

General Comments

This examination paper is designed to test the candidates' ability to demonstrate their understanding and application of the following key syllabus areas:

- The evaluation of strategic options.
- The impact and influence of the external environment on an organisation and its strategy.
- The nature of competitive environments, distinguishing between simple and complicated competitive environments.
- IS/IT systems and how appropriate they are to the organisation's strategic requirements.
- The problems in performance measurement.
- The role of change management in a strategic context.
- Benchmarking.

It was encouraging to see a good level of application of knowledge of the key syllabus areas by many candidates, as would be expected at this level. However, it was very disappointing to see how few candidates could adequately carry out a strategic evaluation and make reasoned recommendations on the basis of their evaluations in Question 1. Part (a) of question 1 was very poorly answered, with very few candidates recognising the importance of profitability to the decision and most concentrating on very basic NPV calculations. Many candidates also did not carry out a non-financial evaluation, or neglected to make recommendations. A vital aspect of the Business Strategy paper is that candidates demonstrate not only their ability to formulate options in terms of financial data, but who can then demonstrate their ability to analyse their options and make reasoned judgements based upon these.

It was again evident in many candidates' answers that there was a serious lack of knowledge of some of the fundamental Business Strategy syllabus areas. Many candidates scored badly on the Section B questions, which was indicative of a lack of depth in knowledge of the key syllabus areas. For example, few candidates adequately answered Question 3(a), when distinguishing between the three managerial levels and the relative merits of outsourcing to each. The main difficulty in this question was that many candidates were unable to adequately link the two areas of knowledge. Similarly, some candidates were clearly unable to use basic models such as Porter's Five Forces and Porter's Competitive Diamond.

A key weakness in a number of answers was that they were often superficial and lacking in reasoned discussion, with some answers covering little more than 1 or 2 sides of workbook. Clearly this is insufficient to demonstrate not only knowledge, but more importantly the understanding of that knowledge and the ability to apply it in a strategic context. An example of this was in answers to Question 5, where many candidates could give very general answers to part (a) when discussing advantages of benchmarking, but few candidates went on to sufficiently demonstrate an ability to apply this knowledge in any depth to the scenario organisation.

Overall, this paper is a balanced test of the key syllabus areas and covers a number of well used strategic tools and models. Candidates should not find any surprises in this paper and a well prepared candidate should have no difficulty in both demonstration of syllabus knowledge and in the application of this to the various examination scenarios.

SECTION A – 50 MARKS
ANSWER THIS QUESTION

Question 1(a)

Make reasoned recommendations on the selection of Options 1 and 2.

Note: up to 16 marks will be awarded for calculations

(29 marks)

Rationale

This question requires candidates to apply their knowledge of financial evaluation techniques in the context of a strategic investment decision being made by the scenario organisation.

Suggested Approach

This question requires candidates to undertake a financial and non financial evaluation of the two options under review. It is important that the candidates note that only 16 marks are awarded for calculations, therefore a further 13 marks are available for non-financial evaluation and the recommendations. Therefore, the examiner is looking for a balanced and well structured approach to the decision making process.

Marking Guide

Marks

Option 1

Calculation of NPV (A&B)	4
Calculation of profit	2
Calculation of profitability index (A&B)	1

Option 2

Calculation of probability weighted NPV	4
Calculation of profit	1
Calculation of profitability index	1
Calculation of profit & profitability index for each possible outcome	3

Discussion

Definition of criteria to be satisfied, identification of four options including do nothing	2
Comparison of outcomes in terms of NPV	2
Comparison of outcomes in terms of risk (including comment about risk return profile)	2
Comparison of outcomes in terms of board's profit criteria	2
Reach decision that it is Country B or option 2 - and these should be proposed to the parent group with decision qualified	2
Points to the parent group should include relative risk and; Fact that Option 2 is a chance to move to a higher margin business but involves significant change	1 for each to max of 3
But recognition that Option 1 (either A or B) has a finite life.	

Maximum marks awarded

29

Examiner's Comments

The first part of the question was generally not answered well, with most answers focusing only upon NPV. Very few candidates calculated profitability or the profitability index. More disappointingly was the weakness demonstrated in the non-financial evaluation of each option, with many answers merely discussing the numbers calculated previously. Similarly, few candidates were able to present a structured and well reasoned recommendation based upon their previous analysis.

Common Errors

- Incorrect application of NPV, using incorrect discount factor, or incorrect methods of calculation.
- No profitability calculations.
- No non financial analysis of the strategic options.
- No recommendations provided, or recommendations which did not fit with strategic analysis carried out.

