

Management level integrated case study – Examiner’s report**August 2015 exam session**

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

General comments

This paper was based on a pre-seen scenario which described Scent, a company in the perfume industry. The scenario was made available in advance of the exam and five variant papers were set, each presenting additional scenario-based information and setting four tasks to be completed. Each task was split into two or three specific elements.

Overall, the standard of answer presented was similar to the performance in the May 2015 exam session, although there were still a number of very poor or incomplete attempts. As with the May case study, the strongest answers were properly applied to the scenario. There were some excellent answers from some of the highest-scoring candidates.

There were also some short answers to the case study and some candidates did not seem to know much about the industry or the company. Given that the pre-seen material had been available for several weeks prior to the exam, this was disappointing.

There was also a minority of candidates who did not read the question properly and did not answer what was asked.

Some candidates demonstrated a worryingly poor understanding of several syllabus areas, including material that is clearly ‘core’.

Variant 1

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate suitability of activity-based management	Technical skills	P2 (A1) – evaluate activity-based management
	Advise on implementation of change management	Leadership skills	E2 (D1) – advise on important elements in the change process
Task 2	Evaluate cost implications of centralising buying department	Business skills	P2 (B1) – discuss decision making in responsibility centres
	Advise on communication with divisional buying departments	People skills	E2 (C2) – discuss management tools and techniques in managing organizational relationships
Task 3	Evaluate competitive environment	Business skills	E2 (A2) – analyse the relationship between different aspects of the global business environment
	Advise on pricing	Technical skills	P2 (C2) – discuss pricing strategies and their consequences
Task 4	Advise on accounting issues associated with stock options	Technical skills	F2 (B1) – produce consolidated primary financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner
	Evaluate risks associated with paying additional benefit to new key staff	People skills	E2 (B1) – discuss the concepts associated with managing through people

Comments on performance

There were some very good attempts at this variant where candidates completely understood what was required. There were also some weaker attempts containing very short answers which were not related to the scenario. The main problem here appeared to be that some candidates failed to read the questions properly and did not answer what was asked.

Task 1

The first element of this task required candidates to consider whether or not activity-based management would be suitable for Scent. Some answers were properly applied to the case, however a disappointing number of candidates simply wrote everything they knew about activity-based costing and ignored activity-based management altogether. These candidates also failed to contextualise their answers.

The second part of the task, where candidates were asked about change management, was less well done. There were many candidates who wrote about this in very general terms and did not score high marks.

The best marks were achieved by candidates who had obviously read and thought about the pre-seen material and applied this knowledge when answering the questions.

Task 2

This task asked candidates about the cost implications of centralising the buying department. Some candidates did not in fact discuss the cost implications at all but wrote about the benefits of centralisation versus decentralisation; this approach did not score high marks. One of the other issues was the number of candidates who just wrote about relocation and the cost to staff, which did not really answer what was asked. Some candidates gave very good answers and discussed inventory very well. The next part, which was about communicating with the divisional buying departments, tended to be completed to a higher standard.

Task 3

The two parts of this task were both completed quite well, especially the second part on pricing issues. In the first part candidates discussed the competitive environment very well. The only problem was some answers were a bit generic and did not specifically relate to Scent. The pricing section was good with many candidates scoring high marks. Candidates understood that often the ingredients were a very minor part of the cost and the bottles could be very expensive, candidates did demonstrate understanding of the main issues of costs and price. Generally answers were focussed on the perfume industry and used the pre-seen material and the new information presented in the exam to inform their answers.

Task 4

The first part of this task, which was about accounting issues surrounding stock options, was rather mixed: some candidates did this part very well and others very badly. It was clear that some candidates did not know a great deal about accounting for stock options; these candidates tended to either miss this part out entirely or write long essays on the benefits of stock options and agency problems without actually answering the question. This area should be revised by candidates for future exams.

