CIMA

Enterprise Pillar

E3 – Enterprise Strategy

24 May 2011 – Tuesday Morning Session

Instructions to candidates

You are allowed three hours to answer this question paper.
You are allowed 20 minutes reading time **before the examination begins** during which you should read the question paper and, if you wish, highlight and/or make notes on the question paper. However, you will **not** be allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
You are strongly advised to carefully read ALL the question requirements before attempting the question concerned (that is all parts and/or sub-questions).
ALL answers must be written in the answer book. Answers written on the question paper will **not** be submitted for marking.
You should show all workings as marks are available for the method you use.
The pre-seen case study material is included in this question paper on pages 2 to 9. The unseen case study material, specific to this examination, is provided on pages 10 and 11.
Answer the compulsory questions in Section A on page 13. This page is detachable for ease of reference.
Answer TWO of the three questions in Section B on pages 15 to17.
Maths Tables and formulae are provided on pages 19 and 20.
The list of verbs as published in the syllabus is given for reference on page 23.
Write your candidate number, the paper number and examination subject title in the spaces provided on the front of the answer book. Also write your contact ID and name in the space provided in the right hand margin and seal to close.
Tick the appropriate boxes on the front of the answer book to indicate the questions you have answered.

E3 – Enterprise Strategy

TURN OVER

F plc

Pre-seen case study

Introduction
F plc is a food manufacturer based in the United Kingdom. It generates its revenue from three divisions named the Meals, Snacks and Desserts divisions. Each division specialises in the production of different types of food and operates from its own factory located on three different sites in England. F plc's head office is located in a remote part of England and is about equidistant from each of the company's three divisions.

Currently, F plc has a total employment establishment of about 10,000 full-time equivalent employees, about 97% of whom are employed in its three divisions. It is constantly running with about 700 full-time vacancies, mostly in the Desserts Division. This vacancy factor in the Desserts Division impedes its productivity.

The company was founded over 150 years ago by an entrepreneurial farmer who saw the opportunity to expand his farming business by vertically integrating into food production. Instead of selling his crops on the open market, he established a mill and produced flour. From this, it was a natural progression to diversify into producing other crops which were then processed into different ingredients for food products.

The company grew steadily and it became clear at the beginning of the 20th Century that increased production facilities were needed. It was at this point that the company built its first factory which at the time was a state of the art manufacturing facility. As demand continued to grow during the 20th Century, the company required additional manufacturing facilities and made a public offering of shares in 1960 to finance this expansion. The public offer was successful and F Limited was established. The original family's holding in the company fell to 25% at this point. Although a second factory was opened with the capital that had been raised, F Limited continued to manage the company on a centralised basis.

The next phase of development came in the late 1980's when F Limited became F plc. After this, F plc had a successful rights issue which raised sufficient capital to enable a third factory to be built. It was at this point that the divisionalised and de-centralised structure was established. Prior to this, the company managed its factories directly from its head office. The family shareholding fell to 20% at this point, with one family member holding 10% of the shares and family trusts holding the other 10%.

The environment in which F plc trades is dynamic, particularly with regard to the growth of legislation relating to food hygiene and production methods. F plc now exports many of its products as well as obtaining ingredients from foreign producers, which means that F plc must observe legislative requirements and food standard protocols in different countries.

Mission statement
F plc's mission statement, which was set in the year 2000, is as follows:

"F plc is committed to continually seek ways to increase its return to investors by expanding its share of both its domestic and overseas markets. It will achieve this by sourcing high quality ingredients, using efficient processes and maintaining the highest standards of hygiene in its production methods and paying fair prices for the goods and services it uses."

Strategic aims
The strategic aims are set in order to enable F plc to meet the obligations contained in its mission statement. F plc aims to:

(i) increase profitability of each of its divisions through increased market share in both domestic and overseas markets
(ii) source high quality ingredients to enhance product attractiveness
(iii) ensure that its factories adhere to the highest standards of food hygiene which guarantee the quality of its products
(iv) strive to be at the forefront in food manufacturing techniques by being innovative and increasing efficiency of production with least waste.

