



Enterprise Pillar

E3 – Enterprise Strategy

19 November 2013 - 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 6. The unseen case study material, specific to this examination, is provided on pages 8 and 9.
Answer the compulsory questions in Section A on page 11. This page is detachable for ease of reference.
Answer TWO of the three questions in Section B on pages 14 to 19.
Maths tables and formulae are provided on pages 21 and 22.
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

Pre-seen case study

Introduction

The Games is an international multi-sport event that is held within a region of the world every four years. It attracts competitors from 10 different countries within the region and is held at a different time from the Olympic Games. The Games are held in each of the countries within the region in turn. The next Games are scheduled to take place in Country C in October 2015. There are 25 sports included within the Games ranging from archery through to weightlifting. The Games were first held in 1979 and this is the first time that Country C has hosted them.

Games Co-ordinating Committee (GCC)

The Games Co-ordinating Committee was established to set out the framework within which the individual country organisations should work in delivering the Games. Membership of the GCC is drawn from all the countries within the region which take part in the Games. Its aim is to promote the Games throughout the region of the world in which the Games take place. It is also responsible for setting out the mission under which the Games are established in each country.

Mission of the GCC

The mission of the GCC is to:

- Encourage and promote ethical competition in sport;
- Encourage and co-operate with public and private organisations in the preparation for and staging of the Games;
- Achieve high levels of sustainability for the infrastructure of the Games and the environment in which they take place;
- Promote sport and healthy lifestyles amongst young people;
- Promote the Games' values of excellence, unity and achievement.

The mission of the GCC is untouchable in the sense that all who are involved in the Games, in whatever role, must adopt and promote it.

Organisation of the Games within Country C

In 2010, the Parliament in Country C passed an Act creating GAMESCO, a company limited by guarantee to organise and deliver the Games on time and within budget. GAMESCO also has responsibility for disposal of assets after the Games and selling any surplus land which is not retained for sporting purposes.

The Minister of Sport in Country C and the elected Mayor of the city in which the Games are due to take place are the only two shareholders of GAMESCO. Governance of the Games is carried out entirely by GAMESCO. In carrying out this role, it co-ordinates the activities of all people and organisations engaged in preparing for and operating the Games and it is responsible for the subsequent liquidation of all the Games' assets.

The Government of Country C believes that the Games will provide a major boost to Country C by providing commercial opportunities for enterprises such as hotels and retail outlets and enabling the re-generation of the current dilapidated land on which the Games will take place. It is expected that the prosperity of Country C and, in particular, the whole area in which the Games will take place, will increase.

Mission, Vision and Values of GAMESCO

The Board of GAMESCO is committed to meeting the mission of the GCC. It has established its own mission and values as follows:

Mission:

"To deliver the Games successfully on time and on budget in accordance with the expectations of our stakeholders and in accordance with the mission of the GCC."

GAMESCO is responsible for preparing, operating and winding up the Games, all within its budget. Country C's Government provided capital to GAMESCO for building work to proceed. However, Country C's Government is clear that it does not intend to support the Games beyond the funding it

has already invested. This places a large responsibility on GAMESCO to ensure that its overall expenditure does not exceed the revenue it generates from its activities and the government grants it has received.

Values:

“GAMESCO will work tirelessly towards achieving the mission set out by the GCC. In striving to achieve the GCC’s mission, GAMESCO will act fairly and responsibly with all its stakeholders, in particular its employees and partners, in order to generate trust and transparency.”

GAMESCO’s organisational structure

GAMESCO has a Board of Directors comprising: Chairman, Chief Executive, Directors for Finance, Sponsorship, Operations, Marketing, Commercial Activities, Estates, Communications, Human Resources, Information Systems, Venues, Athletes’ Services, a representative from each of the Minister of Sport and the Mayor, a sports representative drawn from each of the sporting activities which will be competed in during the Games and a representative of the GCC.

GAMESCO’s financial structure and budget

Country C’s currency is C\$. GAMESCO’s financial structure is different from most commercial organisations. Under the Act of Parliament which set the company up, a provision was made that GAMESCO would not be subject to corporate tax.

