Think Ahead ACCA

P3
Business Analysis

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APPROACH TO EXAMINING THE SYLLABUS

The syllabus is assessed by a three-hour examination.

Section A

Section A contains one multi-part question based on a case study scenario. This question is worth *50 marks*.

Section B

Section B will consist of three discrete questions each worth *25 marks*. Candidates must answer two questions from this section.

Total: 100 marks

EXAMINER'S EXPECTATIONS & COMMON REASONS FOR FAILURE IN P3

- Cover the entire syllabus
- Application of relevant Models according to the requirement
- Application of knowledge in the context of given scenario
- Using quantitative data to support the understanding of situations-straight forward marks!

EXAMINER'S EXPECTATIONS & COMMON REASONS FOR FAILURE IN P3

- there isn't a theoretical model for every occasion; business analysis, by its nature, will sometimes require an ad-hoc approach.
- Study the question requirements carefully, particularly if there is an example showing the content and detail required in the answer.
- Be prepared to bring forward knowledge and techniques from syllabuses that feed into P3 e.g. management accounting
- Familiarize yourself with the technical articles on the ACCA web site that are relevant to this paper.

EXAMINER'S EXPECTATIONS & COMMON REASONS FOR FAILURE IN P3-Continued

- In most questions, only a few marks can be given for theoretical answers. The bulk of the allocated marks are for the interpretation of the information provided in the scenario in the context of some theoretical framework.
- Time management remains an issue for some candidates. This could be resolved by avoiding quoting lengthy detail from the case study scenario, instead focusing on responding to the question requirements.

IMPORTANT TERMS

- ✔ Customer
- ✔ Competitors
- ✔ Substitute product
- ✔ Industry
- ✔ Segment
- ✔ Stakeholders
- ✔ Strategic position
- ✔ Strategic choices
- ✔ Strategic action/implementation

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Business Strategy

Strategy

Strategy: the direction of an organization over the long term to achieve advantage in a changing environment through the configurations of resources and competences with the aim of fulfilling stakeholder's expectations.

Levels of strategy:

1. Corporate Strategy
2. Business/competitive strategy
3. Operational Strategy

Strategic Decisions

Strategic position → Strategic choices → Strategic Implementation

Strategy Lenses

This model argues that strategy can be set in different ways:

Strategy as design: A rational, top-down process — rational managers, clear objectives, machine — like system

Strategy as experience: an adaptation of what has worked in the past — based on experience, assumptions, decisions.

Strategy as ideas: Strategy based on innovation, diversity of ideas, informal interaction and experimentation.

Mendelow’s stakeholder’s model

Used to identify and manage stakeholders according to their expectations.

Power: in an influential position?

Interest: is a stakeholder affected by the decision?

power

	high	low
High **Interest**	Key players	**keep** Keep informed
Low	Keep satisfied	Minimal effort

Strategic Position

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External Environment Analysis

Macro Analysis-PESTEL Analysis

It considers the following '6' external factors:

1. **Political Factors**: e.g. change in government policy, tax incentives, instability of government etc.
2. **Economic Factors:** e.g. disposable income, inflation rates , employment rates, international trade etc.
3. **Social Factors:** Demography (average age, ethnicity, family structure, geography, culture, lifestyle etc.
4. **Technological Factors: e**.g. awareness of stakeholders about technology, new products and services become available, new media for communication with customers etc.
5. **Environmental Factors**: awareness of stakeholders about environment, green policies, pressure groups, environmental risk, legislation etc.
6. **Legal Factors**: e.g. health & safety laws, employment law, data protection act etc.

All above factors are interlinked

All PESTEL factors help an organization to identify its threats and opportunities in the external environment.

Industrial Analysis-Porter's Five Forces Analysis

1. **<u>Bargaining power of suppliers</u>:** Depends on:

- Number of suppliers
- Threats to suppliers industry
- Number of customers in industry
- The importance of supplier's product to the customer's business
- Switching costs
- Differentiated product

2. **<u>Rivalry among current competitors</u>:** Depends on:

- Market growth
- Buyers ease of switching
- Spare capacity
- Exit barriers
- Uncertainty about competitor's strategy

3. <u>Threat of new entrants</u>

This is limited by barriers to entry:

- Economies of scale.
- Product differentiation
- Access to distribution channels
- Switching costs
- Capital requirements
- Know-how
- Patent rights
- Government regulations

4. <u>Bargaining power of customers:</u> Depends on:

- Volume bought
- Switching costs
- Purchasing skills
- How many buyers there are
- How critical the product is to customer's own business
- Alternative products available from other suppliers
- How many buyers there are

5. Threat from substitute product

A substitute product is a goods or service produced by a different industry but satisfies the same customer needs e.g. video conferencing could be a substitute for business travel. substitutes are always present

Industry lifecycle

Stages	Inception	Growth	Maturity	Decline
Product	Basic -no standard established	Better,-more sophisticated and differentiated	Superior-standard ized	Varied quality but fairly undifferentiated
Competitors	None	Many new entrants-so growing	Competition increases, weaker player leave	Few remain, Competition may be on price (price wars, customer snatching)
Buyers	Early adopter	More customer attracted and awareness increase	Mass market - Brand switching common	Traditional-sophis ticated
Profits	Negative- high first mover advantage	Good	Eroding under pressure of competition	Variable

Segmentation

Segmentation is the subdividing of a market into increasingly homogeneous(customers having similar needs) subgroups of customers.