Corporate Social Responsibility
F plc takes Corporate Social Responsibility (CSR) seriously. The post of Environmental Effects Manager was created two years ago and a qualified environmental scientist was appointed to it. The Environmental Effects Manager reports directly to the Director of Operations. The role of the Environmental Effects Manager is to develop initiatives to reduce environmental impacts, capture data on the environmental effects of divisional and head office operations and report to the Board of Directors on the progress towards the achievement of F plc's CSR targets. An extract from F plc's internal CSR report for 2010 is shown in Appendix 1. F plc does not publish its CSR report externally.

Last year, F plc received criticism in the national press in England and in other countries for exploiting some of its suppliers in Africa by paying low prices for ingredients. This resulted in an extensive public relations campaign by F plc to counter these accusations. It established a programme to channel funds to support farmers in Africa via payments made through African government agencies. The programme, which is managed through F plc's head office, received initial financing from F plc itself and is now widening its remit to draw funding from other sources including public funding from the European Union.

The Board of Directors
The Board of Directors comprises five executive and five non-executive members all of whom are British. No member of the Board is from an ethnic minority.

The Chairman is a senior non-executive director and a retired Chief Executive of a major quoted retail clothing company based in England. He received a knighthood two years ago for services to industry.

The Chief Executive is 52 years old and was Director of Operations at F plc before taking up his current post three years ago.

The Finance Director is 49 years old and a qualified CIMA accountant. He has experience in a variety of manufacturing and retail organisations.

The Director of Operations is 65 years old and is a member of the original family which founded the business. He has been employed by F plc for all of his working life. He took up his current post three years ago following the promotion of the previous post holder to the role of Chief Executive.

The Marketing Director is 43 years old and has held various positions in sales and marketing for different organisations before being appointed to the Board. He came to the attention of the Chief Executive when he was instrumental in a successful initiative to market a new shopping complex in the city in which F plc's head office is based. At the time, the Marketing Director was the Chief Marketing Officer for the local government authority in the area.

The Director of Human Resources, the only female member of the Board, is 38 years old and holds a recognised HR professional qualification. Last year she was presented with a national award which recognised her achievements in the development of human resource management practices.

In addition there are four other non-executive directors on the Board. Two of them previously worked in senior positions alongside the Chairman when he was Chief Executive of the retail clothing company. One of them was the clothing company's finance director, but is now retired and the other was its marketing director but is now the sales and marketing director for a pharmaceutical company. One of the other non-executive directors is a practising lawyer and the other is a sports personality of national renown and a personal friend of the Chairman.

The Divisional General Managers, responsible for each of the three divisions, are not members of F plc's board. The Divisions are organised along traditional functional lines. Each division is managed by a Divisional Board which is headed by a Divisional General Manager. Each Divisional Board comprises the posts of Divisional Operations Manager, Divisional Accountant, Divisional Marketing Manager and Divisional Human Resources Manager. Each division undertakes its own marketing and human resource management. The divisional accountants are responsible for the management accounting functions within their divisions. Each member of the divisional boards is directly accountable to the Divisional General Manager but have professional accountability to the relevant functional F plc executive board members.

Financial position and borrowing facilities
Extracts from F plc's financial statements for the year ended 31 December 2010 are shown in Appendix 2.

F plc's long term borrowings are made up of a £160 million bank loan for capital expenditure and a £74 million revolving credit facility (RCF).

The bank loan is secured on F plc's assets and is repayable on 1 January 2018.

The RCF allows F plc to borrow, make repayments and then re-borrow over the term of the agreement. This provides F plc with flexibility because it can continue to obtain loans as long as it remains at or below £80 million, being the total amount agreed for this facility. The RCF expires on 31 December 2013.

Planning process
The planning process employed by F plc is one which can be described as adhering to classical rational principles. This has been the method of planning used for many years and culminates in the production of a five year forecast. The annual budget cycle feeds in to the strategic plan which is then updated on an annual basis. All F plc's revenue is derived through the operations of the three divisions. The only income generated by F plc's head office is from investments. The five year forecast for sales revenue and net operating profit for each division and F plc in total, after deduction of head office operating costs, is shown in Appendix 3. This shows that F plc is seeking to increase its sales revenue and net operating profit over the five year plan period.

