

This document should be read in conjunction with the examiner’s suggested answers and marking guidance.

## **General comments**

### **Strategic case study – February 2016 – Rationale**

This exam was based on a pre-seen scenario which described a company in the fast fashion industry. The scenario was made available in advance of the exam and a number of variant papers were set, each offering additional scenario-based information and each setting three tasks to be completed. Each section was split into two or three specific elements. This is a very interesting industry which many candidates should understand. The pre-seen scenario was detailed and well prepared candidates should have been able to give good answers in the context of the industry. The unseen scenarios were interesting and presented some realistic questions on the industry.

### **Candidate performance**

Performance overall was reasonably good for many candidates; there were, however, many weak scripts. Performance was, overall, not as good as it was in November 2015. There were several weak areas which candidates must improve on in the future. Ethics, where many candidates could not name the ethical principles or apply them or even recognise an ethical issue, was one poor area, the other was finance where the lack of ability was surprising.

The main problems were candidates failing to answer what was asked and writing everything they knew on the topic being asked about. Many candidates did apply their answers to the industry which was good; however some candidates did not appear to be familiar with the pre-seen material at all. It was as if candidates did not realise it was important. Most candidates attempted all three tasks but some missed out parts of tasks e.g. they would write about risks but not mitigations. A significant number of candidates presented answers which lacked sufficient depth and development.

Some candidates had made good use of the pre-seen materials and showed an understanding of the fashion industry which was heartening. It was also good to see most candidates tried to use relevant models and did not produce lists of inappropriate models.

In most of the questions it was hoped candidates would be able to use industry knowledge and knowledge of the company to help formulate answers; there was some evidence of this but some candidates appeared to know nothing about the industry concerned.

### **Looking ahead to future examinations**

Candidates should read the pre-seen material carefully and come into the examination understanding the industry and the company which will be the focus of the exam. This will help candidates formulate good answers that relate to the tasks presented.

Candidates must manage their time well and make sure they do not run out of time on sections they know well.

A good level of knowledge of the three strategic syllabi is necessary in order to do well in the exams; it is not enough to have knowledge of topics, candidates must be able to apply their knowledge to a variety of situations and show they have an in-depth knowledge of the subject matter.

## Variant 1

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
<b>Section 1</b>	Evaluate strategic benefits of new distribution centre proposal	Business skills	E3 (B1) - evaluation of the process of strategic analysis
	Evaluate strategic risks of new distribution centre proposal and how to deal with them	Technical skills	P3 (A1 and D2) - evaluation of strategic risks and alternative risk management tools
<b>Section 2</b>	Evaluate the cultural integration problems of the decision	Leadership skills	E3 (C1) – advise on the important aspects of organisational change
	Identify the benefits of GRI reporting	Technical skills	F3 (A1) – evaluate strategic financial and non-financial objectives of different types of entities
	Recommend step to Implement GRI reporting	Business skills	F3 (A1) – evaluate strategic financial and non-financial objectives of different types of entities
<b>Section 3</b>	Communicate decision to employees	People skills	E3 (A1) – evaluate the influence of key external factors on an organisation’s strategy
	Recommend appropriate performance targets to improve efficiency	Leadership skills	P3 (A1) – evaluate the types of risk facing organisations and recommend appropriate responses
	Consider the benefits and risks of using stretch targets	People skills	E3 (D1) – evaluate the tools and techniques of strategy evaluation

## Comments on performance

### Section 1

Section 1 opened with a simple request to highlight the strategic benefits of closing the existing distribution centre in Central Europe and opening a new one in Northern Europe. It went on to ask for a list of strategic risks and how we might deal with them.

The major difficulty presenting itself appeared to be the differentiation between strategic and operational benefits and risks. The better students pointed out, differentiated and exemplified the gravity of the situation e.g. that loss of long-term staff organised in a union presents a very different risk to a few redundancies at operational level. The potential impact of failing to maintain continuity of service during the transition was not discussed very well. Few candidates scored well in identifying benefits. The poorer students highlighted the list they were presented with on the pop-up reference material and often failed to go much beyond copying the words given there, quoting operational savings in staffing and transport and proximity to the port.