Question 1(b)

Identify the additional information that would need to be gathered to compare and contrast the suitability of the two countries identified for possible relocation in Option 1.

(6 marks)

Rationale

This question is designed to test the candidates' understanding of the importance of the external environment in strategic decision making.

Suggested Approach

Answers should obviously focus upon the different possible external environments that may be encountered by Pipeco in the two different countries under consideration in Option 1. This may include an analysis of the competitive environments of each country.

Marking Guide

Marks

Non financial information to distinguish between countries:

- Difference in countries in terms of political stability?
- Infrastructure - handled at local or national government level?
- How sophisticated are their buying processes
- Competitive tender or preferred supplier lists?
- Government policy to favour local manufacturers?
- Will there be a requirement for a local partner in the process?
- If so, do suitable local partners exist?
- Possibility of other companies entering the market in each country.
- Do any other companies intend to enter the market?

1 for each point listed up to maximum of 6. Where fewer points are made but are elaborated, 2 for each point

6 (max)

Examiner's Comments

Most candidates provided a good range of non-financial information to distinguish between the two countries. Many candidates used a PEST analysis or Porter's Diamond to answer this question, both of which were credited if used correctly.

Common Errors

- Lack of depth to answers.
- Little mention of each country's competitive environment.
- Lack of application to the scenario.

Question 1(c)(i)

Briefly describe relationship marketing and explain how the approach would benefit the company.

(6 marks)

Rationale

This is a straightforward question testing the candidates' knowledge of relationship marketing and its usefulness to the company.

Suggested Approach

This question should be straightforward, starting with a brief definition of relationship marketing, with the majority of the answer focusing upon the advantages of this approach to marketing to Pipeco.

Marking Guide

Marks

Definition of relationship marketing

2

Advantages given specifically relating to the scenario (0.5 each listed to a max of 4; 2 for each well described)

4 (max)

Examiner's Comments

It was disappointing to see so few correct answers to this question and very surprising to see how many candidates did not know what relationship marketing is. It followed that if candidates were unable to produce a correct definition of relationship marketing, then it was unlikely that they were able to discuss the advantages of this approach to Pipeco.

Common Errors

- Lack of knowledge of relationship marketing.
- Lack of application to the scenario when presenting the advantages of relationship marketing.

Question 1(c)(ii)

Advise how the changes associated with the introduction of relationship marketing and the acquisition should be implemented if Option 2 is adopted.

(9 marks)

Rationale

This question examines knowledge and application of the change management process required, following the decision to acquire an overseas organisation.

Suggested Approach

It is important that both elements of this question are answered separately, with a discussion on the change management approach required for strategic marketing first, followed by a discussion of the change management activities associated with an overseas acquisition by Pipeco.

Marking Guide

Marks

Recognition of components of a change process and that this is a big change
Recognition of issues - linked to acquisition

1
1- 4 marks
dependent
upon detail

Recognition of the importance of staff in both companies
Recognition of issues - linked to relationship marketing

1
1- 4 marks
dependent
upon detail

Maximum marks awarded

9

Examiner's Comments

Generally this question was answered poorly, with very few candidates distinguishing between the different change management activities associated with both relationship marketing and the acquisition. One good point was that most candidates did recognise the importance of the staff and their involvement in any changes undertaken by Pipeco. .

Common Errors

- Lack of knowledge of relationship marketing.
- Lack of application to the scenario when presenting change management activities relating to both relationship marketing and the acquisition.

SECTION B – 50 MARKS
ANSWER TWO QUESTIONS FROM FOUR

Question 2(a)

Explain what is meant by Industry Analysis using any models you consider appropriate.

(5 marks)

Rationale

This is a straightforward question testing the candidates' knowledge of the models used to evaluate the competitive environment.

Suggested Approach

This question is a test of the candidates' basic syllabus knowledge of the competitive environment and should be straightforward. It is obviously important to use appropriate models suitable to analyse an organisation's industry.

Marking Guide

Marks

- | | |
|--|---|
| Identify PEST and discussion of other versions i.e. PESTLE | 1 |
| Discussion of importance of thematic approach and inter relatedness of factors | 2 |
| Identify Porter model and listing of five factors | 2 |

Examiner's Comments

This question was answered reasonably well. Most candidates identified PEST/ PESTLE and Porter's Five Forces as appropriate industry analysis models. However, many candidates spent too long going into depth about these models without explaining how the models were suitable to carry out industry analysis.

Common Errors

- Answering part (b) in this part of the question, instead of focusing on explaining industry analysis.

Question 2(b)

Describe the information that 2XA might include in such an analysis.

(10 marks)

Rationale

This question is designed to examine the candidates' ability to apply the models identified in part (a) in order to evaluate the information they produce.

