A WALKTHROUGH OF A REAL ANSWER TO THE STRATEGIC CASE STUDY EXAM (VARIANT 2) FROM FEBRUARY 2016

As part of an ongoing drive to improve support to CIMA students, we have published a new exam resource. The following document takes you through a real student script from the February 2016 case study examination; the answer has been transcribed, anonymised and annotated with observations on strong performance and some areas where performance could be improved upon.

PASSING STANDARD ILLUSTRATED

The script was selected to demonstrate a comfortable passing standard, having earned a score in the 90s. It shows one of many ways in which a candidate would demonstrate sufficient competence to earn such a pass. Please note it is not a perfect answer nor the only one which would have achieved a passing standard. However, the walkthrough will provide an idea of what a strong answer looks like and some examples of where answers might have fallen short and been improved upon.

HOW TO USE THE RESOURCE

To get the full benefit of this resource, you should download: the February case study pre-seen materials and the test variant (2) this candidate was answering so that you have the context for the script. You could also review the examiner’s report, the marking guide and grade descriptors for the SCS which might give you a greater appreciation of the comments on the script.

Links to all five of these documents are provided below.

You may also benefit from reading CIMA’s published answer to the variant. This gives you an alternative approach to achieving a pass from the same requirements. It is useful to understand how different approaches can earn credit and that the markers are not looking for a “model” answer.

EXAM APPROACH OVERVIEW

Before looking at the real answer script in depth, it’s worth reviewing the key features required to produce a good answer of passing standard.

A clear passing answer will demonstrate various features such as evidence of planning; a good layout and structure which make it easy to follow the discussion; an answer which responds appropriately to the task in the format required and from the perspective of the persona described for the Strategic case study.

The length of your answer will vary, depending on various aspects but remember, the examiner is looking for quality rather than quantity. A long answer does not necessarily equate to a better answer. However, if your answer is too brief, you may not be providing enough detail for the examiner to give you marks.

Use the time given for each task as a guide to how much you might write. For example, in section 1 of our sample script, there are 33 marks available, which equates to one third of the exam or 60 minutes. In this case there are two requirements. You can assume that all sub-requirements carry equal marks, thus you should apportion your time equally (This is confirmed in the allocation of marks provided by the marking guidance document).

As you will see from the commentary below, you must answer all parts of all requirements to be sure of securing a pass.

ADDITIONAL SUPPORT RESOURCES

The following documents are referenced at various stages within this feedback which will enhance your understanding:

Feb 2016 Variant 2 Exam
Feb 2016 Variant 2 Answers
Feb 2016 Variant 2 Marking guide
Feb 2016 Examiner’s Report
Grade Descriptors for SCS

REVIEW OF STRATEGIC CASE STUDY SCRIPT FOR VARIANT 2 FEBRUARY 2016

Overall comments

At first glance, the overall answers have good paragraph layout to suggest comprehensive coverage of each area of the tasks and subsequent requirements. Overall grading may have been stronger if the script had more structure and persuasive language. In addition, at strategic level, to achieve a “strong” rating for the competencies, you need to demonstrate an ability to weigh up the pros and cons of a situation and make recommendations; there are opportunities to do that which have been missed in this script.

In terms of writing style, our candidate has kept their replies professional with a good layout. They have used headings to clearly indicate which task they are addressing, which also provides structure to their response. Each idea has a separate paragraph which makes it easy for the marker to follow the train of thought and award marks. You will notice that the candidate has not used bullet points in the sample script; it is better to write in small paragraphs with sub-headings to give clarity.

The candidate has made some errors in spelling and grammar. The examiners have made it clear that candidates will not be penalised for this. The key element the examiner looking for is the ability to address the requirements of the tasks and communicate them effectively within a time constrained environment. Therefore, you will not earn marks unless the examiner can understand what you are trying to say. If communication is not your natural strength, you need to start working on it as soon as possible. Ask friends or colleagues to read your answer for you and see if they can understand what you are trying to say.
To Stella
From: Senior Finance Manager
Subject: Briefing Paper

Dear Stella,

Please find information requested on the briefing paper and analyst of risk below.

**Briefing Paper**

**Strategic benefits of internet – e-business**

One strategic benefit of introducing an integrated E business approach in Rio is that we have actually put this and a goal in our 5 year plan to help to increase the internet service to all 30 countries. This expansion of internet sales will help us reach this goal, the additional 6 countries would go above and beyond this.

Another strategic benefit of increasing our internet platform is that having a fully functioning internet service is something our competitors are already doing, stores like ASOS have built a whole business in this, our results have shown that we have managed to get 8% of our business from internet sales already, expanding countries we target will help to grow this further.

Also targeted grown through internet sales which require much less capital expenditure and cost then managed stores, we wouldn’t need to increase our staff headcount as much. This will also have much less overheads so will help us to achieve our target in our 5 year plan of increasing in our operating profit margin by 250 basis points.