Dealing with risks was fairly poor, again with a dominance of risk identification relating to the redundancy package; many simply said make it generous and offer re-training. The better candidates dealt with the more expansive and longer term, highlighting the need for continuity during wind down, possible terminal bonus, community investment.

There were a number of weak answers here. Most often these were where candidates gave a very simple list with little or no explanation.

### Section 2

Section 2 opened with a consideration of potential cultural integration problems and what might be done to overcome them, moving on to a consideration of advantages by reporting in a GRI compliant format, following through to question what we would need to do to implement GRI reporting.

As regards cultural integration problems, many of the better candidates said that this would have little impact, that we could learn from how we deal with radically different cultures across Europe and Asia and apply the lessons in situ. Northern European cultures are remarkably similar and unless dealing with a local feud situation are likely to be easily managed. Other good candidates highlighted the need for communication, understanding and appreciation of the various cultures concerned and the need to respect those differences. Better candidates sought to resolve differences via training, communication and close co-operation. Likewise the length of the working hour week was resolved simply by several methods not least of which is the recognition that the centre being automated is likely to be operational more than 5 x 8 hours per week and therefore would require shift work and overtime in any case.

Poorer candidates failed to see the bigger picture. Copying the problem areas from the pop-up briefing note then hiring a translator or enforcing non-standard hours contracts often appeared to be their suggested solution.

The second part of Section 2 related to the Global Reporting Initiative.

The differential between good and poor candidates was more apparent here. Good candidates had clearly recognised the signalling in the pre-seen. These candidates on the whole were also able to interpret the implications of GRI and its implementation. They generally gave good answers in the first section with usually quite short and precise answers to the second part; i.e. not to underestimate the enormity of the task, the need for Board buy-in, sponsorship, setting up a task team and potentially demanding major change in every supplier! Poor students were unable to convey any real grasp of what is needed to implement GRI, giving instead some generic carbon footprint and other random comments usually accompanied by the claim that it will be very easy to implement.

### Section 3

Section 3 introduced communicating change to directly and indirectly involved staff relating to the closure of the Central European Distribution centre. Secondly it dealt with the need for performance measurement and motivation of the new management team in the new distribution centre through use of KPIs and performance targets and with stretch goaling on all distribution centre managers.

The first part of Section 3 was fairly well answered by all candidates. The better candidates differentiated clearly between the two groups, highlighting the needs of the individuals and tailoring the message clearly between the two groups. They also picked up on aspects relating to timing of message, the person delivering the message being of sufficient gravitas, face to face meetings where appropriate, unionisation, local community and social responsibilities.

The second part of Section 3 requested three KPIs to drive efficiency in the new distribution centre. Again, most candidates were able to suggest three KPIs but not all were relevant to a distribution centre, let alone the efficiency of one. Differentiation here came from the justifications given; better candidates were able to exemplify their suggestions showing the impact, positive and negative, according to how well these are met. Few candidates did much more than a cursory identification of basic benefits here.

The final part of Section 3 asked candidates to identify the benefits and risks of using stretch targets for ALL of its distribution centre managers.

This was badly answered; many candidates gave short generic answers. Relatively few candidates differentiated between the new distribution centre and ALL distribution centres coming under stretch targets.

## Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
<b>Section 1</b>	Evaluate strategic benefits of e-business expansion proposal	Business skills	E3 (B1) - evaluation of the process of strategic analysis
	Evaluate strategic risks of e-business proposal and how to deal with them	Technical skills	P3 (A1 and D2) - evaluation of strategic risks and alternative risk management tools
<b>Section 2</b>	Evaluate and make a strategic choice of an IT supplier (SAF Framework application)	Business skills	E3 (B1) - evaluate the process of strategy formulation
	Evaluate the use of dividends to finance the proposal and recommendation on how to finance the proposal	People skills	F3 (B1) – evaluate the financing requirements of an entity and recommend a strategy for meeting those requirements
	Discuss the ethical issues of the choice of IT supplier	People skills	P3 (B2) – evaluate ethical issues facing an organisation and its employees
<b>Section 3</b>	Evaluate potential sources of resistance to change	Leadership skills	E3 (C1) – advice on the important aspects of organisational change
	Recommend strategies to overcome resistance to change	Leadership skills	E3 (C2) - evaluate tools and methods for successfully leading change
	Evaluate the impact of the proposal on the financial information systems	Technical skills	F3 (A1) – evaluate strategic financial and no-financial objectives of different types of entities

## Comments on performance

### Section 1

Variant 2 was wholly focused upon the decision by Rio to invest in e-business expansion and Section 1 required candidates to undertake a strategic evaluation of the proposal put forward by Rio's IT Director to invest in Rio's internet sales and to invest in the development of a new extranet system.