Revenue is generated by a mixture of government grants, sponsorships, ticket sales for the Games, rental of accommodation and broadcasting and other commercial fees. All capital works relating to the Games themselves, such as the athletics stadium, the cycling velodrome, the gymnastics arena and the swimming pool, are funded by government grants. However, construction of buildings for commercial activities such as cafes and restaurants is funded by the commercial organisations themselves and is not the responsibility of GAMESCO. The budget for the expected final cost of the Games is shown at Appendix 1.

Project management

An overarching supervisory consortium of experts in project management has been engaged by GAMESCO as an outsourced service. The role of the consortium is to prepare and monitor construction work on the whole of the Games Park site. The Games Park site will accommodate such buildings as the athletics stadium, the cycling velodrome, the gymnastics arena and the swimming pool. In addition, the consortium will ensure that utilities are installed, plans for construction works are approved, construction work progresses according to schedule and that contractors are able to access the site when building work takes place.

GAMESCO employs independent project management teams with project managers responsible for each major building construction on-site. These project managers report directly to the consortium on the progress of the construction project for which they are responsible. An Information Systems Project Manager has been appointed by GAMESCO, whose role is to co-ordinate the provision of information systems on the site and to liaise with all the project managers on their information systems requirements for the construction projects for which they are responsible.

A project management team has also been established to market the Games. All GAMESCO’s marketing staff, with the exception of the Marketing Director, are attached to this project team.

Service provision

Professional architects, engineers and building companies are all engaged in developing the Games Park. In addition, land on which buildings will be erected must be clear of pollution. Utility services, such as water and electricity supplies to all venues involved with the Games are in the process of being provided.

On the Games Park site itself, there will be a number of fast-food outlets, cafes and restaurants as well as ice cream parlours, sweet stores and souvenir shops. Hygiene facilities, such as toilets, will need to be provided. All of these will remain on-site for the duration of the Games and will be demolished afterwards. Some parks and gardens will be constructed within the Games Park. The parks and gardens will not be demolished but remain as amenities for the local population after the Games have finished.

Security for the Games will be tight. It is proposed that GAMESCO will engage a highly reputable security services contractor to provide security at all the Games' venues, around the perimeter as well as within the grounds of the Games Park. It will be essential for the security contractor to engage sufficient staff to carry out this very large security service.

Staffing

While GAMESCO does employ its own staff, the majority of people working on-site are contractors. At present most of the activity being undertaken on-site is construction work. GAMESCO does employ its own Human Resource Management, Information Technology support and accounting staff.

Senior staff and project managers are contracted for the duration of the Games and in some cases beyond. They are paid at a competitive rate. However, most staff are employed on temporary contracts on a month-to-month basis and generally receive relatively low pay compared with unskilled labour in Country C which has a high level of unemployment.

When the Games begin, it is expected that most ancillary staff on-site, who will direct spectators to venues and facilities, will be volunteers. Many of these volunteers will take annual leave from their places of work in order to carry out this task.

Sponsorship

A major source of revenue for GAMESCO is sponsorship deals with major business organisations and this is therefore crucial to the successful staging of the Games. Sponsors are required to provide a guarantee of a minimum payment of C\$ 1 million to GAMESCO. For this, sponsors become official partners of the Games and acquire marketing rights. This enables sponsors to build their brands and customer relationships, increase their revenue and enhance their own commercial reputation. Sponsorship can be divided into two types, direct and indirect.

Direct sponsorship - gold sponsorship

There are two levels of direct sponsorship, gold and silver. Gold is the highest level of sponsorship and gives sponsors major marketing rights. Gold sponsors are drawn from businesses such as electronic equipment suppliers, soft drink manufacturers and fast-food chains which can provide products and services to support the staging of the Games, in addition to providing a financial contribution. Gold sponsors are also expected to promote the Games by engaging in the development of sporting events across the region of the world in which the Games take place. For this, gold sponsors are entitled to use the Games logo on their products and services.

Gold sponsors are required to engage in a range of activities to support the mission of GCC at the Games. See page 2 for details of the mission of the Games.

Direct sponsorship - silver sponsorship

Silver sponsors are only required to make a financial contribution to the staging of the Games. However, they too, are able to use the Games logo.

