Mock Examination : ACCA Paper P3

Business Analysis

Session : December 2012

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I wish to have my script marked by my lecturer and

- collect the marked script at the SAA-GE Reception Counter
- have the marked script returned to me by mail

(Please submit your script latest by 12th November 2012 for marking)
Examiner: Nageb

Section A - THIS question is compulsory and MUST be attempted

Cuttles plc is a manufacturing cutler; that is the company makes knives, forks and spoons. Cuttles plc is based in Sheffield in the UK which has been the centre of the UK cutlery industry for at least one hundred years. When the industry was first established, it was very fragmented and there were many small entrepreneurial business making cutlery. Often, these businesses were organised around a family and they usually employed between six and ten people. The industry began to consolidate, in the late nineteenth century and early twentieth century, as a series of mergers were effected.

Cuttles plc was constituted in its present form in the 1920s when it obtained its market listing on the Stock Exchange. It now consists of a large factory which employs 500 people and a Head Office employing 200 people. These are both in Sheffield.

In 1981 Cuttles plc made a rights issue to finance a modernisation programme in its factory. At that time the Board reviewed the company's objectives. A statement was issued by the Board which said:

> Cuttles plc is a UK manufacturing cutler based in Sheffield, the home of the cutlery industry. Our success is due to harnessing local skills in production and design and using these to deliver the finest quality product to our customer across the world. They know that the finest cutlery in the world is stamped "Made in Sheffield". We intend to continue with our fine traditions.

Cuttles plc has always made all its cutlery in Sheffield and attaches great importance to the fact that it can, therefore, be marked "Made in Sheffield."

Cuttles plc has spends approximately £150,000 a year on research and development. 5% of this spending is on new designs for the export market and the remainder is evenly split on designs for the home market and on improvements in production systems

BQ plc

This is another UK manufacturing cutler of a similar size to Cuttles plc, BQ plc, which is based in Birmingham.

Since 1985 BQ plc has followed a different production policy to Cuttles plc. Approximately half of its cutlery is made in Korea and imported to the UK and marketed under BQ plc's brand names.
Markets

From the date of its formation until the early 1980s Cuttles plc did very good business with countries across the world. Since 1981 Cuttles plc has experienced increasing competition from countries of the Pacific Rim - Korea, Taiwan, Hong Kong and Singapore. This competition has been conducted on the basis of cost. This has been possible because the production technology involved in making cutlery is a mature one. It is also comparatively cheap and readily available. Further, for many users cutlery has become a generic product.

Generics are unbranded, plainly packaged, less-expensive versions of products, purchased in supermarkets, such as spaghetti, paper towels and canned peaches. (Kotler, Marketing Management, Prentice - Hall).

Cuttles plc has experienced a growing loss of market share in the UK to imports from the Pacific Rim. Cuttles plc's export markets have largely disappeared. The only export business which it does is an annual sale of about £200,000 of very high quality cutlery to a department store in New York. Cuttles plc makes a gross margin of 45% on this business.

Estimated market data at December 1993:

<table>
<thead>
<tr>
<th>UK market share</th>
<th>by quantity %</th>
<th>by value %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cuttles plc</td>
<td>35</td>
<td>45</td>
</tr>
<tr>
<td>BQ plc*</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Imports</td>
<td>35</td>
<td>20</td>
</tr>
</tbody>
</table>

* These percentage include all cutlery sold by BQ plc whether made in the UK or in Korea.

Financial Performance

The increasingly competitive environment has had a market effect on Cuttles plc's profitability and stock market performance. After the publication of its latest annual results the following comment was made in an influential UK financial newspaper.