The part on paying benefits to new key staff was generally not answered well at all, with many answers of only a few lines long. If candidates miss out parts of questions it can of course be difficult to gain enough marks in other sections to pass.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate assumptions underpinning project evaluation	Business skills	P2 (C1) – Evaluate information to support project appraisal
	Evaluate WACC as a suitable project discount rate	Technical Skills	F2 (A2) – calculate a weighted average cost of capital (WACC) for an incorporated entity
Task 2	Evaluate risks associated with a new venture	Technical Skills	P2 (D2) – discuss management’s responsibilities with regard to risk
	Advise on negotiation strategy	People Skills	E2 (C2) – discuss management tools and techniques in managing organizational relationships
Task 3	Draft balanced scorecard	Leadership Skills	P2 (B2) – discuss issues arising from the use of performance measures and budgets for control
	Advise on project feasibility study	Business skills	E2 (D2) – discuss the concepts involved in managing projects
Task 4	Advise on communication with customers	People Skills	E2 (C1) – discuss the effectiveness of organisational relationships
	Evaluate relevance of lifecycle costing	Technical Skills	P2 (A1) – evaluate techniques for analysing and managing costs for competitive advantage

Comments on performance

The stronger candidates who took this variant pursued the tasks in a relevant and a logical manner. They used their understanding of the syllabus material to address the practical issues arising from the scenario. Weaker scripts were often very short. It is difficult to comment on the reasons for that, other than to recommend that candidates practise on past papers. Marks were also lost because candidates simply talked about techniques without any real consideration of the scenario.

Task 1

Candidates were provided with a discounted cash flow evaluation of a proposal to open a retail outlet in the duty free area of a local airport. This was very much a new venture because the entity is a manufacturer and its sales have always been business to business. Candidates were essentially being asked to consider the relevant cash flows that should be determined in respect of the proposed venture and the setting of an appropriate discount rate.

Candidates' discussion of WACC was generally weak. Answers were often brief, despite the fact that the two main parts of the question were equally weighted. The key to answering this question was that WACC reflects the cost of finance for the entity's activities as a manufacturer. The risks associated with retailing are linked by the fact that both manufacturing and retailing are affected by consumer demand for fragrances, but the risks associated with retailing are different. Candidates were often seemingly unaware of the fact that WACC is an observable price that is affected by the business risks, amongst other factors.

A number of candidates rejected the use of DCF as a basis altogether, or argued that the IRR of the cash flows should be determined. Those arguments rather missed the point of the question.

Task 2

Candidates were asked to discuss the risks associated with opening a retail store. The proposal had a host of implications that included the possibility that retailers will be unwilling to sell the entity's products if it competes with them through its own stores. There were also other risks that should also be considered.

The task also asked candidates to address the negotiating strategy that should be followed in order to minimise the risk of conflict with established retailers.

Generally, candidates made sensible comments concerning risks, although weaker attempts focussed on unlikely or immaterial risks. Higher-scoring scripts usually reflected the nature of the business and the concerns that might arise. For example, the brand's reputation could be tarnished by an ineffective and badly presented retail offering.

Answers concerning the negotiating strategy varied enormously in quality. At one extreme, candidates thought about the nature of the relationship between Scent and its retailers and considered the differing needs associated with these negotiations. A host of sensible suggestions for ensuring the ongoing commitment of retailers was put forward. At the opposite extreme, candidates wrote in very general terms about negotiation, with little or no reference to the matters being negotiated.

Task 3

In this task, the retail proposal had been approved and two issues arising from that were to be discussed. Firstly, a balanced scorecard was to be devised for a newly-appointed retail manager. Candidates were to advise on the measures and to justify their recommendations. Secondly, candidates were asked to evaluate the feasibility of the move to retail at this early stage.

Candidates often failed to offer any justification for measures and simply stated them. There was also a tendency for weaker scripts to state objectives rather than measures. For example, customer satisfaction is clearly important, but it is not in itself a measure.

Answers relating to the feasibility study often failed to address the matters that might determine the feasibility of the project. Factors such as a lack of suitable retail space might only become apparent once potential sites for stores had been evaluated.

Task 4

Scent had replaced natural ingredients in a long-established product with cheaper synthetic materials, with some controversy concerning the manner in which this substitution had been handled. The task required a discussion of both the commercial and the ethical implications (which are, of course, linked).

A number of relevant and logical arguments were put forward, with evidence of careful thought about the manner in which the ingredient change was handled.

Candidates often struggled to argue whether the product lifecycle is relevant to Scent. Many attempts simply described lifecycles without any application to the company itself.