#### **Strategic benefits of the e-business expansion**

In general this question was answered reasonably well, although many answers were rather undeveloped and some candidates' answers went little further than to mention the benefits of online shopping to the customer. Answers should have focused on the benefits to Rio, such as enhanced Customer Relationship Management and the access to a wider global market place for the investment in internet sales and the improvement in communications, also the impact on time to market for the extranet development. Some candidates failed to discuss the strategic benefits of the extranet system at all, which was a serious omission.

#### **Strategic risks of the e-business expansion**

Candidates actually performed better on this aspect. It would appear that candidates are improving in their abilities to assess strategic business risks. Most candidates clearly discussed the security risks of the extranet system and also recognised the risks of the distribution and logistics systems not being able to cope with the increased level of internet sales. However some answers focused too much on the IT based risks rather than on the wider business risks.

Candidates were also asked to consider how these risks might be dealt with and this was answered reasonably well. However, some candidates did in fact fail to address this aspect of the task and therefore candidates are advised to ensure that they read each task carefully to ensure that they answer each part of the task.

### Section 2

#### **Evaluation of the two submitted tenders and an overall recommendation**

The first part of Section 2 required candidates to evaluate the tender documents submitted by two IT suppliers. This was a straightforward task and most candidates performed well, recognising the comparative strengths and weakness of the two suppliers. Those candidates who did not perform well did so because they failed to undertake a comparative analysis and instead merely re-stated the information presented to them in the tender documents. Nearly all of the candidates correctly recommended SDE Solutions as the optimal supplier for the development of Rio's new e-business expansion.

### **How to finance the investment**

This part of the task was answered reasonably well by most candidates, although many answers were rather undeveloped and lacked sufficient analysis and application. Most candidates recognised that it was likely that Rio's institutional shareholders would not react favourably to a change in its dividend policy. Many candidates' answers were very theoretical, which was acceptable as this demonstrated sound syllabus knowledge, but higher marks would have been achieved had answers focused more upon the potential behaviour of Rio's own shareholders. Candidates must attempt to achieve the right balance of theory and direct application to the scenario.

Some candidates also spent too long in discussion of other theoretical approaches to financing, which demonstrated sound syllabus knowledge but in many cases required more direct focus on Rio. However, overall the majority of candidates did recognise the cash reserves held by Rio and recommended that this should be used to finance the investment.

### **The ethical issues relating to the IT Directors relationship with X-Max Systems**

Candidate performance in this part of Section 2 was rather mixed. Some candidates performed well, clearly addressing the key ethical issues surrounding the matter and also clearly setting out the business and ethical risks this issue could potentially pose for Rio. Most candidates used CIMA's own ethical code to structure their answers, which was appropriate. However, some candidates failed to develop answers beyond describing the basic ethical principles or adequately consider the ethical issues and some felt that there were in fact no ethical issues at all, as X-Max Systems were not the chosen supplier.

Overall, Section 2 was answered well by candidates. There was evidence of good application and a sound understanding of a range of strategic issues.

## **Section 3**

### **Why would Rio's IT staff and its outsourced suppliers resist the e-business expansion?**

This part was answered well by some candidates but there were a significant number of candidates who did not perform well on this part of the section. Candidates were specifically asked to consider why the IT staff AND the outsourced suppliers might resist the new e-business expansion. However, there were a significant number of candidates who only considered IT staff resistance. In addition, some candidate answers were very theoretical and not directly applied to Rio's own IT staff and outsourced suppliers. Candidates are reminded that any theoretical or syllabus knowledge must be directly applied to the business being discussed, otherwise few marks are gained.

