking at generic strategies, was not particularly well answered. The weakest (and least popular) optional question was question 4, on strategic drift and its countenance through the principles of the learning organisation and knowledge management. Candidates were very unfamiliar with these concepts, despite their explicit inclusion in the syllabus and, in the case of learning organisations and knowledge management, their fairly recent consideration in *Student Accountant* articles.

In question 1 part a, too many candidates focused on reiterating facts from the case study scenario instead of analysing their likely impact on performance. This issue is considered, with examples, in the question analysis presented below. Time management remains an issue. The regurgitation of unnecessary detail from the case study scenario, combined with elaborate introductions and unwanted descriptions of models and frameworks, often combine to put candidates under time pressure. This time pressure is not caused by the examination itself. It is usually the result of the candidate's unfocused response to the examination.

Specific Comments

Question One

The first sub-part of this question asked candidates to analyse the macro-environmental factors affecting the TFS mobile operator industry. This analysis was part of a briefing paper for 2Tel. Most candidates chose to undertake a PESTEL analysis, or more accurately, a PESTEL listing, because there was often no analysis involved. This part question was worth fourteen marks.
Many candidates produced long answers which were little more than regurgitated facts from the case study scenario. This is not analysis. Analysis requires putting these facts into the context of the briefing paper for 2Tel. Here is the difference:
Regurgitation

- The presence of a regulator focusing on pricing, service availability and service transfer.
- Legal outcomes are difficult to forecast due to unpredictable nature of judges.

Analysis

- The presence of a regulator focusing on pricing, service availability and service transfer. This is very significant for 2Tel as it has little experience of operating in regulated markets.
- Legal outcomes are difficult to forecast due to the unpredictable nature of judges. Due to possible expense and adverse effect on the brand, 2Tel may not wish to acquire a licensee facing potential legal action.

Analysis states why the external factor is significant in the context of that analysis (in this case 2Tel). To their credit many candidates did take the analysis approach. However, many others just listed factors and so did not score as well as they should have done.

The second sub-part of this question asked candidates to analyse competition within the TFS mobile operator industry. Eight marks were available for this analysis. Most candidates used Porter's five forces and scored relatively well. Indeed, probably because the model forces analysis, answers were often better than the preceding PESTEL analysis. Some candidates used Porter's diamond but, although some marks might be scored, this model lends itself less well to the question and the information given in the case study scenario.

The final sub-part of question one asked candidates to conclude with a summary of opportunities and threats. This should have been a relatively easy four marks. However, too many candidates did not clearly delimit their answers and others strayed into strengths and weaknesses. This sub-part was about summarising external forces (opportunities and threats) which should have been identified in the PESTEL and Five Force's analysis (or their equivalents).

The second part of this question (part b) was poorly answered and, indeed, not answered at all by a significant number of candidates. It required an evaluation of the relative advantages of bidding for a licence though the acquisition of one of the current licensees or through bidding directly. Part of that evaluation concerned four scenarios, which could be quantitatively evaluated through data provided in the scenario.

In the first instance, candidates could have discussed the advantages of bidding through acquisition. For example, T-Me (the potential acquisition) is experienced in working in the TFS culture. It is used to working in a highly regulated environment, which 2Tel is not. Similarly, there are advantages in bidding directly. There is a possibility of legal claims against T-Me as a result of the company giving information to government. This risk would be avoided completely by bidding directly.

In terms of the four scenarios; the candidate needed to first calculate the costs and income of each scenario. This required the organisation of data, but nothing beyond addition and subtraction.
For example;
Option one: buy T-Me and not gain licence had the following costs. The cost of buying the company ($400m) and the cost of bidding for the licence ($10m), a total of ($410m). The income was $200m profit and the $100m exit fee for failing to gain the licence, a total of $300m. Thus there was a net loss of $110m.
Option two: buy T-Me and gain the licence had the same costs, plus the contract fee of $550m. So a total cost of $960m. The $200m net profit was the same for the two years prior to the new contract, plus $960m profit from the contract. An exit fee at the end of that contract might be added, giving a total of $1260m, a $300m profit overall. It was also agreed that candidates who ignored the possibility of the final exit fee (producing an overall profit of $200m) would also be given maximum credit for their answers. So marking was very generous.

Similar, relatively straightforward analysis was required for the bid direct options. In fact, the bid direct and fail option only involved one number; the loss of the $20m bid cost.

These options could then be subject to the probabilities described in the scenario. For example; option one has an expected value of ($66m) if the bidding rules remained the same, but a lower expected value ($44m) if the bidding rules were changed in favour of the incumbent. Expected values could be calculated for eight scenarios (four with current probabilities and four with changed probabilities). The

options that minimised loss and maximised gain could also be identified. Significant marks could be gained here.
Finally, further marks could also be gained by commenting on the accuracy of such probabilities. For example

- The statistical probabilities for changed bidding rules were defined in other countries, how relevant are they to the country described in the scenario?
- Expected values not really appropriate in this circumstance, because the bidding is a one-off, not a series of decisions made over time.
- The actual values will occur, subject to forecasting errors, not the expected values.