Competition within the industry
F plc is one of the largest food production companies in England. It had an overall share of about 6% of its home market in 2010. Its nearest competitors held 5% and 7% market share respectively in 2010. The products in the industry have varying product life cycles. Competition is intense and there is a high failure rate for new products. Usually, new products require significant marketing support particularly if a new brand is being established.

Organisational culture within each division
Different cultures have emerged within each division.

Meals Division:
In the Meals Division, each function operates with little direct interference from the Divisional Board members. The approach is to allow each function to operate with as little control as possible being exercised by the Divisional Board.

Snacks Division:
In the Snacks Division, the emphasis of the Divisional Board is on product research and development and marketing. The Snacks Divisional Board expects its divisional marketing staff to undertake market research into customer tastes and preferences and then for products which satisfy these to be developed by its divisional research staff.

Desserts Division:
In the Desserts Division, the finance function is the dominant force. The finance functions in the other two divisions exert less influence over operations than is the case in the Desserts Division. It is not unusual for the Divisional Accountant in the Desserts Division to have confrontational meetings with managers of other functions. Such confrontation is particularly evident in the monthly meetings between the Divisional Accountant and the Divisional Marketing staff. It is clear that within the Desserts Division, the Divisional General Manager, a food technologist by profession, and the Divisional Accountant, formerly an auditor with a local government authority, maintain strict control over the operation of the division.

Further details relating to the three divisions are as follows:

Meals Division
The Meals division is located in the South of England. It specialises in manufacturing frozen meals, which are designed to be easy for consumers to quickly heat up and serve. The meals are sold to supermarkets and other retail outlets. Some are manufactured under F plc's own brand and others are manufactured under supermarkets' own labels. The division is also increasing its sales to welfare organisations which support elderly and infirm people. These organisations purchase simple frozen meals in bulk which they then heat up to provide a hot meal each day to those people in their care. In 2010, the Meals Division earned 14% of its revenue from outside the United Kingdom.

One of the Meals Division's most profitable products is a steak pie that is flavoured with special gravy that was developed by one of F plc's founding family members in the early part of the 20th Century. F plc's competitors cannot copy this gravy because the ingredients have to be combined in a very precise manner and then cooked in a particular way. The recipe for this gravy is known only to F plc's Director of Operations and the manager of the pie factory.

Two of the Meals Division's products are currently subject to investigation by the Food Standards Authority of a European country. Please see Appendix 1 under the heading "Food labelling" for more information on this.

Snacks Division
The Snacks Division, located in the East of England, mainly manufactures confectionery such as packet savouries and chocolate bars. Its main customers are supermarkets and retail shops. It has a growing market in continental Europe and in 2010 the division earned 19% of its revenue from non-United Kingdom sales. Many of its products are F plc's own brands, although, similarly with the Meals Division, it supplies products to supermarkets under their own label.

The Snacks Division successfully launched a new premium brand of chocolate bars in the UK in 2010.

Desserts Division
The Desserts Division is located in the North of England where road, rail and air links are not well developed. This has resulted in high transportation costs for goods into and out of the factory. Originally, this location was chosen because the lease terms for the factory were very competitive but in recent times the local taxes placed on the factory have become expensive. There is some limited room for expansion on the site the factory occupies but the local government authority has repeatedly rejected the expansion plans when the Division has sought the necessary planning permission to put its plans into action. This has caused the Divisional Board to consider whether it should move its entire operation to another part of England where its expansion plans may be more easily accomplished.

The Division has experienced technical and managerial staff shortages. The workforce of the Division has an establishment of 4,700 full-time equivalent employees. Despite there being a ready supply of manual labour for production work, the Desserts division runs with an average of 385 full-time vacancies at any one time.

The Division's products range from cold desserts, particularly ice cream, which can be eaten directly from the packaging, to those which require some preparation by the final purchaser before the product can be consumed. The Divisional Marketing Department has been investigating the possibility of negotiating 'Freezer deals' by which the Desserts Division would supply ice cream freezers to independent retailers which sell the Division's ice cream products. An independent retailer is a shop or outlet that is not part of a larger chain. This is in order to investigate the possibility of increasing the Division's share of the ice cream market sold by independent retailers.