Suggested Approach

Candidates are expected to use their knowledge of the models identified in part (a) to describe the different types of information that would be needed to undertake an industry analysis. Therefore candidates need to focus upon the information provided by these models in relation to understanding the competitive environment.

Marking Guide

Marks

- | | |
|--|--------------|
| • Derived demand and the importance of their knowledge of customers' industry - with scenario related examples | |
| • Change in technology of customers' product - with scenario related examples | 1 for each |
| • Political and economic factors - with scenario related examples | point listed |
| • Socio - political factors - with scenario related examples | 2-3 for each |
| • Possibility of building barriers to entry - with scenario related examples | with |
| • Possibility of building customer dependence - with scenario related examples | scenario |
| • Any other Porter forces - with related examples | example |

Maximum marks awarded

10

Examiner's Comments

This question was reasonably well answered. Most candidates demonstrated adequate knowledge of the PEST and the Five Forces model. However, many candidates did not answer the question set by the examiner. The question asked for the information that 2XA might use in such an analysis, but many candidates merely described the models in some detail. In order to pass this question the answers needed to focus upon the information that these models provide in a competitive analysis.

Common Errors

- Misinterpretation of the question, with few candidates focusing upon the information content of the models.
- Internal analysis models used such as SWOT, BCG and internal value chain. Although these have some relevance, they are not most appropriate to external/industry analysis.

Question 2(c)

Advise the directors as to the possible sources of the information which 2XA could use in performing an industry analysis.

(10 marks)

Rationale

This question tests the candidates' ability to determine the sources of information when evaluating the competitive environment.

Suggested Approach

Candidates are expected to use the answer provided in part (b) to identify where this information may be provided. Candidates should not only concentrate on external sources of information, but should also identify potential internal sources of information.

Marking Guide

Marks

- | | |
|--|---|
| <ul style="list-style-type: none"> • Securities Analysts specialising in manufacturing industry • Engineering regulatory and professional bodies • Engineering standard setters • Press – particularly engineering trade press & the local press at competition sites. • Government - departmental & local • Suppliers of plant and equipment to themselves and competitors • Watchdog groups • Engineering Trade Associations • Internet | <p>½ mark per point for a list</p>

<p>2 marks per point if related to scenario</p> |
|--|---|

Maximum marks awarded

10

Examiner's Comments

This question was again reasonably well answered. Most candidates could list a variety of sources of information for the industry analysis. However, few candidates demonstrated a depth of understanding by explaining why these sources of information were relevant to the scenario organisation.

Common Errors

- Generic lists of information sources with little reference to the scenario.

Question 3(a)

Discuss the advantages and disadvantages of outsourcing the IT function for the merged organisation at each of the strategic, managerial and tactical levels of the organisation.

(15 marks)

Rationale

This question tests the candidates' ability to evaluate the advantages and disadvantages of outsourcing an organisation's information system.

Suggested Approach

This question should be straightforward. It clearly requires the candidate to structure their answer into three separate areas; strategic, managerial and tactical levels and the advantages and disadvantages within each of these levels. Therefore good structure is important in answering this question. The answer should focus upon the advantages and disadvantages of outsourcing of IT for each managerial level, not a general discussion of the relative merits of outsourcing.

Marking Guide

Marks

Strategic level

Advantages (related to IT function of BXA)

2 max

Disadvantages (related to IT function of BXA)

2 max

General identification of strategic level issues in relation to IT

1

Managerial level

Advantages (related to IT function of BXA)

2 max

Disadvantages (related to IT function of BXA)

2 max

General identification of managerial level issues in relation to IT

1

Tactical level

Advantages (related to IT function of BXA)

2 max

Disadvantages (related to IT function of BXA)

2 max

General identification of tactical level issues in relation to IT

1

Examiner's Comments

The answers to this question were generally poor. Many candidates made little reference to the scenario, with answers focusing on a generic discussion of the advantages and disadvantages of outsourcing. Very few candidates successfully distinguished between the different organisational management levels. Some candidates made little or no reference to the IT function at all.

Common Errors

- Poor structure, with lack of definition between the three managerial levels.
- Poor application to the scenario and use of IT as an outsourcing example.

Question 3(b)

Briefly describe the characteristics of the supplier that BXA will be looking for in the selection of the contractor to take on the outsourcing.

(5 marks)

Rationale

This is a straightforward question testing knowledge and understanding of the characteristics of an outsourcing supplier.

Suggested Approach

Candidates are required to use their knowledge of suppliers in identifying the most appropriate characteristics for a contractor to undertake the IT function for BXA. Application is again very important when answering this question.