Another strategic benefit of increasing our sales, is that we will be able to sell 24 hours a day, even on bank holidays. These constraints of managed stores won’t count for us anymore, our goal of providing up to date fashion will be achieved.

A benefit is that our target audience is young fashion conscious people who are on the internet constantly so internet sales is something that will appeal to our demographic as they grown up with the internet so will be able to easily navigate our webpage.

Another strategic benefit is that if the 10 remaining European countries have the same languages as our current countries the cost of switching this on for them would not be high as we should benefit from economies of scale. We also have the ability to reach a much larger number of people with internet stores, there may be some areas we don’t have shops and so a whole section of a country that doesn’t have access to our clothes, this will help us reach them and increase our revenue by doing so.

Finally when looking at year on year growth figure it is clear that online sales increased by 38% year in a year, much more than the managed 12% or franchised 28%. Which is already good considering we have only gone to 20 countries the growth potential is something that is very big for online stores which is something we should tap into.

**Strategic Benefit of extranet – e-business**

One strategic benefit of having an extranet system is that one of our critical success factor is lead time, from design to stores. If we further integrate our systems with our supplier we can help to make this even quicker. This will allow us to ensure we beat our competition and deliver the latest fashion design first to our customer.

Another strategic benefit is that we have a relationship of partnership with our suppliers, providing them with access to an extranet will further show that the trust we have in them and so they will work even harder for us. Providing us with useful information in manufacturing we can improve our process further. Suppliers can share their expertise.

Another strategic benefit of the extranet is that it will speed up communication with our design team and suppliers which will further help to improve of lead time speed. This system will allow
our supplier to have the same access as our design team, so they can find information they would have to ask for on their own. Currently we only have 100 designers and 350 suppliers, this would be hard to manage. It will also help the designers to concentrate on creating up to date fashion rather than this additional administrative work.

Another strategic benefit of the extranet is that it will help to improve the tender system, make it much more efficient. This will also help us to increase the number of supplier we can offer a tender and help us to get the best quality products for our customer at the most competitive price.

Strategic risk of proposal and how we can manage them

One risk is that our supplier may abuse the extranet for their own purpose and not use it to help us to improve our communication with them. One way we can mitigate this is risk is through adding an additional item in our code of conduct stating that the extranet can only be used with Rio. When we audit other aspects of the code of conduct we can audit this also. We should also make sure we protect ourselves against our suppliers selling this information by having a non-disclosure agreement in place that they need to sign.

Another risk is that the cost for this project which is stated be 40 million, whilst our previous investment in developing our website was 25 million and the extra cost of building extranet for all supplier in languages that they can use effectively. I think that this amount will be higher. The way to mitigate the risk is for me and you to look at the figures with Diana to see where they are coming from.

Another risk is that we have never developed an extranet previously and don’t have any expertise in doing this. One way to mitigate this risk would be to work with bigger IT firms to help us to build this system. We should also ask Diana to head up a team that project manages this operations. With a project totalling at least 40 m it will need to be managed carefully.

Another strategic risk is that we have over 320 suppliers, who we have rated continuously in terms of their progress. If we include a supplier and we later give a rating of 1 and stop using it, in anger they could sell information on our page to competitors. To mitigate this risk we should only allow access to the extranet to suppliers who get a rating of 4 – 5 * and have been with us for a certain period of time, like a year.

Another strategic risk is that if these remaining countries are all in different languages the cost involves in translating our website to accommodate all these languages may out weight any benefits of increased revenue. To mitigate this risk we should do a cost and benefit analysis on each country that we are proposing this project for and revise our plan to certain countries only, if the costs are too high.

Another strategic risk is that some of the countries where we want to develop this internet platform may not partake in online buying at the moment and so may be not feel comfortable buying online, particular may be the case of some of the Asian countries. Another risk would be that the majority of Asian household may not have internet access or not very good connection. We will need to mitigate these risks by research into the buying habits of these countries and also their internet infrastructure to make sure it is sufficient.

Another strategic risk that one of key success factor is our excellent customer service that we won’t be able to give across the internet. A way to mitigate this could be to have an online help, chat function so customer still can get good quality customer service and help.

Another risk that if people return clothes after 3 weeks these could become obsolete stock as we are in a fast fashion business where customer want item first. A way we can mitigate this is to have 14 days return policy so stock does not become obsolete.

Thanks

Senior Finance Manager

This paragraph seems to be rather repetitive and the logics behind the argument is not very clear. One can sense that the candidate is running out of idea and simply trying to write something for the sake of it.

The solution suggested here is not really a solution. The risk of over budget is valid but the real mitigation should be setting up proper project governance to ensure the project is delivered within budget and in time.