Basis may be;

- Geographic area
- Preference of quality/price
- Household status
- Religion/ethnicity
- Social class/lifestyle/income

 Segment should be;

- Measurable
- Accessible, and can be accessed profitably
- Stable
- Potentially profitable
- Susceptible to a distinct marketing mix

Marketing

Understanding and anticipating customer's needs and meeting these customer's needs in a profitable manner.

Marketing can be:

1. **UNDIFFERENTIATED Marketing __** Same product to whole market
2. **DIFFERENTIATED Marketing __** Several versions for many segments
3. **CONCENTRATED Marketing __** Specialized product for one segment only

Marketing Mix

Product: should address the needs of customers

Price: value for money

Place: easily accessible to customers-e.g. online

Promotion: communication with customers about the product

People: who can provide service according to the expectation of customer

Process: convenient for customers

Physical evidence: impression even before availing the service

- ***IT and marketing mix -- Important for exam***

Porter's Diamond Model

Objective: Used to analyse competitiveness of nations. Porter identified why some industries are more competitive than others. There are four reasons:

1. **Factor conditions** These include:

- **Basic factors:** like Natural resources, Climate etc. and;
- **Advanced factors:** like Communications infrastructure, Knowledge bases and logistics system

2. **Demand conditions** These include:

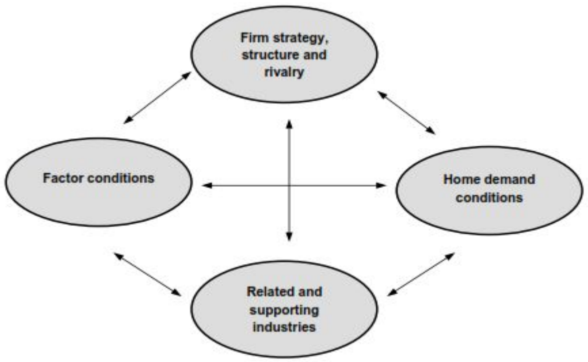
- Market segmentation of home market
- Sophistication of buyers
- Position within product life-cycle in home market
- Anticipation of buyer needs

3. **Firm strategy, structure and rivalry** These include:

- Attitude to short-term profit
- National culture
- Level of domestic rivalry

4. **Related and supporting industries** These include:

- Strength of suppliers
- Quality of suppliers



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Internal Environment Analysis

Culture

Types of culture:

a) **Power culture:** Here, power is concentrated in the hands of one person, 'the boss'.

b) **Role culture:** This is characterised by a traditional organisational structure in which jobs are arranged by function and seniority, and each employee has a distinct role and job specification

c) **Task culture**: Here, the emphasis is on getting the job done

Culture Web

Cultural web is used to analyze the culture of an organization

It has 7 elements:

1. **Rituals & Routines:** a task performed periodically (business as well as non-business)-daily behaviours etc.
2. **Symbols:** Symbolizing the position of an individual-can be verbal or visual e.g. logos, expensive cars, special dining rooms, personal assistants, language, titles etc.
3. **Control Systems:** it is the identification of the basis of performance measurement system and rewards-what is most closely monitored in an organization? Punishment or reward system? What processes has the strongest/weakest controls.
4. **Organizational structure:** formal or informal, tall or flat, centralized or decentralized.

5. **Power Culture:** who is the most important/influential position in the organization?
6. **Stories:** background, beliefs about stakeholders and belief of stakeholders about organization
7. **Paradigm:** overall beliefs. It reinforces the other elements of culture web-overall conclusion of all above points.

Value Chain Analysis

Value chain describes the activities within and around an organization that create a product or a service

Primary activities:

Inbound logistics: deals with delivery of raw materials, handling and storage of raw materials.

Operations: conversion of raw material into finished goods.

Outbound logistics: storage of finished goods, ordering systems, delivery to customers

Marketing & sales: communication with customers to inform about product.

Services: after sale services e.g. warranties, installing products.

Secondary/Support Activities:

Procurement: right price, right quantity, right quality, right time, right supplier

