STRATEGIC LEVEL

BUSINESS MANAGEMENT PILLAR

PAPER P6 – MANAGEMENT ACCOUNTING BUSINESS STRATEGY

P6 – Business Strategy

This is a Pilot Paper and is intended to be an indicative guide for tutors and students of the style and type of questions that are likely to appear in future examinations. It does not seek to cover the full range of the syllabus learning outcomes for this subject.

Management Accounting – Business Strategy will be a three hour paper with one compulsory section (50 marks) and one section with a choice of questions for 50 marks.

CONTENTS

Pilot Question Paper

Section A: One scenario question — Pages 2-4

Section B: Four scenario questions — Pages 5-8

Indicative Maths Tables and Formulae — Pages 9-10

Pilot Solutions — Pages 11-31

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SECTION A – 50 MARKS

ANSWER THIS QUESTION

Question One

ACEP plc (ACEP) is a UK listed company which started as a publishing business over 50 years ago and has grown into a company involved in consumer magazines, radio broadcasting, television production and recorded music production. The company is currently based exclusively within the UK. Each industry is represented by a separate division within the company, each of which has been added, and grown, by a series of acquisitions of small companies. All have been successful with the exception of the music business, which was acquired six years ago.

ACEP entered the music industry believing that the music division would grow to rival the larger companies, despite continuing to focus on less well-known artists and groups who had a specialist following of fans. Although there have been successful court cases against the suppliers of file sharing software, illegal music copying is still a big issue for the industry. The losses of royalties are claimed to be considerable.

The regulation of the broadcasting industry has, traditionally, focused on audience size but over the past ten years there has been considerable deregulation and consolidation. ACEP has the maximum number of radio licences possible, as have the other two major industry players. This division regularly runs concerts at popular tourist venues where its target market tends to spend its summer vacation.

The magazine publishing industry structure is similarly concentrated and, although there is no equivalent regulation based on audience size, it is unlikely that further acquisitions of companies would be allowed on competition policy grounds. The development of new titles by organic growth would, however, be permitted. ACEP has been successful with this approach and has two titles in the top five lifestyle magazines and six in the top ten teenage titles. Both magazines and radio earned 70% of their revenue from advertising in 1999 and 2000. Across the industry, advertising revenue has been depressed for the past two years.

The television production division produces music programmes for satellite and cable television under the Masthead (collective brand name) of "*Taste*", which is the same name as that used for the radio stations and some of the magazines. Although this presents cross-marketing opportunities in the market segment of 13-30 year olds, who have considerable spending power, the division is a relatively small player within the industry.

With the exception of the finance director, who was recently brought in from a commercial radio station, each member of the board has a publishing background and has been with the company for a number of years. These individuals have a reputation within that industry for achieving major post acquisition cost savings.

There are five institutional shareholders, all with significant holdings, who have become more publicly critical of both the share price of the company, which has been falling, and the size of the dividend which has been maintained at its present level for the past four years. They have said that both television and music should be sold off; these could realise £20 million and £10 million respectively. The balance of the shares in issue are broadly held. The results for the past four years are shown in **Appendix A**.

Since the company is market leader in its target market, it has been considering expanding magazine publication into mainland Europe. A potential acquisition has been identified at a cost of £10 million. It is felt that, in the first year only, contribution would increase by £3 million and fixed costs would rise by £1 million. Alternatively the company is considering an approach from a significantly larger European publisher and broadcaster, whose organisation is privately owned, to form a joint venture in the latter's country. Discussions have suggested that an initial investment by ACEP of £20 million would give rise to an increase in contribution to ACEP of £4 million. Fixed costs for ACEP would again rise by £1 million for the first year. In both cases, ACEP's Board feels that there would be considerable opportunities for cross marketing to its existing market.

The company has also had discussions with a firm which supplies equipment to be installed in retail outlets which downloads music to CD on demand. In addition to the cover charge for the CD advertising, revenue is earned depending on the number sold. A major retail chain has expressed an interest in installing the equipment in its 50 stores across the country. The equipment could be hired by ACEP for a cost of £2 million for the 50 sites. The board is impressed that the project, based on figures supplied by the equipment vendor, has an expected annual net profit of £1·182 million. This option will not be viable if the music division is sold off. A marketing research exercise by the equipment supplier has provided the projections shown in **Appendix B**.

Appendix A

£ millions	*2002*	*2001*	*2000*	*1999*
Sales				
Publishing	425	500	523	419
Radio	350	375	380	320
Television	65	75	80	70
Music	20	30	40	44
Total	860	980	1,023	853
Profit before interest & tax	166	256	281	205
Capital employed	900	900	870	805
Variable costs/sales ratio				
Publishing	0·49	0·45	0·45	0·45
Radio	0·26	0·25	0·25	0·25
Television	0·18	0·25	0·25	0·26
Music	0·20	0·20	0·20	0·20
Fixed costs/sales ratio				
Publishing	0·38	0·32	0·31	0·37
Radio	0·43	0·40	0·39	0·40
Television	0·62	0·53	0·50	0·50
Music	1·50	1·00	0·80	0·73

Appendix B

With promotional costs per month of £12,000 and a CD retail price of £2·00 it is expected that monthly sales will have the following pattern.

probability	*sales (units)*
0·4	10,000
0·5	12,000
0·1	14,000

For sales up to and including 11,000 units, advertising revenue is predicted to be £17,000 per month if sales are over 11,000 units. Advertising revenue is predicted to be £18,000 per month. Combined monthly fixed costs of production and distribution will be £16,000 and variable costs will be £0·45 per CD. Retailers will receive a 25% margin on sales.

Required:

(a) Regarding the proposal to download CD's in retail outlets, demonstrate how the equipment supplier has calculated the expected annual net profit, and evaluate whether it gives a complete picture of the project.

(10 marks)

(b) Discuss the concept of portfolio planning models and, in the light of the comments of the institutional shareholders, analyse the portfolio managed by ACEP.

(8 marks)

(c) (i) Evaluate the risks involved in entering the magazine publishing market in mainland Europe.

(8 marks)

(ii) Discuss the merits of each of the two proposed methods for entering the mainland Europe market.

(9 marks)

(d) The Board of Directors has asked you, as Financial Controller, to prepare a report which produces

(i) recommendations regarding the options to purchase the CD download equipment, move into Europe and/or dispose of the television and music divisions;

(ii) a response to the institutional shareholders explaining how these recommendations will contribute to sustained business growth for ACEP, recognising any concerns these shareholders might have.