### **Advice on how resistance from IT staff and outsourced suppliers could be overcome**

This second part of the section was answered reasonably well by most candidates. Most used Lewin's Three Stage model or the Force Field Analysis model to structure their answers, which was appropriate and useful. Those candidates who did not perform well on this part of the task did so because their answers were largely based upon the theory only, and again, failed to adequately apply the advice they presented, directly to Rio. For example, most candidates recognised the need for communication and involvement, but those candidates who performed well on this part of the section, clearly discussed the most relevant methods of communication and involvement for Rio's own IT staff and the outsourced suppliers. Direct and relevant application was well rewarded.

### **Activities and costs to be transferred to the Financial Information System.**

This was a difficult final part of the section and was not answered well. Some candidate completely failed to recognise that the task asked for a focus upon the information relating only to the new extranet system, thus focusing the information needs upon the contracts placed with suppliers, the actual deliveries made, delivery periods and the manufacturing costs to be used to calculate the cost of goods sold and work in progress. Most candidates failed to recognise this and instead briefly mentioned a range of management accounting related costs and indicators which were not really relevant to the extranet system and the outsourced suppliers key management and financial information needs.

Overall, Section 3 was answered reasonably well by candidates, although application was weaker in answers to this task than the previous two tasks, as a significant minority of candidates provided answers which were not sufficiently focused upon Rio.

### Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
<b>Section 1</b>	Evaluate strategic benefits of franchising proposal	Business skills	E3 (B1) - evaluation of the process of strategic analysis
	Evaluate strategic risks of franchising proposal and how to deal with them	Technical skills	P3 (A1 and D2) - evaluation of strategic risks and alternative risk management tools
<b>Section 2</b>	Evaluate financial impact of franchising proposal	Technical skills	F3 (A1) - evaluate strategic financial objectives of different types of entities
	Evaluate financial risks of the franchising proposal	Business skills	F3 (A1) - evaluation of financial strategy in the context of international operations
	Recommend decision making process and recommendation on franchising	People skills	P3 (D1) - evaluate financial risks facing an organisation
	Recommend non-financial KPI's for franchisees	Leadership skills	E3 (D1) – evaluate the tools and techniques of strategy implementation
<b>Section 3</b>	Communicate franchising agreement to employees	People skills	E3 (A1) – manage strategic relationships with stakeholders
	Evaluate issues to communicate to the market analysts	People skills	F3 (A2) - evaluate strategic financial management policy decisions
	Evaluate importance team building and coaching and mentoring franchised store managers	Leadership skills	E3 (C3) - recommend change leadership processes in support of strategy implementation

## Comments on performance

### Section 1

The discussion of strategic benefits was generally answered well. This is clearly an opportunity to expand in a region in which the company has no immediate intention of developing its own interests and it will do so at the expense of the franchisee.

The discussion of the risks was much more mixed. Many candidates referred to particular conflict zones and expressed concern about opening there, although it is highly unlikely that any retailer would open new stores in an area that was affected by such armed conflict. Some candidates earned credit by offering relevant and helpful overviews of potentially lucrative markets in the Middle East. While such an understanding was not required to answer the question, it was relevant and demonstrated an understanding of the commercial issues arising.

### Section 2

The discussion of the financial risks generated a surprising disparity of answers. Better candidates addressed the requirement by discussing financial risks (as requested by the question), while weaker candidates tended to write about all risks. As usual, there was little point in providing irrelevant arguments even if they were potentially correct. Those candidates who thought about which risks might be classed as financial tended to score well.

This part of the requirement went on to ask for a recommendation as to whether to proceed. Many candidates either failed to offer a recommendation at all or simply gave a yes/no answer. The question had clearly asked for an explanation of the recommendation and so marks were lost through failing to answer.

The final part required the recommendation of KPIs. Many candidates did not offer KPIs but wrote about generic headings that might be used to group them. For example, customer satisfaction is not, in itself, a KPI. There are clearly KPIs that can measure customer satisfaction (and other desirable outcomes) but the question had set a very specific requirement that candidates often chose to disregard.