Cuttles plc's results which show a profit after tax of £2.25 million look deceptively good. However, these are flattered by the fact that Cuttles plc has not made any major investments since the 1980s. Its ROCE is about 4% and this could be beaten by any fixed return risk-free deposit investment. There seems to be little prospect of growth in any direction. These shares are really only a HOLD for the sentimental; otherwise SELL.
Required

a  Explain how Porter's classification of generic strategies could be used by Cuttles plc to analyse its current competitive position.  (10 marks)

b  Discuss the extent to which you believe that the statement of objectives made in 1981 is still applicable in 1994.  (10 marks)

c  Recommend possible marketing strategies for Cuttles plc.  Discuss the advantages and disadvantages of your recommendations.  (10 marks)

d  Recommend possible production strategies for Cuttles plc.  Discuss the advantages and disadvantages of your recommendations.  (10 marks)

e  Explain how the interest of the stakeholders of Cuttles plc will be affected by your response to parts (b), (c), (d) above.  (10 marks)

(50 marks)
Section B - Answer any TWO questions

2 Firebridge Tyres Ltd (FTL) is a wholly owned UK subsidiary of Gonzales Tyre Corporation (GTC) of the USA. FTL manufacturers and sells tyres under a number of different brand names:

a Firespeed, offering high product quality, at a price which offers good value for money;
b Freeway, a cheap brand, effectively a standard tyre;
c Tufload, for lorries and commercial vehicles.

FTL has good relationships with car firms and distributors. GTC is rather less focused; not only does it make tyres and some other components, but it also owns a chain of car service centres specialising in minor maintenance matters such as tyre replacement, exhaust fitting, and wheel balancing.

FTL has experienced a fall in sales revenue, partly as a result of competition from overseas producers, in what is effectively a mature market. Moreover, sales of new cars have not been as high as had been hope, and consumers are more reluctant than before to part with their money. FTL's managers have had meetings with GTC's managers as to how to revive the fortunes of the company. FTL would like to export to the US and to Asia. GTC has vetoed this suggestion, as FTL's tyres would compete with GTC's. Instead, GTC suggests that FTL imitate GTC's strategy by running a chain of service stations similar to GTC's service stations in the US. GTC feels that vertical integration would offer profits in its own right and provide a distribution network which would reduce the impact of competition from other tyre manufacturers. GTC has no shortage of cash.

You are a strategic consultant to FTL.

Required

a What are the principal factors in the external environmental that would influence FTL's strategic choice? (8 marks)

b Describe the barriers to entry that FTL might face if it decided to enter the service centre business. (9 marks)

c Can FTL's distinctive competences satisfy the critical success factors of the service business? (8 marks)

(25 marks)
The acquisition of a local company by a multinational conglomerate from abroad must take account not only of differing tax regimes, currency controls and tariff and quota systems but also of the cultural background developed within that local company.

Required;

a. Discuss to what extent a foreign parent permit a local subsidiary to retain its practices which are due to local cultural factors and which might conflict with group practices. (10 marks)

b. Discuss how the integration of expatriate and locally recruited personnel can be engendered. (5 marks)

c. Discuss how a subsidiary can be encouraged to respond to local opportunities whilst having regard to the wider interests of its parent company. (10 marks)

(25 marks)
Some companies and local government authorities, trying to cut costs, are already using, or considering using external suppliers of computing services. Arrangements vary from services supplied by computer service bureaux to Facilities Management arrangements where an external supplier provides an on-site, often using equipment owned by the customer, and quite often employing staff formerly employed by the customer.

However, there are problems. One IT manager was quoted in Computing magazine:

"If the other departments don't know what we are charging how can they decide how competitive an FM (Facilities Management) bid is?"

If you don't draw up the specification properly you will end up with big problems".

Requirements:

a) Explain the commercial problems of buying a service, compared with the problems of buying a manufactured product. (8 marks)

b) Explain what cost information you would require on the internal provision of the service to compare with the external bid. In your answer deal specifically with the problems of buying computing services for a period of years. (9 marks)

c) Assume that you have been asked to review the costs and value for money of the IT services which have been contracted out.

Explain the extent to which you could compare external costs with possible internal costs, and what difficulties you would encounter in your assessment of whether the contracting out has achieved value for money. (8 marks)

(25 marks)