(15 marks)

(Total = 50 marks)

End of Section A

SECTION B – 50 MARKS

ANSWER TWO QUESTIONS FROM FOUR

Question Two

The Royal Botanical Gardens has been established for more than 120 years and has the following mission statement:

> *"The Royal Botanical Gardens belongs to the Nation. Our mission is to increase knowledge and appreciation of plants, their importance and their conservation, by managing and displaying living and preserved collections and through botanical and horticultural research."*

Located toward the edge of the city, the Gardens are regularly visited throughout the year by many local families and are an internationally well-known tourist attraction. Despite charging admission it is one the top five visitor attractions in the country. Every year it answers many thousands of enquiries from Universities and research establishments, including pharmaceutical companies from all over the world and charges for advice and access to its collection. Enquiries can range from access to the plant collection for horticultural work, seeds for propagation or samples for chemical analysis to seek novel pharmaceutical compounds for commercial exploitation. It receives an annual grant in aid from Central Government, which is fixed once every five years. The grant in aid is due for review in three years' time.

The Finance Director has decided that, to strengthen its case when meeting the Government representatives to negotiate the grant, the Management Board should be able to present a balanced scorecard demonstrating the performance of the Gardens. He has asked you, the Senior Management Accountant, to assist him in taking this idea forward.

Many members of the board, which consists of eminent scientists, are unfamiliar with the concept of a balanced scorecard.

Required:

(a) For the benefit of the Management Board, prepare a briefing on the concept of a balanced scorecard, which also analyses its usefulness for The Royal Botanical Gardens.

(10 marks)

(b) Discuss the process you would employ to develop a suitable balanced scorecard for The Royal Botanical Gardens and give examples of measures that would be incorporated within it.

(15 marks)

(Total = 25 marks)

Question Three

Over the past few years the major airlines have suffered a decline in profitability and some have even filed for bankruptcy. At the same time, some budget airlines have shown considerable success offering a “no frills service” to an increasing number of passengers at heavily discounted fares.

The traditional airlines have, in the main, a vertically integrated service with many activities such as baggage handling, ticketing and maintenance delivered by their own subsidiaries. Additionally, they have continued to offer a variety of classes ranging from luxury to economy thus catering for all segments of the travelling market from business to tourist. These airlines compete fiercely for landing rights at city centre airports and have formed into two main alliances to share routes giving them global coverage. The traditional airlines tend to purchase their aircraft directly from the manufacturers whereas budget airlines tend to use leasing to source their fleet.

By contrast, the budget airlines have concentrated on the short-haul market and have heavily promoted low-cost flights to secondary airports with no service other than the flight. These low costs have been partially supported by subsidies provided by the secondary airports. An additional advantage of these airports is the rapid turnaround of aircraft on the ground since they are handling fewer flights. Aircrew, at minimum permitted staffing levels, are responsible for aircraft cleaning. The budget price includes only the flight; passengers have no in-flight services and book their tickets directly via the Internet. The budget airlines spend heavily on advertising in all popular media.

Required:

(a) Using an appropriate model of the competitive environment, discuss the difference in performance between the traditional airlines and the budget airlines and the business models they are operating.

(20 marks)

(b) Evaluate the business model operated by the budget airlines as a source of sustainable competitive advantage.

(5 marks)

(Total = 25 marks)

Question Four

"*Doctors with Wings*" is a registered charity that raises funds to send volunteer doctors and nurses to medical emergencies around the world. Those emergencies can arise for any reason, ranging from famine to war or major outbreaks of disease. Funding primarily comes from Government agencies and corporate donations, although the charity seeks donations from the public, as well as medicines and other supplies from manufacturers. The majority of volunteers are recruited, often with the support of teaching hospitals, immediately after qualification. These new doctors are often persuaded to donate their time to the charity during presentations made by volunteer doctors who have just returned from a medical emergency.

Bryson, in his 1995 book, *Strategic Planning for Public and Non-profit Organisations*, makes the following statement:

> *"I would argue that if an organisation has time to do only one thing when it comes to strategic planning, that one thing ought to be a stakeholder analysis."*

Required:

(a) Critically discuss the components and process of such an analysis and the benefits that "*Doctors with Wings*" would gain from the exercise.

(10 marks)

(b) Evaluate the principal stakeholders in the organisation and analyse the nature of the influence and importance that they hold in their relationship with the charity.

(15 marks)

(Total = 25 marks)

Question Five

The SDW Company has been trading for one year. It provides rail travel services 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)

End of Question Paper

Indicative Maths Tables and Formulae follow on pages 9-10

INDICATIVE MATHS TABLES AND FORMULAE

Present value table

Present value of $1, that is $(1 + r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

Periods	Interest rates (r)									
(n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods	Interest rates (r)									
(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026

Cumulative present value of $1 per annum, Receivable or Payable at the end of each year for *n* years $\frac{1-(1+r)^{-n}}{r}$

Periods (*n*)	Interest rates (*r*)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201
19	17.226	15.679	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365
20	18.046	16.351	14.878	13.590	12.462	11.470	10.594	9.818	9.129	8.514

Periods (*n*)	Interest rates (*r*)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	7.793	4.611	4.439
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675
16	7.379	6.974	6.604	6.265	5.954	5.668	5.405	5.162	4.938	4.730
17	7.549	7.120	6.729	6.373	6.047	5.749	5.475	5.222	4.990	4.775
18	7.702	7.250	6.840	6.467	6.128	5.818	5.534	5.273	5.033	4.812
19	7.839	7.366	6.938	6.550	6.198	5.877	5.584	5.316	5.070	4.843
20	7.963	7.469	7.025	6.623	6.259	5.929	5.628	5.353	5.101	4.870

FORMULAE

Annuity
Present value of an annuity of $1 per annum, receivable or payable for *n* years, commencing in one year, discounted at *r*% per annum:

$$PV = \frac{1}{r}\left[1 - \frac{1}{[1+r]^n}\right]$$

Perpetuity
Present value of $1 per annum, payable or receivable in perpetuity, commencing in one year, discounted at *r*% per annum:

$$PV = \frac{1}{r}$$

PILOT SOLUTIONS

> **Note:**
> In some cases, these solutions are more substantial and wide ranging than would be expected of candidates under exam conditions. They provide background on theorists, frameworks and approaches to guide tutors and students in their preparation, studies and revision.