Stronger scripts often started with a recognition that some long-established products are very successful and therefore likely to continue. Such products should be monitored for evidence of decline, but the lifecycle is less relevant to them. Other products are more short-term and the lifecycle may be fleeting. For example, a fragrance linked to a celebrity whose popularity is unlikely to persist will have to be promoted extensively on launch and monitored closely with a view to withdrawal as soon as demand declines.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate relevance of target costing	Technical Skills	P2 (A1) – evaluate techniques for analysing and managing costs for competitive advantage
	Discuss ethical implications of using leaked information	Business skills	E2 (C2) – discuss management tools and techniques in managing organizational relationships
Task 2	Analyse cost structure	Technical Skills	P2 (A1) – evaluate techniques for analysing and managing costs for competitive advantage
	Evaluate the comparability of financial statements	Technical Skills	F2 (C2) – discuss the limitations of ratio analysis
Task 3	Advise on the use of Big Data	Leadership Skills	P2 (D2) – discuss management’s responsibilities with regard to risk
	Advice on the management of a key employee	Business skills	E2 (C1) – discuss the effectiveness of organisational relationships
Task 4	Advise on negotiation strategy	People Skills	E2 (C2) – discuss management tools and techniques in managing organizational relationships
	Evaluate complex decision	People Skills	P2 (D1) – analyse information to assess its impact on long-term decisions

Comments on performance

Task 1

The first part of this task was generally answered well. Almost all candidates understood the theory of target costing and its benefits and most were able to apply the theory to the scenario of Scent. Stronger answers often explained why the price for celebrity fragrances was determined by the market, and the difficulty of meeting a target margin when such a high proportion of costs are fixed. Not all candidates recognised the important differences between Celebrity Fragrance and Fine Fragrance in terms of the types of product, customer base and stability of demand.

In the second part of this task, higher marks were awarded to candidates who linked issues to the principles outlined in the CIMA ethical guidance. This is generally a good place to start when planning an answer to a question that focuses on ethics.

It was also important to consider the extent to which Scent was responsible for setting up the opportunity to obtain competitor information, or whether Brian should be considered 100% responsible. This is a borderline area and required debate rather than making assumptions one way or the other. Such extensive information about LK is unlikely to have been provided without prompting and in-depth questioning.

Very few candidates discussed whether the higher salary being offered by Scent could be interpreted as inducement (ie a bribe) to share this information.

Task 2

Candidates generally had a good understanding of the composition of ROCE and the gross profit percentage and some idea of the likely reasons for the apparent difference in the results for these two companies. Most candidates picked up the difference in selling, general and administrative expenses but fewer candidates considered the possible reasons for differences in capital employed.

A wide range of relevant information was provided in both the pre-seen material and the examination, but some of this was overlooked. Common examples were the:

- different number and location of factories
- different range of products
- lower staffing costs for LK
- likely impact of the strong links between the founder of LK and important celebrities.

The second half of this task focussed on the two sets of financial statements provided and tested understanding of why the information may not be comparable and useful as a basis for measuring success.

Answers to this section were less satisfactory. Many candidates simply repeated their answers to the first part of the task rather than looking at other aspects of financial statements and considering reasons why financial statements may give a misleading view of the strength of a company. Several different approaches to this task were possible and any realistic interpretation of the financial statements provided was rewarded.

Task 3

This task focussed on the use of big data in identifying celebrities who are likely to become successful in the near future. The stronger answers considered which data would be useful for Scent. It was also important to consider the reliability of information on celebrities and the extent to which this might have been distorted by the actions of film studios and actors' agents. Marks were lost where candidates provided textbook answers that addressed the common issues relating to big data without looking at Scent's own requirements.

The next part of this task, which looked at how to minimise the risk of losing Brian, was generally answered well. Most candidates covered different ways of rewarding and motivating employees. However, the following section, on how to make the best use of Brian's skills, did not tend to be addressed so well.

Task 4

This task looked at how best to structure the negotiation with LK and the strengths and weakness of each party. The first part required some imaginative ideas on how best to approach LK in order to achieve the best possible result. A simple list of the stages within a negotiation was not sufficient unless it was applied directly to the scenario provided. There were many excellent answers to the second part that clearly demonstrated an ability to focus on the facts of the case.