Marking Guide

Marks

- | | |
|--|---|
| • Financial stability | 1 mark per point described and applied to BXA |
| • Capacity | |
| • Track record on similar work | |
| • Track record on innovation | |
| • Track record on retention of transferred staff | |
| • Openness during due diligence | 2 marks max for generic list |
| • Cultural compatibility and fit with own staff | |
| • Involvement of people who will run the contract in the negotiation of the contract | |

Maximum marks awarded

5

Examiner's Comments

This question was answered reasonably well, with many candidates providing a comprehensive list of supplier characteristics. However, few candidates obtained maximum marks, as many did not adequately apply these characteristics to the recommended supplier of the IT function to BXA.

Common Errors

- Poor application to the scenario i.e. providing only a generic list of supplier characteristics.

Question 3(c)

Identify the factors which should be included in the service level agreement with which the contractor will be expected to comply in achieving the levels of performance that BXA will require.

(5 marks)

Rationale

This question tests the candidates' knowledge of supplier agreements.

Suggested Approach

This is straightforward knowledge demonstration question.

Marking Guide

Marks

- Benefits expected
- Definition of the service and required performance
- Charges and service credits procedure
- Compliance with key obligations
- Management information and reporting procedure
- Open book charging and right to audit
- Continuous improvement plans
- Problem management and customer satisfaction surveys
- Benchmarking process to be used
- Transition or termination (for fault and/or convenience) arrangements
- Definition of expected and predicted business transformation

1 mark per
point
explained

Maximum marks awarded

5

Examiner's Comments

This question was answered well, with many candidates providing a comprehensive list of factors to be included in the SLA. However, the main problem was that many candidates failed to apply their answers to the scenario.

Common Errors

- Generic list of factors with no reference to BXA.

Question 4(a)

Using any models you consider appropriate, explain the factors which lead to competitive advantage being present in particular countries.

(7 marks)

Rationale

This question examines candidates' knowledge of competitive advantage within countries and in particular Porter's diamond.

Suggested Approach

This is a straightforward question, requiring the candidates to use Porter's diamond to illustrate competitive advantage within countries. There is no requirement for application to the scenario; therefore this question is an opportunity for the candidates to demonstrate some basic knowledge of a commonly used strategic model.

Marking Guide

Marks

Identifying model as Porter naming the four main reasons	1
Description of each reason	0.5 each
Recognition that competitive advantages reside in industries or companies not countries	1
Role of government and chance events	1
Description of importance of clustering	2

Maximum marks awarded

7

Examiners comments

This question was answered reasonably well. Most candidates demonstrated a sound knowledge of Porter's diamond, but few candidates provided comprehensive answers which included the role of government and the nature of clustering of firms within countries.

Question 4(b)

Identify the aims that D4D should try to achieve in attracting appropriate investors into the country. You should also compare and contrast those aims with the likely aims of any company investing in D4D.

(10 marks)

Rationale

This question examines candidates' understanding of the relationship between businesses and the countries in which they invest.

Suggested Approach

This question is split into two separate parts. The first part requires candidates to identify the aims of D4D when trying to attract inward investors. This requires candidates to examine what D4D would be hoping to achieve for its country and its people as a result of investment from an overseas company.

The second part of the question requires the candidate to assess the aims of the investing company, and how these may be similar to, or may conflict with the aims identified by D4D in the first part of the question. It is important that the candidate assesses both the similarities in aims and the potential differences.

Marking Guide

Marks

Aims of D4D

- Good PR
- Attractive industry i.e. clean and growth
- Likely attractor for other companies
- Good employer for local population
- Likely to invest in infrastructure, particularly higher education
- Reputable firms – good record on corporate governance

½ mark per point

(3 max)

Aims of investing company

- Stable economy and government
- Business oriented government
- Skilled and well educated workforce
- Attractive base for overseas posting for its own staff
- Good infrastructure particularly transport and communication
- Good relationship with neighbouring markets for use as an export base
- Business oriented planning laws

½ mark per point

(3 max)

Compare and contrast above

4

Maximum marks awarded

10

Examiner's Comments

This question was not well answered. Many candidates adequately identified the aims of D4D, but few candidates compared and contrasted these aims with those of the investing company. In fact many candidates did not attempt this part of the question. There was also a large degree of overlap between the answers to this part of the question and those for part (c), with many answers focusing upon **how** D4D should attract inward investment, rather than **why** it should attract inward investment.

Common Errors

- Poor application to the scenario.
- Only identifying the aims of D4D and not those of the inward investing company.
- Focusing upon how to attract inward investment (see part (c) answer).