SECTION A

Answer to Question One

Requirement (a)

ACEP plc (ACEP)

Workings Calculation of annual net profit

probability	*volume*	*weighted volume*
0·4	10,000	4,000
0·5	12,000	6,000
0·1	14,000	1,400
Expected volume		11,400

	£
Retail price per copy	2·00
Less margin to retailer	0·50
Net retail	1·50
Variable costs	0·45
Contribution per copy	1·05
Expected monthly contribution	11,970
Advertising revenue	18,000
Total	29,970
Less monthly promotion cost	12,000
Less fixed costs	16,000
Monthly net income	1,970
Annual net income	23,640
Net income for 50 stores	1,182,000

However, if sales volumes are considered separately:

Sales volume	10,000	12,000	14,000
	£	£	£
Contribution per copy	1·05	1·05	1·05
Expected monthly contribution	10,500	12,600	14,700
Add advertising revenue	17,000	18,000	18,000
Total	27,500	30,600	32,700
Less monthly promotion costs	12,000	12,000	12,000
Less monthly fixed costs	16,000	16,000	16,000
Monthly net income	-500	2,600	4,700
Annual net income	-6,000	31,200	56,400
Net income for 50 stores	-300,000	1,560,000	2,820,000

It should be noted that the figures on which these calculations have been based have been provided by the equipment vendor and may be optimistic. *(The calculations apply probabilities to the volumes rather than the final net income figure.)*

As can be seen from this calculation there is, in fact, a 40% chance of only 10,000 units of sale a month with a potential loss of £300,000. It is only with the sales volumes above 10,000, which have a collective probability of 60%, that the venture will show a profit. In the light of the losses already being made in the music division this would seem to represent an unacceptable risk to the company and the shareholders.

Bearing in mind the problems that the industry is experiencing with the illegal downloading of music via the Internet, the company would need to be sure that its target market is likely to take up the opportunity of legally downloading music in retail outlets. As the 13-30 age group become even more computer literate, and as the pressure mounts on the recorded music industry to reach an arrangement with the companies that produce file-sharing software, it is unlikely that this venture will be profitable in the longer term.

Requirement (b)

Portfolio analysis is probably one of the best-known and most widely applied techniques of strategy analysis that has been developed. The two most commonly quoted models are the GE/McKinsey portfolio analysis matrix and the BCG matrix (or Boston box).

The matrix examines the position of a business unit or division in terms of the two primary sources of profitability – industry attractiveness and competitive position. In the case of the GE/McKinsey matrix the two parameters of industry attractiveness and competitive position are composites whereas for the BCG matrix they are single variables, simply using annual real rate of market growth and relative market share, respectively.

The fundamental idea is to represent the businesses of a diversified company within a simple graphic framework that can be used to assist in four areas of strategy formulation:

1 *Formulating business unit strategy*
On the basis of the same two criteria – industry attractiveness and competitive position – portfolio analysis yields simple and straightforward decision rules for strategic behaviour for the company. For instance, depending on the position in the McKinsey matrix, the recommendation will be to grow, hold or harvest. Similarly classification within the Boston Box will result in SBU's being labelled as "Stars", "Cash Cows", "Question marks" or "Dogs" with recommendations to invest for growth, milk, invest for growth or dispose, and dispose respectively.

2 *Resource allocation*
This facilitates the comparison of its investment attractiveness against that of other business units within the firm and will offer guidance on the attractiveness of further investment.

3 *Setting performance targets*
The classification within the matrix may assist in the estimation of reasonable expectations of profit performance for the particular business.

4 *Analysing portfolio balance*
It is useful to have a single diagrammatic representation of all of the different businesses within the company to assess the overall balance, cohesiveness and performance potential of the portfolio. Several dimensions can be used when assessing company performance such as cash flow, continuity and risk. For a diversified company, seeking independence from the capital markets, the balance of cash flow will be important as businesses in their growth phases, which are net absorbers of cash, can be balanced with, and supported by, cash generative divisions. With this in mind companies will often try to maintain a portfolio of businesses which are at different stages of their life cycle so that, as older ones mature and, eventually die, they are replaced by younger, growing businesses.

The concept of the BCG matrix was developed by the Boston Consulting Group at the same time as the consultancy was promoting the learning curve as a means of determining aggressive pricing for market domination. This, in part, leads to the major criticisms of portfolio models:

1. The assumption that each business is independent and that any complementary features they may have is ignored.
2. It is not always the case that market share and growth rate are necessarily determinants of profitability.
3. The ranking of the business units against the two variables of market growth rate and market share will depend heavily on how the market is defined.
4. The normative strategies offered in some versions of the matrices should only be considered as a guide. Over-dependence on these prescriptions might prevent insightful analysis and "out of the box" thinking. For instance, a number of companies make a good return from investing in businesses at the end of their life cycle and becoming a supplier of last resort. As others leave the market the last supplier enjoys increasing market share.

In terms of the classification of the businesses in which ACEP operates, both publishing and radio occupy a strong position regarding market share. Publishing represents market leadership in its target market and radio is one of three equally placed market leaders. Both operate in a mature market in which little real growth can be expected. ACEP's other interests, television and music, are a different matter. Both are relatively small in terms of their contribution to the company's profits and in terms of market presence. We may assume that the growth rate for television production is

relatively low, while that for music is actually declining due to the factors explained in the case. A straight-forward application of the decision "rules" arising from either product portfolio matrix would suggest that the portfolio is not balanced and that there is a need for a new vehicle for growth. Further it would suggest that possibly television production and, definitely, music should be divested since neither have a significant market share.

However, while it is difficult to justify continuing to support the music division, there can be a strong case for retaining and trying to grow the television production SBU. The cross marketing opportunities between television, magazines and radio could be exploited to the full.

Requirement (c)

(i) As an initial step, an analysis of the business environment concentrating on political, economic, societal and technological factors should be conducted. Likely areas of concern under each might be:

Political
Legislation concerning foreign ownership of media, language content of media, moral issues on content of media, sourcing of materials and working practices. Protectionism in any form and level of bureaucracy.

Economic
Taxation, minimum rates of pay, exchange rates and company law. Strength of advertising market, production costs and prevailing rates of pay. Cost of magazine quality paper.

Social
Issues of taste and culture, particularly the portability of youth and English culture, working practices, reading habits, attitude to music and other forms of leisure as well as other considerations of lifestyle. The position of magazines in the life cycle. Age profile and size of target market. Management working practices and organisational culture.

Technological
Print process, availability of ISDN and other media transfer.

