

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.
- The recommendation of control measures.
- Using IT to complement strategy, and for competitive advantage.
- Interacting with customers and suppliers.
- Approaches to business/government relations.

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, once again, how few candidates could adequately carry out a strategic evaluation and make reasoned recommendations on the basis of their evaluations in Question 1. Part (b) of Question 1 was very poorly answered, with very few candidates able to provide the equivalent annual value required. A vital aspect of the Business Strategy paper is that candidates demonstrate their ability to provide a quantitative and qualitative evaluation of strategic options. Such failings in basic management accounting skills should not be evident at this level.

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, the question on the five forces model (Question 4) was poorly answered. This is particularly alarming, as this is a 'core' theory, and much more than a superficial understanding of it is necessary.

Another key weakness in the majority of answers was that they were lacking in reasoned discussion or application to the context of the appropriate scenario. An example of this was in answers to Question 2, where many candidates could give only very general answers to part (a). Despite the question requiring an evaluation, many candidates provided only a simplistic overview of the theoretical model. Few candidates went on to sufficiently demonstrate an ability to apply this knowledge in any depth to the scenario organisation. This was also the case in Question 4, where answers to part (b) often added little to the answer provided to part (a).

A final key problem, noted frequently in the answers to this paper, was a tendency of candidates to try to 'force' theory into answers where it was not required. An example of this is Question 1(c). Many candidates took the opportunity to explain, often at great length, the concept of the balanced scorecard. This was neither required nor expected, and thus earned no marks. Had those candidates used the balanced scorecard as a framework for their answer, this may have ensured that they covered a wide range of control measures (as required). Sadly they did not, and often gave irrelevant (to the scenario) examples to illustrate their explanations of the theoretical model.

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.

Note: In a number of requirements, the total number of marks in the marking guide exceeds the total available by a significant margin. This gives candidates the opportunity to cover fewer points in greater depth, or more points in less depth. However, candidates should recognise that depth of argument is desirable in answers to this paper, and a series of brief points will never be rewarded highly.

SECTION A – 50 MARKS
ANSWER THIS QUESTION

Question 1(a)

Explain the threats to S from changing market conditions.

(10 marks)

Rationale

This question requires candidates to apply their knowledge of the ways that the business environment affects organisations.

Suggested Approach

This question was intended to be an 'easy starter'. It was only necessary to identify, from the scenario, a few market threats, then explain how they might affect S.

Marking Guide

Marks

Up to five valid points, each relevant to the scenario, each up to
A conclusion, if given, up to

2
2

Maximum marks awarded

10

Examiner's Comments

The first part of the question was generally not answered well. Surprisingly, many candidates included a very diverse range of threats, most of which were nothing to do with market conditions. While 'the weather' may well represent a threat to a shipping company, it cannot really be regarded as a 'changing market condition'.

A significant number of candidates decided to use this requirement as an excuse to write detailed descriptions of either PEST analysis, or the five forces model, or both. This was not required by the question, nor was it an acceptable answer. It therefore earned no marks.

Common Errors

- Too much diversity, including points that were not related to changing market conditions
- Not enough explanation as to how threats might affect S
- Theory, rather than application

Question 1(b)

Identify what price per year the directors of S should quote for the contract to convey the additional passengers. You should use the annuity approach to determine the equivalent annual value required.

(15 marks)

Rationale

This question is designed to test the candidates' ability to evaluate strategic options.

Suggested Approach

Answers should consist of a net present value calculation, followed by the use of an appropriate annuity to derive an equivalent annual value for the contract price.

Marking Guide

Marks

Cost of new berth	1
Cost of new ship (with or without scrap value of existing ship)	1
Revenue from materials transport	1
Passenger revenue and cost (or net figures)	2
Residual value of new ship	1
Four discount factors	2
Net present value calculated (according to candidate's own figures)	1
Equivalent annual value using an appropriate annuity*	5
Layout of pro-forma for calculation clear and intelligible	1

* For dividing by 5, give 1 mark. For dividing by an incorrect annuity, give 3 marks.

Maximum marks awarded

15

Examiner's Comments

Almost all candidates appeared unable to calculate an equivalent annual value. Few were able to provide a clear and relevant net present value calculation.

Common Errors

- Using irrelevant costs
- Putting figures in the wrong years
- Failing to include a revenue stream
- Failing to calculate an equivalent annual value

Question 1(c)

Discuss what financial and non-financial control measures could be implemented by S during the bid process and the operation of the contract to convey passengers to the holiday complex.

(15 marks)

Rationale

This is a straightforward question testing the candidates' ability to apply their knowledge of control information to a specific scenario.

Suggested Approach

This question should be answered in four stages, as required, as the control measures should be different in each case. As a discussion is required, some indication of the relevance or usefulness of each measure would be appropriate, and a conclusion may be warranted.