### Section 3

Candidates often drafted press releases or similar announcements, which were only indirectly relevant to the requirement. The question asked what should be communicated to analysts and employees, which is not the same as asking what the communication should say. Better candidates were able to answer both issues arising from this requirement well, simply by identifying the issues that would be relevant to the target audiences. Some candidates took this route, but aimed to address both stakeholder groups with a single communication. That missed the point that analysts and employees would have very different concerns.

Answers to the final part were generally good, with a clear discussion of the issues associated with team building and mentoring.

#### Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
<b>Section 1</b>	Evaluate strategic benefits of proposed acquisition	Business skills	E3 (B1) - evaluation of the process of strategic analysis
	Evaluate strategic risks and how to deal with them	Technical skills	P3 (A1 and D2) - evaluation of strategic risks and alternative risk management tools
<b>Section 2</b>	Explain the different company valuation methods that could be use	Business skills	F3 (C2) - evaluate the validity of the valuation methods
	Recommend with reasons, an appropriate valuation to price Luiza	Leadership skills	F3 (C2) - evaluate the validity of the valuation methods
	Business and ethical risks to Rio of using Luiza's current outsourced suppliers	People skills	P3 (A3) - evaluate ethical, social and environmental issues arising from risk management
	Advise on actions Rio should take to manage these outsourced suppliers	Leadership skills	E3 (C1) – recommend change leaderships processes in support of strategy implementation
<b>Section 3</b>	Communicate the decision to Rio's employees	People skills	E3 (A1) – manage strategic relationships with stakeholders
	Evaluate the risks facing Rio to integrate Luiza's employees	Technical skills	P3 (A1 and D2) - evaluation of strategic risks and alternative risk management tools
	Advise on how to overcome integration problems	Leadership skills	E3 (C2) – evaluate tools, techniques and strategies for managing and leading the change process

## Comments on performance

### Section 1

Section 1 presented the candidates with the scenario that Rio was considering acquiring Luiza, a South American company.

#### Strategic benefits

Some candidates addressed both parts of Section 1 together using Johnson and Scholes Suitability Feasibility and Acceptability model. Whilst use of this model would be appropriate to support the decision as to whether or not to proceed with the acquisition, candidates using it in this way tended to drift away from the specific question requirements and produce a discussion leading to a recommendation to accept or reject the purchase. This was not what was asked for, and whilst such discussions tended to include identification of some risks and benefits, they did not give them the full focus needed to maximise marks.

Candidates generally correctly identified benefits, although not always strategic ones. Weaker answers identified risks but did not explore them in sufficient depth for high marks.

#### Strategic risks and how to deal with them

Most candidates correctly identified risks but a common error was to omit discussion of how they could be dealt with. Again, weaker answers tended not to be focussed at a strategic level.

### Section 2

Section 2 presented candidates with a range of valuations for Luiza derived using different methodologies.

#### Valuation discussion

Candidates were asked to explain what the different values represent and recommend, with reasons, which value would be useful for negotiations. Although some candidates approached this section well, there were many disappointing answers which provided textbook descriptions of valuation methods without any contextualisation. Very few candidates provided a sensible recommended valuation with supporting discussion. Some omitted this task completely, some just gave a suggested number with no justification and the rationale behind many recommendations was disappointingly simplistic and lacked commercial awareness.

### **Business and ethical risks in respect of outsourced suppliers**

Candidates were asked about the business and ethical risks in respect of the current management of outsourced suppliers. Candidates who structured their answer by discussing business and ethical risks separately tended to provide fuller discussions, a number of candidates only discussed ethical or business risks, not both.

### **Section 3**

Section 3 was answered best by many candidates. They were asked to address four separate issues:

#### **Whether employees should be informed of the acquisition**

Most candidates recommended that employees should be informed, but many did not provide much depth of explanation as to why this was the case.

#### **What information should be presented to employees**

This section was on the whole well answered, many candidates gave very long lists of information which should be presented, although some did not give reasoning for their selection.

#### **The risks involved with integrating Luiza's employees**

Again, this was well answered with candidates identifying a range of risks.

#### **How the integration challenges could be overcome**

Although some candidates went no further than recommending training, many provided reasonable answers for this task.