The Division's sales increase in the periods which lead up to national and international festive periods such as Christmas and Chinese New Year. The Division is constantly researching new markets in an effort to increase its foreign earnings. Revenue from outside the United Kingdom in 2010 represented 23% of the Division's total revenue.

Inventory control and IT systems

There have been a number of problems across all three divisions in respect of inventory control. Poor inventory control has led to high levels of wastage and obsolete inventory being carried. This has been particularly problematic in respect of perishable ingredients. In the case of the Desserts Division, the Divisional Accountant has estimated that 5% of the Division's potential revenue has been lost as a result of not being able to satisfy customer orders on time, due to poor inventory control.

F plc operates a standard information management system across all the Divisions and at Head Office. The Information Technology in use has been unreliable due to technical malfunctions since the information management system was installed in 2001. Monthly management accounts, provided by each division to head office are often late, sometimes not being made available for up to three weeks into the subsequent month.

Internal audit

Until now, F plc's Internal Audit function, which is based at Head Office, has tended to concentrate its efforts on reviewing activities in the Meals and Snacks divisions as they each produce lower revenues and net operating profits in absolute terms compared with the Desserts division. The Internal Audit function's approach of applying a "light touch" to the Desserts Division is also in recognition of the influence exerted by the Divisional Finance function over the Division's operational activities.

Strategic development

The Board of Directors is now midway through its strategic planning cycle and is considering how the company should move forward. There is a proposal to build and operate a factory in West Africa to reduce air kilometres being flown in supplying the Meals Division with fresh vegetables. It is intended that the African factory will freeze the vegetables and then transport them to the Meals Division's factory in England by refrigerated ship.

Extracts from F plc's internal Corporate Social Responsibility report for the year ended 31 December 2010.

This report was produced by the Environmental Effects Manager and presented to the Board of F plc in January 2011.

Fair trading
In accordance with its mission statement, F plc is committed to paying a fair price for the ingredients it uses in its products, particularly to farmers in the less developed economies of the world.

Waste reduction and recycling
F plc set a target for the financial year 2010 that waste of ingredients should be cut by 2%, measured by weight, from the 2009 levels. The actual ingredient waste was 2.5% lower in 2010 than in 2009 as measured by weight.

A target was also set for F plc to recycle 90% of its used packaging in the year 2010. It was recorded that 85% of total used packaging in 2010 was actually recycled.

Food labelling
Legal requirements demand accuracy in food labelling, in respect of ingredients, product description and cooking instructions in many countries. F plc employs a Compliance Manager to ensure that relevant labelling laws in each country, with which the company trades, are adhered to. A target is set for F plc to justify 100% of its claims in food labelling. Two products manufactured in the Meals Division are currently undergoing investigations by the Food Standards Authority of a European country following allegations that the labelling is inaccurate.

Transportation
Following adverse press coverage relating to the high number of kilometres travelled when importing and exporting goods from and to overseas countries, F plc introduced a target that its use of air travel should be reduced by 10% in 2010 compared with the amount used in 2009. F plc fell short of its target by only reducing air kilometres travelled by 3% in 2010 compared with 2009. Road kilometres travelled increased by 5% in 2010 compared with 2009.

Efficiency of energy usage in production
In an effort to reduce carbon emissions from the three divisions and head office, a target was set that by 2015, F plc will become carbon neutral in terms of its usage of energy. Energy usage in 2010 was at the same level as in 2009. It has been proposed that energy efficient lighting should replace the current energy inefficient lighting at all three factories and at head office in 2011 and smart meters should be installed in all of F plc's premises to keep the waste of electricity to a minimum.

TURN OVER

Extracts from F plc's income statement and statement of financial position

Income statement for the year ended 31 December 2010

	£ million (GBP million)
Revenue	986
Operating costs	(938)
Net operating profit	48
Interest income	1
Finance costs	(16)
Corporate income tax	(10)
PROFIT FOR THE YEAR	23

Statement of financial position as at 31 December 2010

	Notes	*£ million (GBP million)*
ASSETS		
Non-current assets		465
Current assets		
Inventories		90
Trade and other receivables		112
Cash and cash equivalents		20
Total current assets		222
Total assets		687
EQUITY AND LIABILITIES		
Equity		
Share capital	1	140
Share premium		40
Retained earnings		61
Total equity		241
Non-current liabilities		
Long term borrowings	2	234
Current liabilities		
Trade and other payables		212
Total liabilities		446
Total equity and liabilities		687

Notes:

1. There are 560 million ordinary shares of £0.25 each in issue.
2. The long term borrowings comprise £160 million loan for capital expenditure which is repayable on 1 January 2018 and a £74 million revolving credit facility which expires on 31 December 2013.