The task then progressed to look at the decision of whether to dismiss or retain Brian and the relevant factors affecting that decision. Time management was a key element here. Many candidates spent too long on the first part of the task and did not leave sufficient time to think through the issues and present a full and balanced answer. The key focus of the answer should have been on weighing up the commercial impact of retaining Brian against the impact of dismissing him.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Identify relevant risks	Technical Skills	P2 (D1) – analyse information to assess its impact on long-term decisions
	Evaluate strategy	Business skills	E2 (A2) – analyse the relationship between different aspects of the global business environment
Task 2	Evaluate divisional structure	Technical Skills	P2 (B1) – discuss decision making in responsibility centres
	Evaluate governance issues arising from management structure	Leadership Skills	E2 (C1) – discuss the effectiveness of organisational relationships
Task 3	Advise on valuation of goodwill	Technical Skills	F2 (B2) – demonstrate the impact on the preparation of the consolidated financial statements of certain complex group structures
	Evaluate the non-financial implications of moving to two shift system	People Skills	E2 (B1) – discuss the concepts associated with managing through people
Task 4	Evaluate change management	People Skills	E2 (D1) – Advise on important elements in the change process
	Advise on pricing	Business skills	P2 (C2) – discuss pricing strategies and their consequences

Comments on performance

Task 1

The first part of this task asked about four major risks associated with a merger. Most candidates achieved some marks relatively easily. However, there were very few answers that went beyond making the obvious points. The clash of organisational cultures was most commonly cited, while a few seized on the problems with integrating systems. Staffing insecurities were mentioned but again few answers developed this beyond any basic points. Risks were highlighted without developing the impact or explained in context.

The second part of the task asked about the benefits of dominating the celebrity market, and this was reasonably well answered. Most candidates appreciated the fact that this would give real market advantage against new entrants. Outside this, however, there was little development of whether the cost of endorsements was beneficial. A good proportion thought that these costs would now come down due to the LK network of celebrities.

Task 2

This task first examined management and control with LK as a standalone division. Sadly, this part was poorly answered. A large number of candidates focused on the inability to make savings as a result of keeping LK as a separate division. Many appreciated how difficult it would be to impose Scent's culture on LK and that LK would remain entirely separate as a result, in some cases leading to damaging internal competition.

The second part of the task asked about leadership and governance aspects of the proposed board structure. There was often very little written here about board issues in the context of the question; answers more often focussed on a lack of non-executive directors and general desired board structure and function without any regard to the context. Those who did write in context generally focused on possible dysfunctional behaviour, for example LK board members holding a parochial view of the business.

Task 3

In this task, candidates were first asked about the calculation of goodwill on acquisition. Most recognised that this would be a complex issue, although rather fewer were able to determine exact details as to how, either on the assets or the intangibles.

The second part of this task asked about the consolidation of processing into one factory. There were a broad range of reasonable answers here, most made a good assessment and picked out several issues, often elaborating from the context to give a well-argued case for employee difficulties, impact on reputation, and loss of prestige as a result of negative human interest. The stronger candidates gave a high-quality description of the potential issues, both through changing production process and the introduction of

new staff. Often, however, there was an evident lack of realism. For example, some candidates discussed running buses from the old factory to the new, which suggests a lack of retention of the content of the pre-seen material.

Task 4

This task started by asking about change management issues resulting from consolidation of factories, and was generally very well answered. Candidates often gave good descriptions of the process of consultation and communication with inclusive resolution of problems. Very few saw the opportunity to mentor new staff with existing experienced staff, although training was a reasonably common theme.

The next part of the task asked about efficiencies and generating savings and how to utilise them. The vast majority recognised market forces and premium luxury product price differentials, with price cutting potentially leading to a price war and significant reductions in profits. There was also high recognition of product lifecycle price skimming and the need to shift old stock where celebrities were perhaps past their peak of popularity.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate project appraisal	Business skills	P2 (C1) – evaluate information to support project appraisal
	Advise on resistance to change	Leadership Skills	E2 (D1) – advise on important elements in the change process
Task 2	Implement balanced scorecard	Business skills	P2 (B2) – discuss issues arising from the use of performance measures and budgets for control
	Advise on segmental reporting and the ethics of financial reporting	Technical Skills	F2 (B1) – produce consolidated primary financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner
Task 3	Advise on commercial implications of grey imports	Technical Skills	P2 (D1) – analyse information to assess its impact on long term decisions
	Advise on media response	Business skills	E2 (C2) – discuss management tools and techniques in managing organisational relationships
Task 4	Advise on identification of high-risk transactions	Technical Skills	P2 (D2) – discuss management’s responsibilities with regard to risk
	Organise co-operation within industry	People Skills	E2 (C1) – discuss the effectiveness of organisational relationships