Indirect sponsorship

A form of indirect sponsorship which takes place when the Games are in progress is hospitality. Hospitality sponsorship relates to large businesses hiring facilities on-site in the Games Park to entertain their own customers and clients while the Games are in progress. These facilities mainly consist of hospitality rooms and boxes. The hospitality rooms and boxes in prestige venues, such as the athletics stadium, the cycling velodrome, the gymnastics arena and the swimming pool, will command a higher price on days when popular Games events are being held and also when medals are being awarded.

Brand Leases

One significant area of revenue generation is the opportunity for GAMESCO to lease its brand to all organisations engaged in supplying products and services to the Games. It is a condition for all goods and service suppliers that they must display the Games brand in all the venues in which they operate and in doing this, they incur a leasing charge which is directly payable to GAMESCO. In addition, any other organisation wishing to use the Games brand must also pay a leasing charge to GAMESCO for permission to do so.

Marketing

GAMESCO has carried out considerable press and television advertising and intends to increase this as the Games draw closer in order to stimulate public enthusiasm and ticket sales. Television rights to broadcast the Games have been agreed and GAMESCO has invested in stocks of merchandise which it has distributed to retailers around Country C.

Games Village

The athletes will be accommodated in the Games Village which is located in the Games Park. The Games Village will consist of several purpose built blocks of accommodation which provide hotel services in respect of individual bedrooms with en-suite toilet and shower facilities. The Games Village will also have its own catering and laundry facilities, using locally contracted staff. The daily cleaning of the rooms will also be contracted out to a local company.

The Games Village will provide a regular bus shuttle service for the use of athletes to and from the city centre in which the Games are being held and also to and from the airport.

After the Games, the Games Village will be converted into apartments to house local people.

Drug testing and medical facilities

A specific building will be constructed to enable appropriately qualified experts to carry out internationally approved drugs tests on athletes. The drug testing facility will be located close to the medical centre which will be specifically built for treating the athletes. If any spectator requires medical attention beyond basic first-aid, he or she will be taken to the nearest hospital as will any athlete if he or she requires treatment which cannot be provided at the medical centre. After the Games have finished, it is expected that the medical centre will be converted into a health clinic which will provide services to local residents.

Business opportunities and legacy

Much has been made in Country C about the huge opportunities for local businesses and the legacy of the Games. There is a range of contracts and work being done or still to be undertaken by businesses in Country C. These include construction, land regeneration, the provision of utility supplies and catering facilities before and during the Games. After the Games have finished, there will still be much work particularly for construction companies in reinstating land and undertaking buildings alteration work.

Construction works including hotels and shopping facilities are now planned to be built on derelict land and all will be within easy reach of the Games Park. The hotels and shopping facilities are particularly attractive to developers as it is expected that the regeneration of the land, parks, gardens and sports facilities which remain after the Games will attract visitors and tourists.

A major legacy is that many new homes and amenities will become available after the Games. For example, the athletes' accommodation in the Games Village will replace much sub-standard accommodation in which many local people are currently housed. The Government thinks that the Games, which will be televised across the region and in other parts of the world, will showcase the country in general, attracting visitors and businesses not just for the duration of the Games but afterwards as well.

In addition to the economic benefits, the Government hopes that the Games will inspire the public in Country C to take more physical exercise which it anticipates will bring health benefits to the population. Some of the facilities which will be constructed for the Games, such as the cycling velodrome, the gymnastics arena and the swimming pool, will become available for public use after the Games, enhancing the amenities for the local population.

Budget for the delivery of the Games*C\$million**Preparation of the Site and Infrastructure*

Power and utilities	550
Preparatory construction work	370
Structural work including access roads	760
Landscaping	250
Other preparation and infrastructural works	185
Total preparation of site and infrastructure	2,115

Venues

Athletics stadium	500
Swimming Pool	260
Cycling velodrome	50
Gymnastics arena	45
Venues operations control centre	20
Other Games Park venues	100
Total venues	975

Transport

Transport capital projects	300
Transport operating costs	350
Total transport	650

Games Park Operations and Security

Games Park Operations	220
Security for Games Park construction	240
Security during Games	70
Insurance	80
Total Games Park operations and security	610

Games Village and Media Centre

Games Village construction	750
Media Centre construction	300
Total Games Village and Media Centre	1,050

Total expected final cost before contingency	5,400
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Contingency	540
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Total expected final cost	5,940
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*End of pre-seen material**The unseen material starts on page 8*

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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

The Games Information System

A key feature of marketing the Games will be the Games website. The previous two Games both had a dedicated Games website to advertise and promote the Games and also to sell tickets and merchandise. However, there were criticisms of the websites of previous Games. Many customers complained about the lack of relevant information and the number of errors which occurred when purchasing tickets online.