APPENDIX 3

Five year forecast of sales revenue and net operating profit for each division and F plc in total and operating costs for head office:

	2010 (Actual)	*2011*	*2012*	*2013*	*2014*	*2015*
Meals Division						
Sales revenue	266	287	310	335	362	391
Net operating profit	31	34	40	47	54	63
Snacks Division						
Sales revenue	176	194	213	234	258	283
Net operating profit	44	48	53	58	64	71
Desserts Division						
Sales revenue	544	571	600	630	661	694
Net operating profit	72	80	90	101	112	125
Head office						
Operating costs	(99)	(107)	(112)	(118)	(124)	(130)
F plc total						
Sales revenue	986	1,052	1,123	1,199	1,281	1,368
Net operating profit	48	55	71	88	106	129

End of Pre-seen Material

The unseen material begins on page 10

TURN OVER

SECTION A – 50 MARKS

[You are advised to spend no longer than 90 minutes on this question]

ANSWER THIS QUESTION

Question One

Unseen case material

Moving the Desserts Division

The Board of the Desserts Division has decided to investigate the possibility of relocating the Division to the West of England. The Board of F plc will approve the relocation providing the following conditions are satisfied:

1. The relocation produces a positive Net Present Value (NPV). F plc has instructed the Desserts Division to use a hurdle rate of 15% and to base its evaluation on a 10 year time horizon. All the cash flows associated with this project should be regarded as occurring at the end of the year in which they occur.
2. The relocation has a payback period of 3 years or fewer.
3. There are no adverse effects on F plc's public image.
4. The relocation makes a positive contribution to F plc's Corporate Social Responsibility targets.
5. The relocation is consistent with F plc's mission statement.
6. The move contributes towards achieving F plc's strategic aims.

A commercial property agent has identified a possible suitable site in the West of England. The site is on a newly developed industrial estate and consists of a modern factory, offices and distribution facilities. The costs of relocation, payable in Year 0, will be £1,820,000.

Starting from Year 1 of the factory's operations the local taxes in the West of England would be £75,000 cheaper each year than in the North of England. The local government authority in the West of England is keen to attract new investment and has indicated it would look favourably upon any future plans for expansion. The local government authority will give, in Year 0, an incentive payment to the Desserts Division of £1,000 for each job created in the factory and distribution areas and £2,000 for each job created in the offices. There is a good supply of labour of all types available in the area. As this new site is much closer to the Desserts Division's suppliers and customers there would be, from Year 1, savings in transport costs of £300,000. There will also be a reduction in 'Road Kilometres Travelled' equivalent to 15% of F plc's total Road Kilometres Travelled based on 2010 results.

F plc's Director of Human Resources has forecast that the Desserts Division will employ, in total, 5,600 people at the new site in the West of England. The mix of Desserts Division's workforce at the new site would consist of 10% in the offices and 90% in the factory and distribution areas. It should be easy to secure all the labour needed. However, F plc's Director of Human Resources is worried that the relocation, if it goes ahead, would generate large-scale redundancies amongst the Desserts Division's employees in the North of England, even though they will be offered the opportunity of relocating to the new site. She has estimated that as many as 98% of the current workforce (See pages 5 and 6 of pre-seen) would become redundant and this would cost the Desserts Division £1,000 for each employee in redundancy pay in Year 0.

There will also be an increased annual cost, starting in Year 1, of £200,000 because labour is more expensive in the West of England.