Comments on performance

Task 1

In the first part of this task, candidates were asked to review an NPV calculation for a proposal to change the delivery methods used by Scent. The appraisal had been prepared by the Operations Director, who opposed the change. Candidates were asked to challenge the assumptions on which the NPV had been based. This section was generally quite well addressed, with candidates correctly identifying issues with the appraisal and also discussing non-financial factors which should be taken into account. Many candidates demonstrated awareness of the commercial implications of the proposal.

In the next part of this task, candidates were asked to explain why the operations department was likely to be resistant to the proposal and how this resistance might have been dealt with. Whilst some candidates tackled the issues well, many provided very superficial answers to this requirement, going no further than to say that the department would be resistant because their workload would increase, and that in order to overcome this resistance they should be paid more. Some candidates provided very generic answers, explaining the freeze/unfreeze model but not applying it to the case study scenario. Stronger candidates discussed the increase in complexity of tasks for the department, and the potential lack of available resources.

Task 2

In this task, candidates were first asked to propose and justify four measures which could be incorporated into a balanced scorecard for the implementation of the new distribution method. Stronger candidates answered this section well, giving sensible suggestions for quantifiable measures which were relevant to the new distribution methods. However, some candidates provided very generic answers, discussing the principle of balanced scorecards in general and suggesting measures which might be appropriate for Scent but related to the design and manufacture of perfume rather than the method of distribution. This limited the marks they scored in this section and neatly emphasises the importance of thorough revision, and of reading the question requirements very carefully.

The next section of this task asked candidates to discuss the segmental reporting requirements for Scent. There were some extremely good answers to this section, with candidates demonstrating knowledge of the IFRS 8 requirements, as well as an understanding of the reasons for disclosure and management's reluctance to do so. However, many candidates either did not attempt this section at all or did so very badly. These scripts indicated a lack of technical knowledge – some confused internal and external reporting, some showed a lack of understanding of the role of the auditor, and many did not know what the IFRS 8 requirements are. In general this was a poorly-answered section.

Task 3

Candidates were first asked in this task to discuss whether or not it was in Scent's best interests to continue to supply customers who were supplying Scent's products to a discount retailer, and the ethical implications of this decision. This was a complex issue, as Scent would lose sales revenue by refusing to supply, but their brand image could be damaged by the discount sales. The better answers were those which recognised this complexity; the weaker answers tended to identify no problem with the grey market sales and provided very little depth of discussion.

Next, candidates were asked to draft two press releases, one stating that Scent would act to prevent grey imports, and the other that they would not. Unfortunately, this section was not generally well-addressed. Many of the proposed press releases would have been a public relations disaster if released, as the candidates did not recognise the commercial reality of the situation. Very few candidates identified that there may have been legal difficulties with attempting to prevent the sales.

Task 4

In the first section of this task, candidates were asked to address the issues of identifying suspicious buyers, using desk-based research methods. This section was well-answered on the whole. Most attempts did address the issues, and candidates did generally discuss the use of big data, although some demonstrated only a vague understanding of what big data is or how it could be used. Some of the methods proposed, such as implanting GPS locators in perfume bottle boxes, would not be practically possible.

In the final section of this task, candidates were asked to explore the advantages and disadvantages of a scheme to co-operate with competitors to address the discount selling problem. Again, this section was reasonably well-attempted. Candidates generally recognised the problems of getting competitors to co-operate, although some did not go much further than to say that confidentiality of data would be a problem. The advantages of such a scheme were well understood.

Tips for future candidates

There are a number of key points to take into account when preparing for future management level case study examinations, as follows:

Candidates must make better use of the opportunity to gain familiarity with the pre-seen material. It is not necessary to memorise the material or to become an expert in the industry, but candidates should develop an understanding of the business.

Questions give explicit instructions as to what is required and marks will not be awarded for anything that has not been requested. In particular, essays on the theory underlying the problem at hand are unlikely to score well if the question asks for a response to a particular issue arising from a scenario.