**Variant 5**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Section 1</b>	Explain the problems with Rio's value chain and how to overcome them	Business skills	E3 (B2) - evaluate tools and techniques used in strategy formulation
	Advise on the impact on the business on lack of response to Rio's customer feedback	Business skills	E3 (B1) - evaluate the process of strategy formulation
	Recommend new performance bonus to encourage team working	Leadership skills	P3 (B1) - recommend solutions for dysfunctional behaviour
<b>Section 2</b>	Evaluate the financial aspects of the decision	Technical skills	F3 (A1) - evaluate strategic financial management policy decisions
	Evaluate the level of fees, timing of fees and what fees should be paid	Technical skills	P3 (D1) - Evaluate financial risks
	Evaluate the sensitivity of financials for the "Lacey Ace" proposal	Technical skills	F3 (A2) - sensitivity of the attainment of financial objectives
	Advise on the business and ethical risks of being associated with "Lacey Ace"	Leadership skills	P3 (A1) - evaluate the types of risk facing an organisation
<b>Section 3</b>	Understanding how improvements in value chain can affect business performance	People skills	E3 (B2) - improvements in value chain
	KPI's for Balanced Scorecard Internal Business perspective	Leadership skills	E3 (D1) - recommend solutions to problems in strategic performance measurement
	Ethical risks of outsourced supplier selection	People skills	P3 (B2) – evaluate the ethical risks facing an organisation and its employees

## Comments on performance

### Section 1

Section 1 asked about problems with Rio's value chain and how to overcome them. It went on to ask about the impact on the business of lack of response to Rio's customer feedback and finally candidates were asked to recommend a new performance bonus to encourage team working.

The first part was done reasonably well with candidates giving several problems quite easily. However, candidates usually did not relate the problem to the specific problems of Rio's Value Chain. Many candidates did not make sensible suggestions of how problems could be overcome. Dysfunctional behaviour – again, many did not specifically discuss the impact this would have on Rio and how to overcome this problem. The second part was done quite well by most candidates; most discussed IT solutions. The final part on bonuses which should have been straightforward was not answered very well; it should have been a simple principle to discuss. It was generally badly answered with many candidates simply not discussing the benefits and drawbacks of introducing a bonus system to address these types of problems.

### Section 2

The first part was on the financial aspects of the proposal. This was poorly answered generally with many not picking up the forecast 1% increase in general sales and how risky this forecast element of the NPV was. The next part on fees paid and timing was reasonably well answered with regard to timing and the need for stage payments or linking payments to a % of sales, but very few discussed negotiation of fees. The next part on sensitivity was missed out by many. This was disappointing as it is very important that CIMA final level students should know the importance of understanding what factors are the most sensitive to changes that could affect the NPV! The most crucial two factors, the increased footfall of 1% and the level of fees paid were often not discussed at all. The final part on business and ethical risks was quite well done, but ethical risks were often discussed without relating the risk to any of CIMA's five ethical principles.

### Section 3

The first part on the value chain and improvements should have been easy marks for those who understood the VC. Some answers were good but others were very weak. There was a really mixed response by candidates to this task. The next part was on KPIs for the internal business perspective of the balanced scorecard. There were only about 30% of candidates who actually produced three internal perspective KPI's. Many discussed financial KPIs such as revenue per store or discussed customer perspective KPIs, such as footfall per store, or innovation related KPIs. The marks were not good for this part. The final part was on ethical risks and how to overcome them. There were some very good answers for this, but also some very weak answers which did not specifically discuss

ethical risks and CIMA's ethical principles. Many simply stated to investigate and tighten procedures. Some stated that Rio should immediately disclose the problem to the press, before even undertaking an investigation – very odd and risky!

### Tips for future candidates

It is obvious that candidates must read the questions carefully and answer what is asked. Candidates should read the pre-seen material carefully and come into the examination understanding the industry and the company which will be the focus of the exam. This will help candidates formulate good answers that relate to the questions.

Candidates must manage their time well and make sure they do not run out of time on sections they know well.

A good level of knowledge of the three strategic syllabi is necessary in order to do well in the exams; it is not enough to have knowledge of topics candidates must be able to apply their knowledge to a variety of situations and show they have an in depth knowledge of the subject matter.