The Chief Executive of F plc and the Desserts Division

The problems with divisional culture (See page 5 of the pre-seen) and with inventory and IT (See page 6 of the pre-seen) have come to the attention of the Chief Executive of F plc. The

Chief Executive has told the Desserts Division Board that the current situation is unacceptable and that the following goals must be achieved:

Goals

1. **The confrontational meetings between the Divisional Accountant and the Marketing staff must change their character and a constructive working relationship must be established between the Divisional Accountant and the Divisional Marketing staff.**

   The Divisional Marketing staff members have complained to the Divisional Accountant that they don't always agree with or understand his figures and that they feel that the Divisional Accountant is spying on them.

   As the finance function is 'the dominant force' in the Desserts Division, the Board has delegated responsibility for the achievement of this goal to the Divisional Accountant. The Divisional Accountant has recognised that he is, in part, the cause of this problem. The Divisional General Manager has told the Divisional Accountant that a successful resolution of Goal 1 is very important for both of their future careers within F plc.

2. **The Desserts Division must reduce its levels of wastage of ingredients to 2% of materials usage: these levels are currently 3.8% which cost £7.5 million in 2010.**

   A large proportion of the wastage is caused by poor storage of food raw materials. Some raw materials, for example, chocolate, have been subject to theft by warehouse staff. Other raw materials are wasted because they go bad and become unfit for human consumption.

3. **The Desserts Division must carry out a physical inventory-count at the end of each month. There must not be a difference greater than 1% between the theoretical and actual inventory-counts at any time. Currently, the difference is usually 5%.**

   The inventory-counts are performed by any staff who want to earn overtime. Consequently, there is no regular group of people carrying out this work. The warehouse staff who issue ingredients are not required to participate in the inventory-counts although sometimes they do take part. The results of the inventory-counts have been unreliable and supplementary counting of high value/large quantity ingredients has been necessary.

4. **All customers' orders must be met on time and the Division must achieve 100% of its potential revenue. Poor inventory control will no longer be tolerated.**

   Poor inventory control means that some inventory balances are misleading. Some items are shown in inventory when there are none. There are other items which are not shown in inventory even though they are present. This has led to customers' orders being delivered late, usually by one or two days. This has led to some customers closing their accounts.

5. **The Desserts Division's monthly management accounts must be with Head Office within three working days after month-end.**

   The management accounts are often delayed because necessary information is missing or incomplete. The system for ordering and the receipt of goods into the factory is a paper-based one and has often been the cause of discrepancies between theoretical and actual inventory balances. This system is incompatible because its information is not in a form which can be directly entered into F plc's standard information management system.

The Chief Executive has told the Desserts Division's General Manager that any expenditure required for the implementation of any proposed changes required to achieve the five goals must be self-financing.

End of unseen material

The requirement for Question One is on page 13 which is detachable for ease of reference

TURN OVER

This page is blank

Required

(a) **Advise** F plc's Board as to whether or not it should approve the Desserts Division's proposed relocation to the West of England.

Your answer should include an evaluation of the six conditions of approval set by F plc's Board, including the results of your Net Present Value calculation for condition 1.

There are 10 marks available for calculations.

(20 marks)

(b) **Advise** the Divisional Accountant how he could deal with any resistance to change he might encounter when attempting to achieve the Chief Executive's first goal.

(15 marks)

(c) **Recommend** improvements which would enable the Board of the Desserts Division to achieve goals 2 to 5 as set by the Chief Executive of F plc.

(15 marks)

(Total marks for Question One = 50 marks)

(Total for Section A = 50 marks)

End of Section A

Section B starts on page 15

TURN OVER

This page is blank

SECTION B – 50 MARKS

[You are advised to spend no longer than 45 minutes on each question in this section]

ANSWER *TWO* OF THE THREE QUESTIONS – 25 MARKS EACH

Question Two

CB is a recently qualified CIMA accountant. He has just started a job as a Marketing Accountant for a newly built hotel, the Futurist. Currently, the Futurist has no marketing staff.

The hotel, which has not yet opened for business, intends to generate profit from its rooms and its restaurants. However, other hotels in the local area get much business by providing a 'wedding package'. A wedding package usually includes the provision of a venue for the wedding ceremony, a meal for the wedding guests, entertainment after the wedding and overnight accommodation for the bride and groom.