Marking Guide

Marks

Up to eight appropriate control measures, each at up to
A conclusion, if provided

2
1

Maximum marks awarded

15

Examiner's Comments

Most candidates were able to provide a number of suggestions, but these were often very general ("use budgets") and not applied to the specifics of the situation. Few candidates clearly distinguished between controls during the bid process, and those relevant to the operation of the contract.

Common Errors

- Writing at length about the balanced scorecard
- Providing only general or superficial examples

Question 1(d)

Identify how S could develop its business in the long term by extending its operations beyond the transport services it provides.

(10 marks)

Rationale

This question examines the candidates' ability to identify strategic options.

Suggested Approach

It was hoped that candidates would recognise the risks inherent in S concentrating its efforts on one business area, and provide some logical and reasonable opportunities for development.

Marking Guide

Marks

Up to 8 suggestions of new developments, each at up to	2
Conclusion, if given	2
Ansoff's matrix, if used as a framework for the answer	1

Maximum marks awarded

10

Examiner's Comments

Generally this part of the question was answered quite well, though some suggestions were clearly unrealistic (such as building a bridge or tunnel to the islands).

Common Errors

- Unrealistic suggestions
- Suggestions relating to 'the transport services it provides', rather than alternatives

SECTION B – 50 MARKS
ANSWER TWO QUESTIONS FROM FOUR

Question 2(a)

Evaluate whether the 222 Organisation might gain a competitive advantage as a result of being based in Jurania.
(13 marks)

Rationale

This is a more difficult question than previously asked on this topic (Porter's diamond) as it only requires application.

Suggested Approach

Each aspect of the diamond could be related to specific facts in the scenario, to support the required evaluation. As an evaluation was required, some opinions as to the relative significance of each point were hoped for.

Marking Guide

Marks

Porter's diamond; overview and diagram (if provided), up to	2
Demand conditions, up to	3
Factor conditions, up to	3
Firm strategy, structure and rivalry, up to	3
Related and supporting industries, up to	3
Conclusion, if given	2

Maximum marks awarded

13

Examiner's Comments

This question was answered reasonably well by some candidates. Others, however, displayed weak understanding of the theory and an inability to spot 'clues' in the scenario relating to each aspect of the diamond. Very few marks were awarded to theoretical discussions of the diamond, nor was it possible to earn a pass mark without mentioning or applying the model.

Common Errors

- Poor understanding
- No application to the facts given
- Just an explanation, rather than an evaluation
- No mention of Porter's diamond at all

Question 2(b)

Evaluate the risks to 222 if it decides to pursue its Internet strategy as the directors have suggested.

(12 marks)

Rationale

This question is designed to examine the candidates' ability to evaluate the impact of electronic commerce. Although risk analysis forms a significant part of the Paper P3 syllabus, it is introduced in Paper P5 and is therefore examinable here. The identification and evaluation of risks is a key aspect of the evaluation of any strategic option.

Suggested Approach

It was hoped that candidates would identify risks related to the Internet strategy, and explain whether the chosen method of the directors (doing it themselves) either increased or decreased the risk.

Marking Guide

Marks

Up to five risks evaluated, each at up to

3

Maximum marks awarded

12

Examiner's Comments

This question not well answered. Most candidates could identify relevant risks, though clues in the scenario were often ignored in favour of 'generic' risks that would apply to any strategy. Few candidates provided any evaluation, and were therefore unable to achieve the maximum marks available.

Common Errors

- Identifying, but not evaluating
- Generic risks, not those specific to the situation described

Question 3(a)

Discuss the advantages and disadvantages, to S, of the sole supplier arrangement described.

(15 marks)

Rationale

This question tests the candidates' ability to discuss how customers and suppliers influence the strategy process.

Suggested Approach

This question should be straightforward. It clearly requires the candidate to apply their knowledge to a specific situation. Identification and discussion of the advantages and disadvantages, to the supplier, of this sole supplier arrangement was all that was necessary to earn good marks.

Marking Guide

Marks

Up to four advantages, each at up to	2
Up to four disadvantages, each at up to	2
Conclusion, if given	1

Maximum marks awarded

15

Examiner's Comments

The answers to this question were generally satisfactory, but a significant number of candidates failed to relate their knowledge to the specific situation described. Some candidates also looked at the situation from the viewpoint of C, despite not being asked to. Additionally, a significant number of candidates included material in their answer to part (a) that related to S gaining access to the C extranet. This was clearly relevant to part (b), so gained no credit.

Common Errors

- General points
- C viewpoint
- Part (b) material

Question 3(b)

Evaluate the benefits, to S, of access to the C extranet.

(10 marks)

Rationale

This is a straightforward question testing the application of knowledge relating to IT/IS/IM strategy.

Suggested Approach

Candidates are required to use their knowledge of IT/IS/IM strategy, specifically that relating to extranets, to evaluate the benefits to a supplier of access to a customer's system.

