

Final Level

## Management Accounting – Information Strategy

# 14

# FLIS

22 May 2003

Thursday morning

### INSTRUCTIONS TO CANDIDATES

Read this page before you look at the questions

You are allowed three hours to answer this question paper.
Answer the ONE question in section A.
Answer TWO questions ONLY from section B.
Write your examination number in the boxes provided on the front of the answer book.
Write FLIS on the line marked "Subject" on the front of the answer book.
Do NOT write your name or your student registration number anywhere on your answer book.
Tick the appropriate boxes on the front of the answer book to indicate which questions you have answered.

## SECTION A – 50 MARKS

### ANSWER THIS QUESTION

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#### **Question One**

##### ***Background***

The SI organisation builds and sells computers in 35 different countries. A customer can order a computer by telephone, mail order or the Internet. The computer is then built to the customer's specification using parts manufactured by SI or supplied from one of 86 different suppliers. The completed computer is then shipped to the customer and installed by SI technicians. The whole process takes between 5 and 7 days.

Following installation, the customer is given access to the country-specific support system of SI. This comprises a country-specific Internet site containing detailed information on installation, errors with SI computers and answers to Frequently Asked Questions. The errors database is the same as that used by SI staff, so customers are effectively being given access to SI's own systems. Technical staff are also available to provide human assistance if customers cannot find the answer to a query within the other support systems.

Databases are maintained in each country and contain information on the different customers, types of computer sold, queries raised and solutions to those queries, along with standard accounting and financial data.

No other computer manufacturer provides this type of service. Most other manufacturers prefer to sell computers via retail stores on the assumption that customers wish to "try out" the computers prior to purchase. This strategy of differentiation from competitors has provided SI with a substantial market share, along with significant profits. Customers are prepared to pay for the enhanced service. SI's distribution costs are slightly less than those of its competitors although selling prices are the same, providing additional contribution for SI.

##### ***SI organisation structure***

Within each country, the SI organisation is run as a separate company. Each company has its own unique information system, resulting in a range of hardware, software and database formats being used. Although this is unusual, the philosophy of SI has been to allow each country to establish systems to meet its own individual requirements. This has resulted in an extremely successful SI company in each country, at the expense of worldwide compatibility.

Similarly, local suppliers supply parts for SI computers, so the SI company in that country can form good working relationships with the suppliers. Again, this has worked to the benefit of SI, as the quality of parts supplied has consistently exceeded expectations and resulted in fewer hardware failures in SI computers compared to other brands.

Each SI company is therefore run as a separate business unit. The head office of SI is located on a small island close to Western Europe. Budgets for each SI company are set after discussions with head office. Apart from this, as long as each company meets budget, no other intervention by SI's head office is considered necessary.

There is a centralised R&D unit, which provides model specifications for new SI computers to all locations. This unit employs 75 research and development specialists. Their main activities include:

- research into existing SI products in order to make them more reliable and economical to run;
- amending existing SI products incorporating minor design changes such as larger hard disks or additional RAM;
- reviewing current developments in computing;
- building and testing new products;
- providing specifications for new SI computers to the individual SI companies in each country.

Information is provided by the R&D unit on a regular basis to sales and other departments in SI. However, the information flow is one way. The R&D unit does not have access to the sales staff or databases within each SI company.

### ***Recent developments***

In the last few years, the sales pattern of SI has shifted significantly away from individual customers purchasing one or two computers, to larger organisations purchasing up to 1,000 computers at a time. These requirements cannot always be met by the production capacity in one SI company, so orders are transferred to other SI companies in other countries.

Many customers also request additional support, including 24-hour telephone hotlines and access to worldwide databases of errors and information, which SI currently cannot provide. The Chief Executive of SI recently made a decision to provide this support, effectively authorising a worldwide network to be put in place to link all SI companies. All accounting, customer, financial, support and similar databases are to be linked within one year. Failure to meet this target may result in significant loss of sales if the larger corporate customers move to other suppliers.

### ***Required:***

(a) Evaluate the current use of IT within the SI organisation, clearly identifying:

(i) the strengths and weaknesses of the decentralised systems;

(12 marks)

and

(ii) the problems of integrating the systems into one worldwide system.

(8 marks)

(Total for requirement (a) =20 marks)

(b) Evaluate the current information system for the R&D unit in SI. Include in your answer an outline of an appropriate information support system to enable R&D and sales staff to communicate with each other, justifying your choice of system.

(14 marks)

(c)

(i) Explain Porter's concepts of differentiation and cost leadership.

(4 marks)

(ii) Using Porter's differentiation and cost leadership concepts as a framework for your answer, discuss whether the recent decision of the Chief Executive of SI will detract from the overall customer-focus strategy of SI.

(12 marks)

(Total for requirement (c) =16 marks)

(Total for question one = 50 marks)

## SECTION B – 50 MARKS

### ANSWER TWO QUESTIONS ONLY

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#### Question Two

The JS Company sells mobile telephones mainly via telephone sales, with 150 sales representatives communicating with customers exclusively on the telephone.