This point is rather similar to a previous point raised which is about information leak and it will be better if the candidate can combine these together.

Another similar point on the cost of the project. It will be beneficial for the candidate to develop a more structured approach rather than jumping between points.

Another useful way of mitigation is to promote online sales through marketing activities.

This is not a risk specific to the e-business development. Similar issue can happen for physical stores as well.

The candidate has missed out a few risks such as production not able to match with the growth of the business and security over customers’ data. Some of the mitigation plans suggested are also not fully developed and rather superficial.
Section 2:

There are three requirements in this section. Firstly, Stella asked for a comparative strengths analysis of each of the two tenders and recommendation on which would be the best for Rio. Secondly, Stella asked you to suggest a suitable approach for financing the investment and comment on whether a short term reduction in dividends is a good idea. Finally, it is brought to your attention that Diana, IT director, has a brother who is also a director of one of the tendering companies. Stella asked for your thought on whether there is any ethical issue surrounding this.

To: Stella
From: Senior Finance Manager
Subject: IT proposals

Please find the information requested on the proposals, finance decision and independence issue below.

<table>
<thead>
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<th>Comparison of tenders’ strengths:</th>
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**Strengths of SDE Solutions**

One strength is that they are able to start straightaway rather than in 6 months like X max, with our fashion business we need to act quickly and get our internet operations and extranet service out before our competitors try to follow. This 6 month delay may also mean that if we do not select SDE solution they could approach our competitors to do the work for them and they would beat us to the market as X max would require 6 months to start.

Another strength is that they provide all after sales support after 12 months of the proposal for free whereas X-max charge for this, as the extranet particular is something that we have never done before, having the benefit of getting support for longer is something that would help us.

Another strength is that unlike the X max, we have previously used the supplier before and so will have the benefit of having an already built relationship with them, this would also help with the negotiation of the contract where we can ask for a reduced fee as we have provided them with business in the past.

A final benefit of SDE solutions is that, unlike X max, it will allow our staff members to join the development team, this will make our staff more motivated to accept the change in our systems as they would have been a part of it. It will also give our staff the opportunity to work on a project and gain the skills that come with it.

**Strengths of X-Max Solutions**

One strength is that the cost of the development is less than SDE solutions, it is also well below the 40m Diana quote previously.

Another strength is that the project duration for X-max is 3 months shorter than SD solutions, this may show that they are more efficient than SDE solutions at their processes of completing a project like this. It may also be the reason for the delay in starting the project because they want to focus all their attention on this key project when they have more time. This will mean that we will get a better level of service and attention from them.

A final strength is that Diana has said that she prefer X-Max. As she is the director of IT her insight would be important in this decision, she would be more likely to back the decision if she has a say in the provider.

My recommendation is that we should use SDE solutions as its benefits out weight those of X-max. Also the benefit of helping our staff to develop skills in project management is vital for us and is the core to our company objectives. Allowing them to involve in a project like this will help us to achieve this goal. Also if you take into consideration the additional 6 m for after 12 month support and add this to X-max cost, SDE solution is actually 2 million cheaper, so it is financially more beneficial.
Financing project

Short term reduction in dividends to just slightly over half would be able to raise sufficient funds for this project. However, the issue with reducing the dividend pay-out to finance the project may anger our shareholders, which majority are institutional investor who want a stable return.

Also our employees and staff who make up the remainder of the shareholding would be less motivated as this would reduce the return they are receiving for their performance because of the project. They may also feel less happy to help and make this project successful as they may feel upset due to a reduced dividend.

Also reduction in dividend can send a signalling effect to the market, they will not know we are reducing dividend to finance a project that will give us future benefit. They would instead think that we are reducing dividend as we are not doing very well and this could lead to a fall in share price, so I don’t think a short term reduction in dividend is a good idea.

An alternative way to finance this project could be through debt. We have a gearing of 19% which is pretty low and also have interest cover of 18 times which is very good. We already have a cash flow analysis that shows we are earning around 400 m in cash from our operating activities. We could present all this information to tender and get a good interest on a load for the 38 m to cover this investment.

If we are unable to secure a good rate of interest from our lenders, with our current rate being 8.8% it may be that there are no competitive rates on offer. If this is the case we also have around 500m of cash we are holding. We can easily finance this project with this cash if a good interest is not possible.

Diana’s brother being director of X Max Solutions – ethical issues

One ethical issue surrounding this is that there is a risk of familiarity threat as someone close to Diana, her brother, would benefit from this proposal and so this may cloud her judgment on who the better choice is and she may go for the one that benefits her brother rather than the company.

Another ethical issue is professional behaviour, as a director of the Board, Diana should know that it is her duty to report any related transaction. Not telling about this could be considered as a professional misconduct as this is something we need to report in our financial and failure to do so would have had serious consequences.