Marking Guide

Marks

Up to six benefits, each at up to
Conclusion, if given

2
1

Maximum marks awarded

10

Examiner's Comments

Most candidates were able to identify some benefits, but few were able to evaluate them. To evaluate a benefit, it is necessary to discuss the extent to which it applies in the situation described, or the likely scale of the benefit.

Common Errors

- Limited or no evaluation.

Question 4(a)

Explain how the forces exerted in a customer-supplier relationship led Michael Porter to conclude that firms compete with their customers and suppliers.

(10 marks)

Rationale

This question examines candidates' ability to evaluate competitive environments.

Suggested Approach

This is a very difficult question, on a 'favourite' model. A full explanation of Porter's model is not required. Answers should focus on the factors that lead to customer and supplier bargaining power affecting the level of margin available to a firm. There are no marks available for a general explanation of the 5 forces model, or for a diagram.

Marking Guide

Marks

Ability to exert bargaining power, up to	2
Impact on price and/or quality, up to	2
Relative size or reliance, up to	2
Switching costs, up to	2
Other opportunities to buy/sell, up to	2
Other relevant points, up to	2

Maximum marks awarded

10

Examiners comments

Candidates are always tempted to answer a question on one of their favourite models, regardless of what that question is. This one is tough, as it requires in-depth understanding of one part of the model. It also has a part (b) on transfer pricing, and part (b) is worth more than half of the marks. Many candidates scored poorly on requirement (a) and worse on requirement (b).

Common Errors

- Lack of depth
- Too few ideas

Question 4(b)

Discuss the issues to be considered when negotiating and agreeing transfer prices between SBUs within a large, complex organisation. You should make reference to Porter's model, and your arguments in part (a), where appropriate.

(15 marks)

Rationale

This question examines candidates' ability to relate a common strategy model to a management accounting technique. Transfer pricing is specifically mentioned in the syllabus for this paper. This exam is titled 'Management Accounting – Business Strategy'.

Suggested Approach

In large, complex organisations, SBUs are often customer and supplier to one-another. Agreeing transfer prices involves a great deal of (wasteful) activity. The relative bargaining power of the SBUs will determine, to some extent, the transfer price agreed. There will also be other factors.

Marking Guide

Marks

Up to 8 issues discussed, each at up to
Conclusion, if given

3
1

Maximum marks awarded

15

Examiner's Comments

This question was not well answered. While most candidates could remember some issues affecting transfer pricing decisions, few of these were related to supplier/customer bargaining power.

Common Errors

- No mention of the model discussed in part (a), as required
- Superficial points

Question 5(a)

Discuss the limitations of the use of the expected values technique in the context of a single strategic decision such as this.

(6 marks)

Rationale

This question examines candidates' understanding of the use of quantitative techniques in strategic decision making.

Suggested Approach

This is a straightforward question, which is often asked at the managerial level. However, at that level it is normally the last requirement of the question, whereas here it is the first.

Marking Guide

Marks

Relevant limitations, each at up to

2

Maximum marks awarded

6

Examiner's Comments

Answers to this question were surprisingly poor, despite this being a familiar question, and despite the clues in the requirement ('single' and 'strategic').

Common Errors

- Lack of depth
- Few ideas

Question 5(b)

Recommend how the planning process of MTM, for the SAC, should be modified to take account of the possible new legislation.

(12 marks)

Rationale

This question examines candidates' ability to recommend a reactive approach to business/government relations.

Suggested Approach

Candidates need to identify the problem (risk) and recommend how the planning process could be modified to recognise that risk (scenario planning, for example). Modifications to the plan of MTM were not required.

Marking Guide

Marks

Analysis of the problem, up to	2
Up to three modifications, each up to	2
Two relevant recommendations, each at up to	2

Maximum marks awarded

12

Examiner's Comments

This question was not well answered, as many candidates recommended modifications to the plan, rather than to the planning process.

Common Errors

- Irrelevant recommendations
- Too few ideas

Question 5(c)

Evaluate different methods that MTM might use to influence the government of the SAC.

(7 marks)

Rationale

This question examines candidates' ability to recommend a proactive approach to business/government relations.

Suggested Approach

Recognise that this is a sensitive area, with an ethical dimension. Identify a number of ways of influencing the government. Evaluate them (i.e. say how likely they are to succeed, or how feasible they are for MTM).

Marking Guide

Marks

Ethical issue, up to	2
Up to four methods, each at up to	3
Conclusion (and recommendation) if given, up to	1

Maximum marks awarded

7

Examiner's Comments

Most candidates were able to identify a couple of methods, but ran out of ideas and performed little or no evaluation. While bribery is a common method in many countries, it cannot be recommended as an appropriate method in this case, as this contravenes CIMA's code of ethics.

Common Errors

- Lack of evaluation
- Few ideas