This initial analysis might lead to the following conclusions about risk:

- the company might not understand the foreign country's business culture;
- the company may not know how to deal effectively with the nationals;
- the company might underestimate foreign regulations and incur unexpected costs;
- the foreign country may change its commercial, media or employment laws;
- the company may not have suitable managers to deal with an international situation;
- the established players may react to keep ACEP out of the market.

(ii) The company has two possible avenues for entering the European market, by acquisition or via a joint venture.

Both opportunities are reasonably attractive in purely financial terms. The acquisition at £10 million yielding a contribution each year of £3 million and increased fixed costs of £1 million. The joint venture involves ACEP in an investment of twice as much at £20 million but will bring an annual contribution of £4 million and increased fixed costs of £1 million. Additionally since advertising revenue depends in part on the economy, ACEP will be spreading part of its business risk.

The main considerations for the decision are non-financial. Aside from the risks described above a number of other factors should be considered.

Generally joint ventures can offer significant advantages in surmounting import quotas, tariffs, nationalist political interests and cultural roadblocks to the product. Economic, competitive, and political realities of nationalism often require a domestic partner so as to gain access to the foreign national market. Local knowledge of the accepted ways of doing business and necessary contacts together with ACEP's acknowledged expertise may well make a winning combination. The formation of a joint venture will reduce competition - had ACEP entered the market in any other way, its potential partner would have been a competitor.

Additionally ACEP could use the joint venture to gain better market knowledge should it subsequently decide to enter the market by acquisition. There is likely to be less resistance to a joint venture than to an acquisition. Against these potential advantages must be set the possibilities of cross cultural management conflicts and how such conflicts would be resolved. There is a considerable difference between the management cultures across European countries. To compound these differences the potential partner is privately owned and this may well mean there is quite an entrenched culture within the firm.

A decision should be made at an early stage as the likely duration of the joint venture and the intended end game. Is the intention to learn the market and methods and, with that experience, buy out the partner and make acquisitions? Additionally some thought should be given to the intentions of the potential partner; is it entering this venture with an intention of learning from ACEP, so that it may launch into the home market?

However with an acquisition there can be no disagreements on strategy, structure and control, and relative freedom to act. Against that must be recognised that publishing is a service business and human capital is of vital importance. If key members of staff leave post-acquisition there will be a greatly reduced chance of success.

The question states that "a potential target has been identified"; no mention is made of the attitude of the present owners to the prospect. If they are willing vendors and are prepared to remain with the company to facilitate the transition this will significantly increase the chances of success. Although the company has a good reputation for post-acquisition rationalisation in the publishing industry this is not something it has done in geographically and culturally different markets. If this were to be a hostile take-over, that rationalisation task would be made much harder. The issue of management culture is as important for this option as it is for the joint venture. Regardless of the quality of the due diligence done prior to the

purchase, it is very few acquisitions that do not result in some surprises once ownership is established.

There have been many cases where cross-border acquisitions have failed and the joint venture would appear to be the route with the least risk.

Requirement (d)

Internal Memorandum to the Board of Directors

From: Financial Controller

Recommendations to purchase CD downloading equipment, move into Europe and/or dispose of the television and music divisions. My recommendations are based on the workings contained in **Appendix 1**.

The opportunity to install CD downloading equipment in the retail outlets should be rejected. While, according to the equipment supplier, there is a 60% probability that the venture will be profitable, there is a 40% probability of a loss of £300,000. It must also be borne in mind that the calculations are based on figures that have been supplied by the equipment vendor and may well be biased to provide an attractive picture of the project. As the stable of bands which ACEP controls are of specialist interest, the demand figures cannot be certain and should be treated with some scepticism. Additionally, acceptance of this project would require retention of the music division and the current losses of £14 million.

The prospect of an agreement being reached between the software manufacturers and the major record labels is quite possible and downloading from the Internet to home computers becoming acceptable practice should not be ignored.

Additionally, the prospect of a computer-literate market ignoring the legality of the situation and continuing to download to its PCs makes the demand forecasts, similarly, less reliable.

However, in the event that this type of business does become viable it would attract the attention of the larger record labels which, with a superior knowledge of the music business, and a significantly stronger back catalogue of music, would be likely to be interested in entering the market and would compete strongly.

The five institutional shareholders, who wield considerable power – since the rest of the shares are widely held – cannot be ignored. The music division has not performed well since acquisition and could be argued to be outside the competence of the company where senior management has, primarily, a background and expertise in publishing. As the company is responsible for some of the top magazine titles in both the lifestyle and teenage markets this expertise is considerable. Since the music division is trying to serve a market for specialist bands it is unlikely that there is much cross marketing between this division and the other three divisions of the company. The recorded music industry is going through a period of increasing consolidation, with increasingly larger players at one end of the market. However, a number of small bands are starting to distribute their music via the Internet. The smaller producer is likely to be squeezed out of the business in the foreseeable future.

While it is not known how much capital employed is represented in the Music division boosting the PBIT for the past year by £14 million would have a significant effect on the results of the company. Whether the sale price of £10 million suggested by the

shareholders is realistic or not is not known, but the division should be sold, preferably as a going concern, to one of the larger record labels.

However, in terms of PBIT/sales the television division is attractive and in the last year has shown a better margin than publishing. For this reason, and the opportunities for cross-marketing with the radio and publishing divisions, the television unit should be retained.

The move into mainland Europe should be undertaken. With the board's proven expertise in consumer magazine publishing and its leadership position in both teenage and lifestyle magazines it should develop this expertise abroad. There is talk of a "global teenager" and lifestyle marketing translates across the developed world. Of the two options for entering the market the acquisition would involve capital expenditure of £10 million with a forecast to increase PBIT by £2 million in the first year before ACEP's talent for rationalisation is applied. This, however, might not prove to be that easy to achieve in a foreign market where differences in culture and management style might affect the ability to bring about change. Additionally the risk of key, local, staff leaving cannot be ignored.

However, the joint venture at £20 million capital expenditure is projected to increase PBIT, in the first year, of £3 million. On a crude payback calculation this is not as attractive as the acquisition option, but it carries a significantly lower risk. As long as the management of the two companies can co-operate effectively, then the prospect of ACEP bringing its expertise to bear in terms of rationalisation may well bring about a greater increase in PBIT in subsequent years. ACEP should approach this as an exercise in testing the market with a view to developing sufficient knowledge to more fully enter the market in subsequent years.

The presentation to the institutional investors should make the following points:

- Recognising that there is little synergy between the music division and the rest of the business, the music division should be sold as a going concern at the earliest opportunity.