Also, there could be an issue of integrity. Diana has already mentioned to you that she prefers X-Max but did not tell you that her brother is working for them. She should have been honest about this from the start. If Stavros haven’t found this information you may have taken her word and believe that X-Max is the better choice.

Another issue is objectivity, Diana has already mentioned she prefers X-Max which may be due to her brother being director rather than it being a better provider. Looking at the summary above based on the strengths of the providers, SDE solution is better of the two.

Thanks
Senior Finance Manager

Section 3

The first requirement requires you to explain why Rio’s IT staff and outsourced suppliers might resist the e-business expansion and secondly, how any resistance can be overcome. The third requirement asks you to identify the activities and costs that will need to be transferred into the Finance Information System from the new extranet system and explain why this data is required.

To: Stella
From: Senior Finance Manager
Subject: E-business expansion project

Dear Stella

Please find information requested on the reason for resistance to this project from staff & suppliers, techniques to reduce resistance and info required for new system below.

Reason for resistance to the expansion.
IT staff reasons for resistance and ways to overcome

One reason staff may resist this plan is because they are fearful that introducing this system would increase their workload as they currently already need to manage a very complex IT system. A way to overcome this is to let the IT staff know that we understand this would mean an increase in workload but promise to pay them overtime for these additional hours. We also educate our staff to how key getting this integrate e-business is to meeting our performance goals and that by being involved in this project means that they will play an integral role in helping us to achieve it. We also explain to them that if we don’t get systems first, our competitors would beat us to this and be able to develop brand loyalty before us, this would decrease our chances of meeting our growth targets.

Another reason for resistance from the IT staff may come from Diana. She may feel upset that we did not take her preference X-Max solutions and may create resistance within her team. To overcome this resistance we should make sure that Diana heads up the project as a leader, so that she feels she is an integral part of the project. Getting her support will mean that she will encourage her team to support this project and motivate them to perform to get it done.

Another reason that staff may resist is that IT staff may have never managed a project before and fearful that they don’t have the skills to manage this project and that the project may fail because of them. They may also resist because they are scared that if the project fails, they will be blamed. To overcome, we can assure our IT staff that they will get full support on the project management side. Diana who has been an integral part in building the internet business will help with this project. We also have the support of SDE who will be able to help with any technical questions. SDE also provides support for 12 months after the end of the project for free so they can help with any teething issue. In order to overcome the resistance of being blamed, we can have a steering committee so senior directors like you, Mani and Kamal can support Diana with financial and logistic decisions. This will mean that there will be a collective responsibility for decisions made and Diana won’t feel she is on her own.

Finally some suppliers may not have the infrastructure to access the extranet, i.e. a 24 hour stable internet connection. These suppliers may feel that they will be overlooked and no longer be given business as they are not able to communicate tenders as quickly as their competitors and so will lose business. A way to overcome this resistance is to negotiate with suppliers and set time that the tenders are submitted so those with limited access to the infrastructure can make arrangements.
Financial activities and cost transfers from extranet system to our financial system

One cost we need to take from the extranet system is the final tender price agreed. We will need this broken down into the cost of item produced so we can ensure that the inventory value in our financial are correct. We will also need the tender price of the accepted tender so we can ensure that we invoice the correct amount.

Another cost we could take is material cost for each product, so we can see which are our biggest margin products and adjust price so that we are covering the cost of these products. We can also adjust our product based on this cost information to ensure we are achieving the increasing operating margin goal.

An activity we can take from the extranet is the time taken to submit a tender to see if this project has actually be beneficial on reducing the tender time taken. We would need to compare it against the time taken previously. We can therefore use this information to determine if we have become more efficient and meeting our long term objectives.

Another activity we could take from this system is to analyse the supplier tenders who are being accepted, and find out which are the more critical suppliers. We can feed this information back to the procurement/design lead so he is aware of which suppliers are key business is coming from and ensure that we maintain food working relationship with them.

Thanks

Senior Finance Manager

Like many other candidates, this part of the exam is not well answered. Although the candidate recognised that the task asked for a focus upon the information relating only to the new extranet system, it is not very well articulated. There are also some confusion on how this information will be used.

The information collected will be used for identify the value of new products being transferred to 'inventory of finished goods'. Details of the contracted manufacturing cost per product can be used in costing of the 'Cost of goods sold' for each sales for each product code and also for calculating the cost to be invoiced to franchisees for inventory supplied to franchised stores.

There is no information to suggest that the time taken to submit a tender will be measured by the extranet. The process of submitting a tender is also depending on the supplier’s own workflow and not solely affected by implementing the extranet.

Other tracking that is required includes the value of committed expenditure which is the 'Work in progress' and identify contracts that have a delivery period of greater than one year, so that Rio’s short-term and long-term financial liabilities can be established.