The Information Systems (IS) Project Manager, responsible for the development and management of the overall information systems for the whole Games, believes that the main weakness of previous Games' information systems was the lack of integration of the websites with the overall strategy of the Games. Furthermore, the previous Games organisers did not regard the development of information systems as strategically significant to the successful delivery of the Games.

The Velodrome Project

Cycling will be one of the most popular sporting activities within the Games. However, the city which is hosting the Games does not currently have a cycling arena. Therefore a cycling arena, called the Velodrome, needs to be built. This facility will be retained after the Games with the intention that it will be used by the local community and also become a national training centre for track cycling in Country C. The Government's aim is that this will assist in the development of Country C's future sporting aspirations and increase the level of sports participation for many years to come.

Project Management of the Velodrome project

A project team was set up at the start of June 2013. The aim of the project is to construct a high quality, world-class Velodrome which must be complete by the 31st May 2015 within a budget of C\$50 million. Construction of the Velodrome is due to begin on the 1st December 2013.

A Project Manager, Z, has been employed by GAMESCO to manage the Velodrome construction project. This will be a highly complex project involving many external contractors, including key building suppliers and contractors, utility suppliers, and track and seating component suppliers. The successful construction of the Velodrome will rely upon the effective collaboration of a multi-disciplinary project team made up of GAMESCO staff and staff members of the external organisations responsible for the construction project. Z has the highly complex job of co-ordinating the work of team members within a highly flexible project environment and scheduling, planning and managing the key project activities.

GAMESCO has set three key targets for the delivery of the Velodrome. These are:

- (i) meeting the final deadline of the 31st May 2015;
- (ii) meeting the expected level of quality; and
- (iii) not exceeding the budgeted cost allowed.

The Project Manager must ensure that these key project targets are planned and controlled effectively throughout the whole life of the project. GAMESCO has set a number of targets for sustainability of the infrastructure of the Games in line with the Games Co-ordinating Committee's mission. The Government of Country C is keen to encourage the use of local staff and suppliers based in Country C wherever it is possible.

Supplier Management in the Velodrome project

A key decision needs to be made between two potential suppliers of the wooden track boards for the Velodrome. The track boards make up the track racing surface and the quality of the material chosen

for this critical component of the Velodrome is very important. The timing of delivery of the wooden track boards is critical as they must be installed within the facility six months before final completion of the Velodrome. This is because the wooden track boards need to acclimatise to the atmosphere in the Velodrome and to settle into place. (The wood used is likely to move fractionally and require minor adjustments before the track can be used). The Project Manager is aware that the construction of velodromes in other countries has shown that the track boards should cost (including installation) on average, 5% of the total budget for the Velodrome construction.

The two potential suppliers of the track boards are Supplier A and Supplier B. A decision must be made and an order placed with one of these two suppliers within the next two weeks in order to meet the deadline for the completion of the Velodrome. The following information is available relating to each supplier:

Supplier A

- Supplier A is based in Country C.
- Supplier A has not undertaken work on this scale before. However, it has a good reputation for quality in Country C. The material it proposes to use will be sourced from the region within which the Games are being held.
- The price which Supplier A has quoted for only the cost of the track boards is C\$2 million. However, it has stated that there will be an additional cost for a specialist installation company to lay the track boards within the Velodrome as Supplier A does not possess this expertise itself. The installation company, used regularly by Supplier A, which is also based in Country C, has stated it will require 4 weeks from the delivery date quoted by Supplier A to lay the track. The quoted price for this is C\$125,000 per week in addition to Supplier A's quotation of C\$2 million for the track boards.
- Supplier A expects to deliver the track boards to site in the first week of November 2014. However, should Supplier A not meet this deadline, then installation would have to be put back by a further 4 weeks, due to other contract commitments of the installation company during November 2014.
- Supplier A estimates that the track boards will have a life of 10 years before it is necessary to replace them. Supplier A cannot provide the on-going maintenance required to maintain the quality of the track boards after the Games are completed.