These competitor hotels market their weddings in a number of different ways. One hotel, the 'De Luxe', situated in a castle in a beautiful, rural setting, charges a minimum price of £50,000 for its wedding package which includes a meal for 100 guests and rooms for a bridal party of 10 guests for one night. The De Luxe has won many international awards for its food and for the high standard of its facilities and bedrooms.

In contrast, another competitor hotel, the 'Royal Albert' offers its wedding package for 100 guests for a total cost of £1,000, with no overnight accommodation provided in the basic price. The Royal Albert is a budget hotel situated next to a busy transport inter-change in the nearby town.

There are another five hotels which the Futurist regards as competitors: these other hotels charge between £35 and £50 for each guest attending a wedding at their hotel.

CB has been asked to join a team consisting of the hotel's General Manager and the Restaurants Manager to formulate a strategy for the Futurist to offer a wedding package.

Required

(a) (i) **Identify** TWO models that the team could use to analyse the external environment. Briefly **explain** the models.

(4 marks)

(ii) **Explain** how these models could assist the team in formulating a wedding package strategy for the Futurist hotel.

(6 marks)

(b) (i) **Explain** how an understanding of Porter's three generic competitive strategies could help the team design a successful wedding package strategy for the Futurist hotel.

(9 marks)

(ii) **Advise** the team how information systems strategies could support the three generic competitive strategies.

(6 marks)

(Total for Question Three = 25 marks)

Section B continues on the next page

TURN OVER

Question Three

JIK is a manufacturer, retailer and installer of domestic kitchens. It started business in 1980 and its market segment has been low to medium income earners. Until recently, its business model has been based on selling high volumes of a standard kitchen, brand name 'Value', with a very limited degree of customer choice, at low profit margins. JIK's current control system is focused exclusively on the efficiency of its manufacturing process and it reports weekly on the following variances: Materials price, Materials usage and Manufacturing labour efficiency.

JIK uses standard costing for its manufacturing operations. In 2011, JIK employs 40 teams, each of which is required to install one of its 'Value' kitchens per week for 50 weeks a year. The average revenue per Value kitchen installed is £5,000. JIK would like to maintain this side of its business at the current level. The Value installation teams are paid a basic wage which is supplemented by a bonus for every kitchen they install over the yearly target of 50. The teams make their own arrangements for each installation and some teams work seven days a week, and up to 12 hours a day, to increase their earnings. JIK usually receives one minor complaint each time a Value kitchen is installed and a major complaint for 10% of the Value kitchen installations.

In 2009 JIK had launched a new kitchen, brand name 'Lux-Style'. This kitchen is aimed at high net-worth customers and it offers a very large degree of choice for the customer and the use of the highest standards of materials, appliances and installation. JIK would like to grow this side of its business. A 'Lux-Style' kitchen retails for a minimum of £50,000 to a maximum of £250,000. The retail price includes installation. In 2010 the average revenue for each Lux-Style kitchen installed was £100,000. Currently, JIK has 2 teams of Lux-Style kitchen installers and they can install up to 10 kitchens a year per team. These teams are paid salaries without a bonus element. JIK has never received a complaint about a Lux-Style kitchen installation.

JIK's business is generated from repeat orders, recommendations, and local press advertising. It employs two sales executives who earn an annual salary of £35,000 each. It offers a twelve month money back guarantee and this has to be honoured for 1% of its installations.

JIK has always been profitable but was surprised to see that in its results for 2010 it only made 0.1% net profit on its turnover.

Required

(a) **Evaluate** the appropriateness of JIK's current control system.

(7 marks)

(b) **Recommend** TWO Critical Success Factors (CSFs) which could assist JIK achieve future success. You must justify your recommendations.

(6 marks)

(c) **Advise** JIK of the changes it will need to make:

(i) to its current control system following the introduction of the CSFs recommended in part *(b)* of your answer;

(4 marks)

(ii) to its standard costing system, reporting frequency and information requirements to achieve improved control.

(8 marks)

(Total for Question Three = 25 marks)

Section B continues on the opposite page

Question Four

HWS is a chain of shops which sells groceries. HWS was established in 1844 by a group of ethically motivated investors. Its mission was stated as '.. to sell the best quality groceries at the cheapest prices'. Because of their religious beliefs the original investors restricted HWS from selling any alcohol or tobacco products. This restriction represented what was considered responsible business practice at that time. However, this restriction was an informal one and did not appear in the mission statement or the memorandum and articles of association of HWS.