- This should increase PBIT by £14 million in terms of this year's results and, should the estimates of sales proceeds be correct, provide £10 million for other growth opportunities. It must be noted, however, that there may well be offsetting costs of disposal.

- This will allow management to concentrate on the core business of information and entertainment for the 13-30 age range market, seeking to maximise opportunities for cross marketing across the media, that is publishing, radio broadcasting and television.

- This is expected to consolidate the underlying gains in PBIT which occurred during 1999 and 2000 in these divisions. The adverse results for 2001 and 2002 in those divisions would appear to have been brought about by the depressed advertising market which is dependent upon the general state of the economy.

- To reduce the dependency on the UK economy and its impact upon advertising revenue, the company intends to enter an additional European magazine market via a joint venture. Capitalising on local knowledge, via the joint venture partners, and ACEP's skills in rationalisation and magazine launch are expected, initially, to add £3 million per year to PBIT.

It is recognised that there are no further opportunities for expansion in the radio broadcast industry since the company has the maximum number of licences. Since growth by acquisition in publishing within the UK is not possible, overseas expansion and/or organic growth are the only options open to ACEP. The company will continue to launch new titles within the UK where lifestyle surveys suggest that this is feasible, but is taking the exploratory step of expanding into mainland Europe.

Appendix 1

Workings

£ millions	*2002*	*2001*	*2000*	*1999*
Sales				
Publishing	425	500	523	419
Radio	350	375	380	320
Television	65	75	80	70
Music	20	30	40	44
Total	860	980	1,023	853
Variable costs				
Publishing	208	225	235	189
Radio	91	94	95	80
Television	12	19	20	18
Music	4	6	8	9
Total	315	344	358	296
Fixed costs				
Publishing	161	160	162	155
Radio	150	150	148	128
Television	40	40	40	35
Music	30	30	32	32
Total	381	380	382	350
PBIT				
Publishing	56	115	126	75
Radio	109	131	137	112
Television	13	16	20	17
Music	-14	-6	0	3
Total	164	256	283	207
Capital employed	900	900	870	805
ROCE (PBIT/CE) %	18·22	28·44	32·53	25·71
PBIT/Sales				
Publishing	0·13	0·23	0.24	0.18
Radio	0·31	0·35	0·36	0·35
Television	0·20	0·21	0·25	0·24
Music	-0·70	-0·20	0·00	0·07
Total	0·19	0·26	0·28	0·24

Answer to Question Two

Requirement (a)

Board briefing
The concept of the Balanced Scorecard was introduced by Kaplan & Norton in the early Nineties to recognise what they considered to be two primary deficiencies in the implementation phase of many corporate plans.

First, they recognised that, although many organisations measure performance ratios these are primarily focused on historical figures and may have little to do with future success. Although such ratios are important they do not address important aspects of future strategy, particularly those concerned with the satisfaction of customers and their loyalty, organisational learning and the commitment of employees.

Additionally, they believed that, although strategic initiatives were formulated, these often had little impact on organisational behaviour or performance since they were not translated into measures which management and staff could understand and use.

Moving away from purely financial measures they claimed that what really mattered was the strategy implementation process and described three processes:

1. management – how the leader runs the organisation, how decisions are made and implemented;
2. business – how products are designed, orders fulfilled, customer satisfaction achieved, for example;
3. work – how work is operationalised, purchased, stored, and manufactured.

The Balanced Scorecard was developed to address any deficiencies in these areas and encompasses four key principles:

1. translating the vision through clarifying and gaining consensus;
2. communicating and linking by setting goals and establishing rewards for success;
3. business planning to align objectives, allocate resources and establish milestones;
4. feedback and learning to review the subsequent performance against the plan.

They recognised that there should be, on every scorecard, four perspectives:

1. Financial perspective – "To succeed financially, how should we appear to our shareholders?"
2. Customer perspective – "To achieve our vision, how should we appear to our customers?"
3. Internal perspective – "To satisfy our shareholders and customers, what business processes must we excel at?"
4. Future – the innovation and learning perspective. "To achieve our vision, how will we sustain our ability to change and improve?"

For each perspective, a number of objectives, appropriate measures and target levels of performance together with initiatives for their achievement, would be defined. Thus the measures chosen under each perspective would reflect the strategic imperatives under which the organisation operates at the time.

Although the Balanced Scorecard was originally developed for commercial organisations, over the last few years it has found increasing use in the not-for-profit sector, where the same perspectives are equally important, but measured in a different way.

The Royal Botanical Gardens would benefit from the introduction of a Balanced Scorecard by

- placing the whole organisation in a learning process, aligning everyone to strategy in a single framework. The Balanced Scorecard has potential to improve itself over time by testing cause – effect hypotheses, refinement of the metrics selected, the measurement processes employed, resource allocation and identification of suitable initiatives;
- encouraging more rational budgeting in a world of rapid change where resource allocations are based on performance and systematic, fact-based management replaces intuition;
- encouraging and facilitating the anticipation of future outcomes and their impact on the organisation;
- raising the visibility of what is happening, prioritising what most needs to be changed and helping to identify best practices.

In addition to the internal, managerial, benefits that the balanced scorecard can bring to the organisation it has the potential to demonstrate to external stakeholders that their mandates and objectives are being met. In this particular case, where the Government will need to be convinced to maintain, or even increase, the grant in aid, the measures incorporated can demonstrate that objectives over and above value for money are being achieved. It would make it easier for the Garden's negotiators to demonstrate the achievements in terms of assistance to education, industry, tourism and national prestige.

However, it must be recognised that it requires sustained effort to implement fully and requires a high level of organisational commitment. Its introduction may create fear and uncertainty since it raises both visibility and accountability. As with all other performance measurement techniques it will not solve problems – only strategy and initiatives and their successful implementation can do that.

Requirement (b)

It is important that the Balanced Scorecard is developed by a team of individuals and the commitment of the senior management is obtained. The team should be cross organisational and contain representatives of all functional groups within the Gardens.

The main tasks of the teams are as follows:

- identify strategic themes;
- define perspectives and desired outcomes;
- create a strategy map;
- define performance measures and targets;
- develop strategic initiatives to achieve targets.

Once the team has been established the mission statement should be analysed to identify the strategic themes that are encompassed by the statement. This will provide a more specific focus for planning.

For instance the following themes, among others, might be distilled from the mission statement:

- knowledge and understanding through research;
- knowledge and understanding through display;
- conservation by living and preserved collections;
- belonging to the Nation.