Supplier B

- Supplier B provided the track boards on time and of sufficient quality for the Velodrome which was built for the last Games. The total price quoted by Supplier B is C\$3 million.
- Supplier B is based outside of the region of the world in which the Games are being held and the wood it would use is sourced from a different country, over 1,000 miles away from its factory. The wood is shipped to Supplier B, which then undertakes a complex refining and treatment process. It is then transported, normally by air, to its final destination. Supplier B invests heavily in re-forestation programmes (that is, planting new trees to replace each tree cut down) within the regions from which it sources its wood.
- Supplier B employs its own specialist installation team and this is included in the price it has quoted. However, during the last Games, the final cost of the track boards and installation was 4% higher than Supplier B's original quoted price. The track boards are guaranteed to be delivered by the 1st November 2014 and be fully installed within 3 weeks. The track boards will have a guaranteed life of 15 years.
- Supplier B could maintain the track boards it supplies for an annual fee of C\$80,000 for 15 years after installation. Supplier B has stated that should it not win the contract it could still provide the on-going maintenance of the track boards supplied by a different supplier but this would cost an estimated C\$120,000 per year for the expected life of the track boards.

End of unseen material

The requirement for Question One is on page 11

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Required

- (a) **Discuss** the importance of an effective Information Systems (IS) strategy in order to successfully deliver the Games in 2015.

(7 marks)

- (b) In respect of the Velodrome project:

- (i) **Discuss** the challenges faced by the Project Manager, Z, in planning and managing the project.

(8 marks)

- (ii) **Recommend**, with reasons, a range of management control actions which should be implemented to reduce the potential risks which could endanger the successful delivery of the Velodrome project in respect of the three targets set by GAMESCO.

(12 marks)

- (c) (i) **Evaluate** the proposals put forward by the two potential suppliers of the track boards for the Velodrome project against the project constraints of

- Time
- Quality
- Sustainability and locality

(13 marks)

- (ii) **Discuss** the difficulties that the Project Manager, Z, will face in evaluating the installation and on-going maintenance costs of the track boards quoted by each of the suppliers.

(10 marks)

(Total marks for Question One = 50 marks)

(Total for Section A = 50 marks)

*End of Section A
Section B starts on page 14*

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TURN OVER

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

XXA is a bakery business which was established in 1982 by J, the current Chief Executive. XXA has grown from operating within J's kitchen in his own home, to now operating 12 bakeries located throughout Country Q. Last year XXA generated revenues of Q\$25 million. XXA is listed on Country Q's alternative stock exchange (which is similar to the Alternative Investment Market in the UK). J leads a Board of Directors which runs the business from a central head office. XXA currently uses Shareholder Value Analysis (SVA) as a measure to evaluate the overall performance of the business. For the last five years, the business has seen significant growth but a number of the directors have expressed concern that the current centralised approach to organisation and performance management of XXA will stifle future growth of the business.

The Board of Directors of XXA recently met to consider the re-organisation of the business into divisions, based upon regional location. It was proposed that XXA establish four divisions, North, South, East and West and these would be headed by new divisional directors from the current Board. It is proposed that these four divisions would operate as investment centres and the divisional directors would be responsible for all of the divisional activities relating to their region. If the proposed divisions were to be established, the directors have suggested that bonuses for divisional directors should be based upon the divisional performance achieved in each director's division. One of the current directors has stated that Return on Investment (ROI), based upon the original (initial) investment, is an appropriate method of performance measurement, and he proposes this should be adopted by XXA. However, J has concerns about linking divisional directors' bonuses to divisional performance.

He does not consider that ROI is the best measure of divisional performance and believes that Residual Income (RI) is a better measure of divisional performance. At a recent meeting, J provided the Board with examples of two recent investment decisions undertaken by XXA to illustrate his concerns.