Question 4(c)

Explain the steps that D4D should take to make the country more attractive to appropriate inward investment.

(8 marks)

Rationale

This question tests candidates' ability to explain how countries can make the necessary changes to influence investment.

Suggested Approach

This question requires the candidate to prepare a brief set of steps that D4D need to take to attract inward investment i.e. what needs to be done to make the country attractive to inward investors. This should be a straightforward question, focusing upon governmental incentives and activities.

Marking Guide

Marks

- Strengthening productivity/ competitiveness of local firms - encouraging business conditions for investment and training.
- Developing a robust capital market within the country.
- investing in IT infrastructure.
- Investing in transport facilities.
- Investing in the universities - providing opportunity for companies to develop R&D partnerships with local universities.
- Developing a strong pre-university education system.
- Investment friendly tax and incentive regime.
- Building, or maintaining, good trading relationships with neighbouring countries.

1 mark per
point

Maximum marks awarded

8

Examiner's Comments

This question was answered adequately well. Most candidates focused upon the main points of offering financial incentives such as tax breaks or financial incentives. Also, many candidates recognised the importance of investment in education and IT. However, few candidates adequately related their answer to D4D and most answers were largely generic lists of points.

Common Errors

- Lack of depth and focus upon D4D.

Question 5(a)

Discuss the advantages and disadvantages of benchmarking for E5E.

(8 marks)

Rationale

This question examines candidates' understanding of the pros and cons of benchmarking.

Suggested Approach

This is a straightforward question requiring the candidates to provide a discussion on advantages and disadvantages of benchmarking in a charitable organisation. It is important for the candidate to frame their answers within the context of the charity.

Marking Guide

Marks

Advantages

- Improve organisational performance through:
 - increased client satisfaction
 - reduced waste and costs of poor quality
 - reduced overhead through business simplification
 - transmission of best practice
- Overcoming complacency
- Monitor the conduct of competitive strategy
- Advanced warning of deteriorating competitive position
- Improves management understanding of the value adding processes
- Particularly important for E5E, with budgetary constraints
- Stakeholder groups need evidence of efficiency and effectiveness.

4 marks
max

Disadvantages

- Increases diversity of information -information overload
- Reduce managerial motivation
- Confidentiality compromised
- Focus on increasing efficiency of existing business instead of developing new lines
- Overloaded with requests for information
- The measures become the focus of management attention
- For E5E, the time commitment necessary for the exercise is a potential drain and distraction

4 marks
max

Maximum marks awarded

8

Examiner's Comments

This question was generally well answered. Most candidates adequately provided advantages and disadvantages, but the main weakness was in the application of these to a not for profit organisation.

Common Errors

- Lack of depth i.e. basic lists of notes, with little explanation.
- Lack of application to E5E.

Question 5(b)

Provide advice on the stages in conducting a benchmarking exercise in the context of E5E.

(13 marks)

Rationale

This question examines candidates' knowledge of the benchmarking process.

Suggested Approach

Candidates need to present a plan identifying the logical stages which E5E need to follow to conduct a benchmarking exercise. Each stage needs to be highlighted and discussed separately.

Marking Guide

Marks

- | | |
|---|---------------------------------|
| 1. Senior management commitment | 1 mark |
| 2. Decide and understand processes and develop appropriate measures | 1 mark for mention 2 for detail |
| 3. Monitor process measurement system | 1 mark |
| 4. Identify appropriate organisations | 1 mark for mention 2 for detail |
| 5. Analyse data and discuss results with management and staff | 1 mark for mention 2 for detail |
| 6. Implement improvement programmes | 1 mark for mention 2 for detail |
| 7. Monitor and control / continuous improvement | 1 mark for mention 2 for detail |

Maximum marks awarded

13

Examiner's Comments

This was generally well answered by most candidates. However, the biggest weakness was lack of application to E5E.

Question 5(c)

Provide advice on how those implementing the exercise should deal with the concerns of the staff, particularly the volunteers.

(4 marks)

Rationale

This question examines candidates' understanding of the management of change in relation to its impact on the people involved.

Suggested Approach

This answer should focus upon how benchmarking exercises may affect staff, in particular the volunteers working in a not for profit environment.

Marking Guide

Marks

- Obvious senior management commitment
- Clear explanation of purpose of exercise
- Focus on process not individuals
- Involvement in mapping process
- Involvement in development of KPI's
- Use of their knowledge and expertise

1 mark per point

Maximum marks awarded

4

Examiner's Comments

This question was generally well answered. Most candidates adequately identified the problems for staff when implementing benchmarking and most were able to relate this to the particular concerns of the volunteer staff of E5E.