The next task will be to define the perspectives - the diverse ways of looking at the organisation from the perspective of different stakeholders. Also to define the meaning of mission success for each perspective and strategic theme. The different stakeholders for The Royal Botanical Gardens are many and would include, for example:

1 Financial perspective – government and research foundations that fund some of the work,

2 Customer perspective – universities who use the facilities;

3 Internal perspective – botanists using the facilities for research;

4 Future – the innovation and learning perspective – educationalists attached to the Gardens.

Within the strategic theme of knowledge and understanding through research, these perspectives might lead to the following desired outcomes:

1 Financial perspective – government funders would look for value for money in the collection of novel plants and materials and the production of research papers.

2 Customer perspective – universities who deal with the Gardens would look for seamless access to any plants and materials they required in a cost-effective way.

3 Internal perspective – the botanists who work within the Gardens would look for support in their research so that they can work productively and advance the boundaries of science.

4 Future – the innovation and learning perspective – the educationalists might wish to raise the profile of the facilities and attract people to this area of study and would look to find innovative ways to bring people in.

For each strategic theme, the team would need to develop a chain of causes and effects that would be expected to lead to the desired outcomes. Each of these chains would be mapped onto a strategy map. Systems dynamics techniques would help in this area.

For instance considering the provision of samples to Universities from a future perspective:

This would mean enhancing information management, improving the employee climate and changing the skills gap. The botanists who work in the Gardens might see themselves in competition with the Universities. A co-operative approach would improve relationships, while seeking citation or acknowledgement in any research published. From the internal perspective looking for process efficiencies in picking and despatch would lead to more cost effective operations satisfying the financial perspective, while the enhanced service levels would, from the customer perspective, make them more likely to acknowledge assistance in research publications.

The definition of performance measures and targets would be achieved by answering the question "how will we know if this theme/desired outcome is being achieved?" and deciding how each goal should be measured for example surveys or other means of data collection. If available, baseline data should be examined to set schedules and targets for improvement.

For instance, measures for the theme/outcome of provision of samples to Universities might include:

- financial – cost per sample provided, revenue generated from advice and consultancy;
- customer – satisfaction surveys, amount of repeat business;
- internal – citations in published research, published research;
- future – new universities seeking samples; reduction in number of unsatisfied requests.

Answer to Question Three

Requirement (a)

(Note: While candidates could apply the industry life cycle and recognise that the traditional airline industry is entering a mature stage, or refer to the strategic groups that exist in the industry, Porter's Five Forces model needs to be used to determine industry attractiveness.)

Porter made the observation that the essence of strategy formulation is not just coping with competition, but also requires that a company competes with both suppliers and customers for negotiating power.

Companies must understand the five forces on which the nature of competition depends and which determine the industry's potential for profit. Where there are weak forces there is the possibility for superior profits, but where the forces are strong, there is more likely to be perfect competition and poor profits.

The five forces are:

- the bargaining power of supplier groups;
- the bargaining power of buyers;
- the threat of new entrants;
- the threat of substitution;
- the degree of competitive rivalry within the industry.

Considering the air travel business as operated by the traditional airlines, the barriers to entry have been relatively high because of

- high capital costs of aircraft;
- regulation of routes and landing slots has restricted access;
- government affection for, and ownership of, national flag carriers;
- the restrictions on airport services.

The power of suppliers has been medium because

- there are only two major aircraft suppliers: these are global suppliers. Regulation places limits on the second hand aircraft market. However, both suppliers are also volume dependent which reduces their power;
- although major oil companies supply aviation fuel, the price is determined by OPEC, which effectively fixes the price of crude oil;
- increasing outsourcing of non-core activities such as catering, baggage handling, and airport services;
- however, labour power has been high; cabin and crew are traditionally well paid with many concessions.

The power of buyers has been increasing because

- the buyers are becoming more knowledgeable and information more freely available;
- the buyers no longer need to use intermediaries;
- there is an increasing commodity mindset;
- recent press has reduced the power of the brand;

The threat of substitutes has increased because

- high speed rail is a viable substitute across EU;
- teleconferencing for the business market is cheaper and is a lower risk post-terrorist incidents.

Competitive rivalry within the industry has increased because

- cost-conscious customers put pressure on premium fares;
- high fixed cost component;
- high exit barriers;
- excess capacity partly offset by concentration through alliances and cross airline;
- loyalty programmes.

The budget airlines by contrast have manipulated the five forces as follows. Barriers to entry to the market have been reduced by:

- using secondary airports that are largely remote from city centres, where landing slots are more freely available along with subsidies;
- leasing aircraft rather than buying;
- only flying point to point rather than adopting a hub and spoke model;
- focusing on short haul.

Supplier power has been reduced by

- leasing aircraft from intermediaries;
- dispensing with many services such as catering and baggage handling;
- negotiating different agreements with labour force.

Buyer power has been reduced by

- focus on consumer segment of market;
- recognising the service as a commodity and dispensing with intermediaries;
- building a brand and reputation for cost effectiveness.

Also:

- the threat of substitutes has been reduced by competing on price;
- competitive rivalry remains intense within the target market.

Requirement (b)

The source of competitive advantage for an organisation is an appropriate collection of strategic assets, capabilities and competencies – and an appropriate value chain to ensure that they are used together effectively to provide some distinctiveness in the eyes of the customers.

Assets will only be strategic if they are rare (or unique), valuable, difficult to acquire or copy, and with no freely available substitute resources.

Capabilities are based on behaviour within the firm and the perception that customers have when they deal with the organisation. On the basis of these perceptions they will decide whether they will continue to do business with the organisation. Capabilities will arise because of an underlying set of competencies present in an organisation.

Competencies are more general in that an organisation may have a superior ability in R&D or in control.

Having reconfigured their value chain, the budget airlines have resegmented the market for air travel appealing to a more cost-conscious group. Having recognised the potential of this market, the companies concerned have enjoyed first mover advantage over the traditional airlines who have continued to offer relatively high quality service to their travellers. When the budget airlines started, the traditional airlines adopted a wait and see policy, suspecting that the budget model would fail.

The source of competitive advantage that the budget airlines enjoyed was purely first mover advantage.

The business model operated by the budget airlines depends on their ability to compete on price and while volumes are maintained and there are no changes to the five forces model they have a reasonable chance of survival.