HWS became a 'Public Limited Company' (Plc) and was floated on the London Stock Exchange in 2007. Its current market value is £450 million. Its most recent reported profit was £40 million. Its current shareholders are:

Shareholders	% of share capital	Number of investors	Motive for investing
HWS charitable trust	10	1	Uses funds to benefit health of the population
HWS employees	10	5,080	Part of remuneration
HWS directors	2	6	Part of remuneration
Pension funds	15	2	Long-term security for pensioners
Investment trusts	15	4	Medium/long-term investors
RCB : private equity fund	25	1	Seeks short-term profits
UK clearing bank	20	1	HWS is a client
Private investors	3	15,000	Many and varied

In 2010, HWS decided to become the '24/7/365 grocer'. This means that all its shops are always open, that is, 24 hours a day, every day of the year. Since then, HWS has found that many of its customers wanted to buy alcohol and tobacco products, particularly those customers using its shops between 2 am and 6 am. The Board of HWS has decided to implement a new retailing strategy and sell alcohol and tobacco products from 1 June 2011. HWS believes that this will give a substantial boost to its profits. HWS's Managing Director has announced in a statement to the Stock Exchange that '...this widening of our product portfolio should increase profits by at least £10 million a year by the end of 2012'. This announcement has attracted criticism from the HWS charitable trust which stated: '...this is against the whole ethos of HWS'.

Required

(a) **Evaluate**, using Mendelow's matrix, the levels of power and interest of HWS's shareholders in the decision to sell alcohol and tobacco. You should justify your evaluations.

(14 marks)

(b) **Advise** HWS's Board of TWO other stakeholders who would be interested in the decision to sell alcohol and tobacco. You should state the reason for the interest of these stakeholders.

(4 marks)

(c) **Advise** HWS's Board how it could respond to the increasing demands in society for responsible business practice.

(7 marks)

(Total for Question Four = 25 marks)

End of Question Paper

Maths Tables and Formulae are on Pages 19 and 20

This page is blank

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	0.705	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:

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

This page is blank

This page is blank

LIST OF VERBS USED IN THE QUESTION REQUIREMENTS

A list of the learning objectives and verbs that appear in the syllabus and in the question requirements for each question in this paper.

It is important that you answer the question according to the definition of the verb.

LEARNING OBJECTIVE	VERBS USED	DEFINITION
Level 1 - KNOWLEDGE		
What you are expected to know.	List	Make a list of
	State	Express, fully or clearly, the details/facts of
	Define	Give the exact meaning of
Level 2 - COMPREHENSION		
What you are expected to understand.	Describe	Communicate the key features
	Distinguish	Highlight the differences between
	Explain	Make clear or intelligible/State the meaning or purpose of
	Identify	Recognise, establish or select after consideration
	Illustrate	Use an example to describe or explain something
Level 3 - APPLICATION		
How you are expected to apply your knowledge.	Apply	Put to practical use
	Calculate	Ascertain or reckon mathematically
	Demonstrate	Prove with certainty or to exhibit by practical means
	Prepare	Make or get ready for use
	Reconcile	Make or prove consistent/compatible
	Solve	Find an answer to
	Tabulate	Arrange in a table
Level 4 - ANALYSIS		
How are you expected to analyse the detail of what you have learned.	Analyse	Examine in detail the structure of
	Categorise	Place into a defined class or division
	Compare and contrast	Show the similarities and/or differences between
	Construct	Build up or compile
	Discuss	Examine in detail by argument
	Interpret	Translate into intelligible or familiar terms
	Prioritise	Place in order of priority or sequence for action
	Produce	Create or bring into existence
Level 5 - EVALUATION		
How are you expected to use your learning to evaluate, make decisions or recommendations.	Advise	Counsel, inform or notify
	Evaluate	Appraise or assess the value of
	Recommend	Advise on a course of action

Enterprise Pillar

Strategic Level Paper

E3 – Enterprise Strategy

May 2011

Tuesday Morning Session