Within the JS Company, sales representatives require information such as:

- stocks of telephones;
- popular brands of telephones, to try and offer acceptable telephones to each type of customer (such as young, middle-aged or business users);
- special offers and promotions;
- details of which offers and promotions are effective for different categories of customer.

Sales representatives tailor their sales advice according to the different customer types. Sales representatives are paid a commission on all telephones sold.

The range of computer systems currently available to provide information to the sales representatives is relatively old and generally inefficient to use. The company is implementing a groupware system to enable employees to share more knowledge more efficiently within the organisation. The new system is being implemented on the recommendation of an external consultant. Sales representatives have had very little input into the overall system design.

The consultant produced the following Cost Benefit Analysis summary (CBA) to help justify the implementation of the new system:

		£
<b>Costs</b>	Hardware, to include new PCs for each sales representative	(150,000)
	Software	(50,000)
	Implementation, including data conversion	(75,000)
	Lost sales as staff receive on-the-job training	<u>(5,000)</u>
Total costs		(280,000)
<b>Benefits</b>	Increase in sales estimated at £100,000 in year one, rising at 10% per annum for each of the following four years	<u>610,510</u>
	<b>Net benefit of new system</b>	<u>330,510</u>

#### Required:

- (a) Evaluate the CBA, explaining any deficiencies and justifying any amendments you may wish to make.

(12 marks)

*Note* – Do not provide a new CBA or use any other investment appraisal techniques such as IRR or NPV.

- (b) Advise the Board on the problems and issues arising from attempting to use the new system to share knowledge within the JS Company.

(13 marks)

(Total = 25 marks)

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### Question Three

#### *Required:*

- (a) Explain what Information Systems strategy, Information Technology strategy and Information Management strategy are and the link between them.

*(10 marks)*

The Information Systems strategy within the MG organisation has been developed over a number of years. However, the basic approach has always remained unchanged. An IT budget is agreed by the Board each year. This budget is normally 5% to 10% higher than the previous year's to allow for increases in prices and upgrades to computer systems.

Systems are upgraded in accordance with user requirements. Most users accept that the IT systems are there to perform tasks such as recording day-to-day transactions and providing access to accounting and other information as necessary. There is no Executive Information System (EIS). Benchmarking and similar comparisons with other companies are not performed.

The Board tends to rely on reports from junior managers to control the business. While these reports generally provide the information requested by the Board, they are focused at a tactical level and tend to contain some annoying errors and occasional omissions.

#### *Required:*

- (b) Evaluate the Information Systems strategy of the MG organisation, recommending any changes that you consider appropriate.

*(15 marks)*

*(Total = 25 marks)*

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#### **Question Four**

The SDW Company has been trading for one year. It provides an airline service between three major cities in the country in which it operates.

Mr M, the majority shareholder and Managing Director, is keen to expand its operations and, in particular, to use the Internet as the major selling medium. He has discovered, for example, that doubling sales on the Internet usually results in no additional costs. However, doubling sales using a call centre normally results in a doubling of staff and an increase in costs.

All tickets are currently sold via the company's call centre. The company has an Internet site although this is used for publicity only, not for sales or marketing. Competitors currently use a mixture of selling media, although detailed information on the success of each medium is not available to the SDW Company.

Mr M has asked you, as a qualified management accountant, to assist him in upgrading the company's Internet site and, in particular, showing how this will help to reduce operating costs.

#### ***Required:***

- (a) Advise Mr M on how to establish and implement an appropriate Internet strategy for the SDW Company.

*(13 marks)*

- (b) Discuss the key customer-orientated features of an Internet site, showing how these can be used to meet the objective of cost reduction required by Mr M.

*(12 marks)*

*(Total = 25 marks)*

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### Question Five

DLN manufactures a range of standard parts for domestic products such as washing machines, refrigerators and freezers. The parts manufactured include motors, gears, cooling elements and standard doors for different manufacturers. The company has 12 main customers who assemble the products prior to selling them to shops and consumers.

The company has been in existence for 75 years and has remained profitable during this time. The directors pride themselves in keeping up-to-date with recent technological change. They have implemented a range of systems within the company including computerised stock control, sophisticated accounting systems and on-line ordering systems for customers via Electronic Data Interchange (EDI). DLN does not maintain a website because no sales are made to the general public.

However, DLN's main customer, GKR, has now decided to start using an electronic trading room to order parts. Rather than place orders direct with manufacturers, GKR will now offer the contract to any supplier via a restricted website. Any manufacturer can bid for the order, and, after a specified period of time, the contract will be awarded to the lowest bidder. Bidders such as DLN will have no knowledge of other bids, which will significantly reduce the likelihood of DLN obtaining contracts.

Trade journals suggest that other companies will also start using a similar system within the next six months.

#### *Required:*

- (a) Discuss the effects that the electronic trading room is likely to have upon DLN. (13 marks)
- (b) Identify and explain the information that will be required and where this will be obtained, in order for managers in DLN to ensure that bids are placed into the trading room on an appropriate timescale. (12 marks)
- (Total = 25 marks)*
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*End of paper*