Theoretically, when a company competes on price it is essential that they maintain large volume sales. This makes the budget airlines susceptible to any environmental factor that can affect their passenger numbers. The threats of terrorism and economic downturn affecting discretionary disposable income are difficult to ignore as factors which can reduce volumes.

The companies concerned have manipulated the barriers to entry by choosing secondary airports which were under capacity and by negotiating favourable contracts with those airports. Additionally, they were able to secure subsidies from the local government who wished to promote business or tourism in the area. The passengers were left to make their own arrangements to travel from the airport, often at considerable cost and inconvenience. As other budget airlines have started to use those secondary airports the balance of power in negotiations is shifting towards the airports and costs may rise. As traveller volumes have increased, regional subsidies have shrunk since the objective of the local authority has been achieved.

As the budget airlines are charging lower prices and are dependent upon large volumes, their contribution to sales ratio is far lower. Any cost increases, such as increased lading fees, have a bigger impact on their profit figures. Similarly, the prospect of increased carbon taxes on the use of fuel and even fuel price increases themselves will have a significant effect on their cost structure.

The traditional airlines have reacted to the buyers' view of airline travel as a commodity and have become more price competitive, taking customers away from the budget airlines. Since they are using landing slots at airports which are more central to cities, the surrounding infrastructure is better and the impact of delays is less pronounced.

Although budget airlines have developed a business model that has been successful in the short term, by virtue of first mover advantage, it is unlikely that they will continue at these levels of success in the future. Sustainable competitive advantage is only rarely achieved by competing on price.

Answer to Question Four

Requirement (a)

Stakeholders can be defined as people and organisations who have a say in what the organisation is to do, what resources the organisation can have and what is to be achieved. They are affected by, and feel they have a right to benefit from, or be pleased by, what the organisation does.

Beneficiaries can be considered as both intended beneficiaries and collateral beneficiaries who will benefit indirectly from the success of the organisation or the service it provides.

The process of stakeholder analysis would best be served by a brainstorming process using a focus group drawn from within the company. Stakeholders should be categorised as internal or external to the organisation. It should be remembered that stakeholder groups are not mutually exclusive and there will be overlap between them.

The stages of the process should be

- Identify stakeholders;
- Identify their interests, values and concerns;
- Identify sources of stakeholder power;
- Identify what claims they can make on the organisation;
- Rank the most important stakeholders from the organisation's perspective in terms of their ability to influence the organisation;
- Map the relationship between the stakeholder groups;
- Identify the resulting strategic challenges.

When looking to determine the stakeholder values, these could be considered in terms of what they want the organisation to do for them, what the organisation actually does for them, and how well they judge the organisation's efforts. The organisation should also consider how it is informed of stakeholder perception of its performance. It is

important to consider why the stakeholders choose to come to this particular organisation – do they have a choice? Some organisations talk of holding particular values, but do not actually live them in practice. It is important to distinguish between the desired, spoken and lived values. For instance, a public transport service may well have a desired value of no delays for passengers. The spoken values, espoused in terms of targets set, will relate to a lesser performance level. The lived values may well be at an even lower level.

Having determined the stakeholders' value systems there should be an assessment of the power they can exercise on the organisation. Power can arise by virtue of:

- possession of expertise;
- control of or access to resources;
- control of or access to information;
- preparedness to fight;
- charisma or referent power;
- networks.

All stakeholders will have an element of power in their dealings with an organisation to a greater or lesser extent. The power that a stakeholder can bring to bear in dealing with the organisation should be carefully considered since this can affect the way an organisation chooses to deal with that particular stakeholder or stakeholder group. The greater their power the more influential they become.

The importance of stakeholders at any point in time will depend upon their interest in the strategic initiatives being planned at the time. If the initiative ties in with their values and concerns then they must be considered important in the next stage of analysis. Alternatively where a stakeholder may have limited, or little interest in the successful completion of an initiative, they will need to be convinced of the importance for the organisation as a whole.

Once stakeholders have been classified in terms of their importance and influence they can be ranked in terms of the way the organisation must deal with them, if strategies are to be successfully implemented.

The organisation will need to develop excellent working relationships with those stakeholders who have both high degrees of influence and high importance. They are potential partners in the planning and implementation of any initiatives.

Those stakeholders who have high degrees of influence, and can affect the initiative's outcomes, but are of limited importance at this point in time, are a source of risk requiring careful monitoring and management. They must be consulted and kept informed.

Stakeholders who are highly important, but of low power to influence, should be kept informed, but can do little to affect the outcome of the strategic initiative.

Stakeholders of both low influence and low importance will require limited monitoring and evaluation but are, at this time, of low priority.

Having conducted this type of stakeholder analysis "*Doctors with Wings*" will benefit from a clearer idea of the way forward in implementing any strategy it proposes. Strategic initiatives will invariably involve change management and without the support

of the stakeholders are unlikely to succeed. By developing a better knowledge of stakeholders, their power and their value system, it will be far easier for the organisation to make decisions on how it should deal with the different groups as it introduces any new strategy.

More informed decisions are needed when the organisation comes to answer the following questions:

- Should it deal with stakeholders directly or indirectly?
- Should it take the offensive or deal defensively with resistance?
- Should it accommodate, negotiate, manipulate or resist stakeholder claims?
- Should it operate with a combination of these approaches or select a single course of action?

Requirement (b)

The list of stakeholders includes:

Government funding agencies
Government agencies would expect to see value for money and the good name of the host country promoted. It is unlikely that a government would want to be associated with the funding of a charity which played an active part in a medical emergency arising from a conflict in which that government had an active, or vested, interest. Depending on the proportion of funding they provide their power could be quite considerable. They also have network power in that they can influence other foreign governments and supranational funding agencies such as UNESCO to assist the charity or, if not impressed, to damage its interests.

Corporate donors
These have similar interests to government agencies in that they would want to see transparent and cost effective operations, gaining reputational capital by association. It is unlikely that they would want to be seen to be supporting one side in areas of conflict if they had interests in the region. Their power would again depend on the size of the donation they made to the organisation. It should be remembered that the donation might not be purely financial in that they might offer transport and other facilities in the affected area and would gain additional reputational capital from so doing.

Medical companies that donate
Aside from philanthropic interests, medical companies would want to improve their reputational capital by being seen to do the right thing. Power would again depend on the size of the contribution to the costs of the organisation but, additionally, in particular medical emergencies they may well provide power in terms of pharmaceutical expertise to the doctors.