Investment 1: Last year, a factory based in the Northern region of Country Q was considering investing in a new range of ovens. These ovens cost Q\$2 million. The controllable profit estimated to be earned from the ovens was Q\$400,000 each year. If XXA had been set up in a divisional structure at this point in time, it was anticipated that the Northern divisional ROI (based upon all of the factories within the proposed Northern region) would have been 22%. The decision was made by the Board to accept the investment based on a capital investment appraisal showing that it provided a positive net present value. Since investing in the ovens, the factory has been able to produce a wider range of products and a number of XXA's customers have indicated that they will be increasing their orders in the future.

Investment 2: Last year, a factory based in the Southern region, was considering investing in a new high technology production line to speed up and improve the quality of specific products and to reduce staff costs. This was proposed to cost Q\$5 million. The controllable profit estimated to be earned from the new production line was forecast to be Q\$450,000 each year. If XXA had been set up in a divisional structure at this point in time it is anticipated that the Southern Divisional ROI (based upon all of the factories within the proposed Southern region) would have been 8%. The Board decided to reject this proposal based upon its negative net present value.

XXA's pre-tax cost of capital is 15%.

The requirement for Question Two is on the opposite page

Required

- (a) **Explain** the benefits to XXA of using Shareholder Value Analysis as an overall business performance measure before the adoption of a divisional structure.

(6 marks)

- (b) **Discuss** J's concern about linking divisional directors' bonuses to divisional performance.

Note: Candidates are NOT required to undertake any calculations in this answer

(5 marks)

- (c) **Evaluate** the relative merits and disadvantages of using both ROI and RI to measure divisional performance in XXA.

You should use the two investment examples provided by J to the Board in support of your answer.

Note: There are 6 marks available for calculations

(14 marks)

(Total for Question Two = 25 marks)

Section B continues on page 16

TURN OVER

Question Three

VVT is based in a small southern European country and has been trading for 12 years. It imports electronic consumer products, such as televisions, home entertainment systems, computers and printers from one supplier, MMM, which is based in an Asian country. VVT re-brands and re-packages these products as VVT 'own brand' and then sells them to customers within its own country.

Most customers pick up their products directly from VVT's stores and set them up themselves. However, for more complex products such as large home entertainment systems, VVT offers a home set-up service, for which VVT makes a small charge. VVT's technicians will also visit customers' homes to solve technical problems with equipment if it is still within the warranty period. VVT offers an online helpline and also a warehouse-based repair facility for its customers if the products VVT sold to them are out of the warranty period. Feedback from customers suggests that this customer support is highly valued as VVT's larger competitors don't offer such extensive product support.

VVT has a website which provides a comprehensive display of its products, product specifications and prices. However, customers cannot order or pay for products online. Orders are placed through a dedicated phone number clearly identified on the website. Trained technicians are on hand to help customers decide on the product which best meets their needs. Customer feedback indicates that this support is highly valued. As well as using the website to advertise its products, VVT advertises in the national newspapers and undertakes direct mailing by post. VVT also maintains a customer and product database, which holds customer details and records their buying history. VVT uses this database solely to help with its direct mailing activities. However, the marketing managers of VVT are aware that this database could be more effective if it employed more sophisticated analysis.

VVT places its orders for products through MMM's website and pays by bank transfer. VVT is not committed to a long-term contract with MMM and therefore MMM does not offer credit terms to VVT. When the payment is authorised, MMM sends an automatic e-mail to VVT to confirm the order, to provide an order reference number and a proposed shipping date. A further email is sent to VVT once the order has been despatched. A logistics company based in Europe, but not in VVT's home country, delivers the order from the shipping port to VVT. MMM organises the whole supply process, from initial product despatch right through to the delivery of the order to VVT's warehouse.

This supply process has, in the past, caused a number of problems for VVT. First, missing or delayed shipments can only be tracked by going through MMM, which has often been slow to respond to queries. Second, MMM cannot always provide reliable shipping dates and does not track the progress of shipments carefully. Third, the European logistics company has not always been reliable which has resulted in delays to deliveries which are quite unpredictable. This can cause congestion in VVT's delivery bay or lead to VVT being out of stock of some products. As a result, VVT tends to order more products than is necessary to ensure that it is not left short, but this adds to its warehousing and inventory holding costs.