There was a lot of information on offer, and substantial marks could be gained by answering the question in a variety of ways. The quantitative work was very straightforward. Addition, subtraction and a little multiplication, and yet some candidates made no answer at all to a question that they should have allowed themselves thirty minutes to answer. Even when the question was attempted, many answers were disorganised, with simple omissions (failing to include the bid fee), misclassification (adding the exit fee to the costs of acquisition) and simple errors in addition and subtraction. Overall, this was a very poorly answered question.

Question Two

The scenario for this question concerned a company whose recently appointed managing director had suggested that all four products currently produced in-house by the company could be produced more cheaply by an outsourced supplier in the country of Tinglia. Candidates were asked to evaluate his claim and to discuss issues raised by outsourcing production in a company that depended on a regional identity and regional market. This first part of the question, worth fifteen marks, was well answered by most candidates. The financial analysis (which revealed that the managing director's assertion was untrue) was correctly completed by most candidates and other issues, such as contradicting the marketing message, lack of experience in outsourcing etc. were also well covered. Indeed a significant number of candidates scored twelve marks or more on this part question.
The managing director's vision was that the company should pursue a cost leadership strategy. In the second part of this question, candidates were asked to examine the relevance of four generic strategies, listed in the scenario, to the competitive environment of YTR. They were also asked to evaluate the choice of a cost leadership strategy. This part question was worth ten marks.
In general, this was not answered particularly well. Many candidates did not make enough points about each generic strategy to get the marks on offer. Cost focus was also poorly dealt with.
It is also very hard to make a case for the company following a cost leadership strategy. The signs in the case study are not encouraging (it is not big enough, it has outdated technology) and so a differentiation strategy, focused on a niche regional market, seems more acceptable. Many candidates acknowledged this and gained credit for this insight.

Question Three

This question focused on project management, the costs and benefits of a project, and stakeholder management. The first part of the question, worth five marks, asked candidates to discuss what changes should be made in a terms of reference (project initiation document, project charter) of a project changed to reflect the vision of a newly elected mayor. This was relatively well answered, although many answers were not well structured and some strayed outside of what might be expected within a terms of reference.

The second part of the question (worth fourteen marks) asked candidates to identify costs and benefits for the revised project and to classify each benefit in a benefit classification scheme outlined in the scenario. Overall, this was answered rather well. The most common mistakes were

- To not clearly identify the benefit. Benefits need action words; such as reduce carbon emissions, improve the punctuality of buses. It was unclear in many answers what the actual benefit was.
- To not include costs or to try and classify costs using the benefits classification. Many answers were so focused on benefits that obvious costs (and marks), such as the cost of buses, the cost of new bus crews, were omitted completely.

The third part of the question asked how three different stakeholders should be managed. There were two marks for each stakeholder. Most candidates answered this part question successfully, using the Mendelow power/interest grid for guidance. Generally answers were stronger on locating stakeholders within the grid, than suggesting an appropriate management strategy; high interest / high power stakeholders expect more than just being informed! However, overall, this part question was well answered with a significant number of candidates getting full marks.

Question Four

Strategic drift takes place when an organisation progressively fails to address the changing strategic position of the organisation. This failure leads to a continual deterioration in organisational performance. This is exactly what happened to TMZ, the music company described in the scenario to this question. In the first part of this question, worth 15 marks, the candidate was asked to analyse the performance of the company from 1965 to the present, including in their analysis, reference to the principles of, and evidence for, strategic drift in the company. This analysis should have recognised that the company did successfully cope with changes in technology (vinyl to cassette to CD) but was too complacent to cope with the massive environmental change caused by consumers switching to downloading music. Despite warning voices from within the company, management were too wedded to the current ways of doing and seeing things. Their natural inclination was to protect these ways (through legal action) until the threat of organisational failure made it essential for them to embrace the changes happening in the industry.

This part question was not particularly well answered by candidates. Too many answers simply consisted of re-iterated facts from the case study, not presented in any context of analysis. The most useful analysis context would have been the principles of strategic drift. However, many answers made no reference to this at all, despite the question specifically asking for it. As a result, very few candidates scored eight marks or more in this question.

The likelihood of strategic drift suggests that the strategy development process in the organisation should encourage people to have the capacity and willingness to challenge and change the core assumptions of the organisation. This is one of the principles of the learning organisation. This concept of the learning organisation formed the basis of the second part of this question. This part question was only worth five marks and there is plenty of material in the approved study guides to easily get the marks on offer, particularly given TMZ's obvious inability to act upon concerns about the impact of downloading emanating from within the company itself. There has also been an article in the *Student Accountant* on the subject. Despite this, it was clear that many candidates knew very little about this concept and were unable to score more than one or two marks. Often answers were just along the lines of 'a learning organisation is an organisation where people learn'. Very disappointing.

The management of explicit and tacit knowledge is also a facet of the learning organisation. As a result of free-flowing knowledge, individuals within an organisation become more sensitive to the changes happening around them and this helps them identify and tackle changes and threats in the external environment. This subject of knowledge management formed the third part of this question. Again there is plenty of material in the approved study guides to easily get the marks on offer. And, also again, there has also been an article in the *Student Accountant* on the subject. Despite this it was clear that many candidates knew very little about this concept and were unable to score more than one or two marks. Often answers were along the lines of 'knowledge management concerns the management of knowledge' and, overall, answers were very disappointing.