Public donors
The interest of public donors is philanthropic – they would wish to have a satisfied feeling from having done the right thing. Power is not limited to resource manipulation in the size of the donation made, but would also involve their ability to raise the profile of the charity where word of mouth marketing is important.

Doctors and nurses donating time after qualifying for the first time
The interest of the donors is both philanthropic from a desire to put something back, but also to gain good quality post-qualification experience. There will also be an element of

self-esteem in taking an interest in the charity. Their power is high being based on their expertise and preparedness to do the work.

Doctors and nurses returning from medical emergency
The interest is again philanthropic, and there is also a desire to increase reputational capital. Their power is high both in terms of expertise and charisma or referent power.

Teaching hospitals facilitating doctors donating time
The interest is primarily based on reputational capital in that those they have trained are seen to be "doing the right thing". Their power is relatively high in terms of referent power.

Staff working at "*Doctors with Wings*"
The interest is primarily to do with self-esteem and, bearing in mind the likely salary, somewhat philanthropic. Their power is primarily resource-based in that they provide their services and time for relatively low rewards.

Other similar charities
Other charities will be interested in the performance of "*Doctors with Wings*" from the perspective of both competition for resource from donors, but also quite possibly as collaborators when some emergencies reach the proportions that, unfortunately, attract a lot of interest.

Beneficiaries and victims of medical emergencies
The interests of the beneficiaries will be purely self-serving in that they will want prompt and effective treatment and relief. Their power is virtually non-existent.

Answer to Question Five

Requirement (a)

Establishing the web site
Before Mr M tries to establish an Internet strategy, he should look at his overall business strategy. In doing this he should find answers to a number of questions, such as:

- Is he only going to continue to operate between three domestic cities?
- How far does he want to expand both internally (in the home market as indicated) and beyond (internationally)?
- Does he have the capacity to take on more bookings should they arise?
- Is he aiming at a different market sector?
- Does he have a business plan?

Checking this strategy is essential because the IT strategy must be seen to support the overall strategy of the company and not drive it. In the case of the SDW Company, this does not appear to be an issue; the owner wishes to develop an e-commerce facility on the Internet site. However, care must be taken to ensure that the site does not cause unnecessary disruption to other systems within the company.

Having determined his business strategy, he needs to look at his IT strategy. Would an Internet site for bookings be part of his overall IT strategy or simply an add-on? Piecemeal implementation could affect other areas of his business systems.

The SDW Company already has an Internet site, so development of any new site must take this into account along with the overall requirements of the business. Expert advice needs to be obtained as to whether or not to amend this site or design a new one. Experts in web design may have to be employed if this expertise is not available in-house.

Additional care will be required in implementing the IT, for example in ensuring that no incompatible systems are introduced. The IT systems being used in the new Internet site must be able to connect to the existing call centre systems. Similarly, the initial focus of the site must be on selling seats on the company's trains; other services may be offered later, but establishing the core business first is essential.

Deciding on e-commerce may have an impact on other parts of the business. For example, setting an objective of a given percentage of business through the Internet will decrease percentages of business in other areas. Within the SDW Company, there will (hopefully) be a fall in the use of the call centre. This change must be anticipated and planned for. Staff in the call centre must be kept informed concerning the setting up of the Internet site, and then assurances given regarding job prospects and training, either within the call centre or other areas of the company. Where reductions in staffing are required, it is better to obtain these naturally rather than by compulsory redundancies.

Mr M should also attempt to obtain information on competitors' sites (and more broadly, sites relevant to the travel industry), to assess particularly their design and ease of use. This would be relatively easy to do – he could even visit the sites himself. This would not tell him how successful the sites were, although some companies boast about the use of their sites in published information. Some travel operators even offer discounted fares for booking this way. He should be careful that any claims are verifiable, and not just another way of attracting publicity. It may be possible to commission some survey information to obtain potential customers' views on booking through a website.

Given the need for security and the current lack of in-house knowledge, setting up an e-commerce system will require specialist assistance, either by recruitment or outsourcing the writing and monitoring of the site.

The services to be offered through e-commerce must also be determined. Decisions regarding services will have a direct impact on the writing of the website, as the authors will need to ensure that the required services can be made available. As already noted, the initial focus must be on travel bookings. Additional services and products may be made available after this core business activity has been satisfied.

Whichever method of writing the website is chosen, budgets must be set for this activity and agreed at Board level. If necessary, a cost benefit analysis will be required, partly to justify the cost of writing the site and partly to show the potential benefits from using the web site rather than a call centre.

Implementation issues

The charges (if any) for providing services to customers must also be determined. If e-commerce is to be encouraged, then some discount or other benefit can be expected to attract customers to this service. Given that this method of booking results in lower costs than when booking via a call centre, then the SDW Company can pass on these cost savings to its customers.

Prior to the e-commerce service being made available, it will have to be advertised. The Board will need to decide where to advertise and how much the advertising budget will be. Possibilities will include mail-shots to existing customers, perhaps by e-mail, and advertising on the websites of other organisations.

One of the aims of the provision of e-commerce is to try and remain competitive. A review of competitors' and other on-line sites is advisable to help determine the content and structure of the SDW Company site. This review may also help to identify other areas where competitors currently have an advantage so that the Board can address this.

Requirement (b)

Features of Internet sites focusing on cost reduction
The site must, of course, be very easy to use. SDW should specify simple instructions on a site that is easy to understand and quick to load. The omission of detailed graphics and providing an "uncluttered" site will also decrease programming costs.

Incentives to book on-line such as obtaining loyalty benefits, cheaper prices or being able to book earlier (which may not be available on off-line bookings) could be offered. Although this may not save costs on the Internet, it will provide overall cost savings by decreasing reliance on the call centre, thus limiting the number of staff employed.

Removing reliance on other more expensive selling media, such as the call centre, removes not only salary costs but also accommodation, pension, equipment and similar costs. Focusing on one booking medium becomes easier to support as only one cost structure is required.

Providing appropriate support to customers within the website which does not involve additional human contact. For example, provision of FAQ's, a good help system and advice on each stage of the booking process. Customers are encouraged to resolve their own problems, which limits intervention from expensive staff.

Provision of other information on the website to attract customers to it, for example details of company performance or similar information already available within the organisation. Placing the information on the website is relatively inexpensive given that the information is already required in-house. Setting up web-specific information would be more expensive.

Innovative uses of Internet technology, for example suggesting destinations on a limited budget rather than customers specifying where they want to go. Providing these ideas as unique selling points will attract more customers to the website, again limiting reliance on other media.