On arrival of the order at VVT's factory, the products are quality inspected. This is a rigorous process and only those products which are 100% defect free are re-branded and re-packaged with VVT's recognised logo. Products which fail VVT's quality inspection are returned to MMM for a refund.

The requirement for Question Three is on the opposite page

Required

- (a) **Evaluate** the primary activities of VVT. Your answer should clearly explain the significance of each of these primary activities in adding value to VVT's customers.

Note: You should use Porter's Value Chain to structure your answer, but you are NOT required to draw the value chain as part of your answer.

(10 marks)

- (b) **Discuss** the potential benefits to VVT of carrying out more sophisticated analysis of its customer database through the use of data warehousing and data mining.

(6 marks)

- (c) **Recommend**, with reasons, THREE ways in which VVT could improve its supply chain activities to remove non value-adding activities.

(9 marks)

(Total for Question Three = 25 marks)

Section B continues on page 18

TURN OVER

Question Four

PPP is a publisher of books, founded in 1960 by family X. PPP's success over its first 40 years of trading demonstrated that large demand existed for books covering different topics and suiting many different readers' tastes. The Board of Directors of PPP has always been very proud of its reputation in the market place for the high quality of books it publishes to a wide reading audience.

There is a strong family ethos in PPP with a number of the founding family members still working for the company. PPP's staff take great pride in the reputation of the company and in its traditional values. This is demonstrated by low levels of staff turnover and low absenteeism.

In the last 10 years, PPP has seen a steady decline in its sales of paper-based books. Eight years ago, PPP installed new state-of-the-art printing technology in its two print factories in order to improve efficiency. However, the volume of sales continued to decline. In 2010, PPP made 50 staff redundant. These redundancies followed the closure of one of its major customers, a chain of high street bookshops.

PPP now employs over 250 staff. The staff are based in two locations in PPP's home country. Half of PPP's staff have never worked for another organisation.

PPP set up a website in 2011 in order to sell its books, in the traditional paper format, direct to the public. Although initially the website was successful, sales in terms of both volume and value, failed to grow after the first year of the website's operation. The Board of PPP is seriously concerned for the future of the company.

The market for books is rapidly changing. The Board of PPP recognises that it does not have the skills or the resources to convert its business operations to meet the changing requirements of its customers.

The Board has recently been approached by a large international publishing group QZZ which is proposing to acquire PPP. QZZ is keen to retain the staff of PPP. After acquisition, a greater focus will be placed upon e-business and the development of electronic books. QZZ also intends to reduce the topic range of PPP's published books. The staff of PPP may have to relocate to other business units within QZZ and all of PPP's staff will have to be re-trained so that they can work within a high technology-based environment. Any staff refusing to undertake re-training or relocation could legally face redundancy due to technical or organisational reasons. PPP would retain its name, as QZZ recognises the strong reputation of the PPP brand in the marketplace. However, it is likely that the strong family ethos built up over many years will be lost after acquisition. QZZ has also stated to the Board of PPP that in the longer term, it may also need to consider closing one of PPP's print facilities as it reduces the range of published books.

The Board is currently evaluating the proposed acquisition by QZZ and is considering the appropriate actions it must take to manage the potential effects of the proposed acquisition.

The requirement for Question Four is on the opposite page

Required

- (a) **Advise** PPP's Board of the reasons why the proposed acquisition is likely to be resisted by PPP's staff.

(8 marks)

- (b) **Discuss** the possible ethical considerations for QZZ if it were to acquire PPP.

(8 marks)

- (c) **Recommend**, with reasons, how QZZ and the Board of PPP should manage the change process in order to ensure that the acquisition process progresses with minimal resistance from PPP's employees. You should use Lewin's three stage model to structure your answer.

(9 marks)

(Total for Question Four = 25 marks)

End of Question Paper

Maths Tables and Formulae are on Pages 21 and 22

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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 (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	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 (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	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	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	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	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	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	4.793	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:

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

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

Enterprise Pillar

Strategic Level Paper

E3 – Enterprise Strategy

November 2013

Tuesday Morning Session