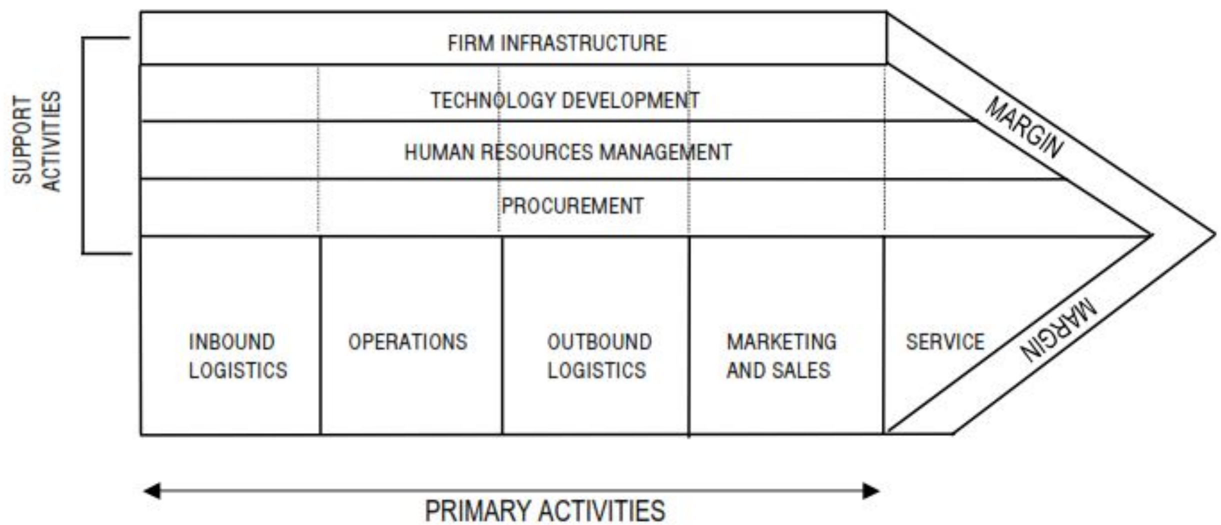
Technological Development: computer aided design, computer aided manufacturing

HRM: hiring, training, appraisal, dismissal

Firm Infrastructure: tall/flat, centralized/decentralized, formal/informal

Upstream supply chain: the link between organization and its supplier-procurement, inbound logistics

Downstream supply chain: the relation between organization and its customers, outbound logistics, marketing & sales, services.



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Value chain and Effect of IT:

Value chain component	Examples of the use of IT
Firm infrastructure	Accounting system, corporate intranet, email
Technology development	Computer aided design, automated software testing, internet searches for new discoveries and processes
Human resource management	Skills databases, manpower scheduling, computer based training, performance monitoring
Procurement	Ordering process, supplier databases
Inbound logistics	Material resource planning (MRPI), manufacturing resource planning (MRPII), just-in-time inventory management
Operations	Computer aided design, computer aided manufacturing, automated production lines, robotics
Marketing and sales	E-commerce, internet advertising, customer relationship management
Service	Fault monitoring, quality control systems, computer aided design.

Resource based strategy

Understanding resources and competences:

	Same as competitors or easy to copy	Different from competitors or difficult to copy
Resources	Basic resource	Unique resource
Competitors	Threshold competence	Core competence

Position based strategy (finding the resources to meet the environment):

In this approach a strategist focuses on the environment (for example using PESTEL analysis or Porter's five forces), discovers and analyses what's happening in the environment, and then reacts to that, often changing what the organization is doing. A position-based strategic planning approach can lure organizations into areas where they haven't got the appropriate resources and competences, and it makes them abandon the

Resource based strategy (find the environment that fits our capabilities):

takes the approach that sustainable competitive advantage comes through possession of distinctive resources:

- **Physical resources** (asset infrastructure, rights to raw materials); and/or
- **Competences** (skills, knowledge etc. – especially for service companies)

M’s Model

Manpower: An analysis of human resources

Money*:* An analysis of financial resources

Machinery: An analysis of operational resources

Materials: Purchasing and suppliers factors

Markets: Issues of marketing and distribution to the customers

Management: The corporate, tactical and operational stewardship of the company

Methods: Processes used to create outputs from inputs

Make Up: Organizational structure and culture

Management Information Systems: Strategic use of IT and IS.

Mission Statement

Mission statements are formal documents that state the organization's mission. They are published within organisation to promote desired behavior, support for strategy and purpose, adherence to core values and adoption of policies and standards of behaviour

Contents of mission statement: to be effective a corporate mission must contain the following four components:

1. Purpose of business
2. Scope and industrial domain
3. Competitive strategy
4. Ethics and culture

Critical success factors

Critical success factors Are those product features that are particularly valued by a group of customers and, therefore, where the organization must outperform competitors? E.g. quality of the product etc

CSFs are measured by key performance indicators.

Example:

CSF	**KPI**
Safety	$\dfrac{\text{Number of accidents}}{\text{Total number of journeys}} \times 100$

Benchmarking

CSF → KPIs → Benchmarking

Benchmarking is:
data gathering, of targets and comparators;
identifying relative levels of performance (and particularly areas of underperformance);
Adoption of identified best practices to improve performance.

<u>Types of Benchmarking:</u>

1. **Internal benchmarking.** Here performance is compared to an internally generated target

2. **External benchmarking.** Here you compare your performance to that seen in other similar organizations

3. **Best practice.** Even better rather than randomly choosing an external, similar organisation, choose the best one and compare yourself to performance there

Knowledge management

To capture + organize + make widely available the knowledge the organization has.

Organizational knowledge is the collective and shared experience accumulated through systems, routines and activities of sharing across the organization

Knowledge can be:

Explicit – which is objective and codified and transmitted in formal ways

Tacit – which is personal and context specific and is therefore hard to formalize and transmit

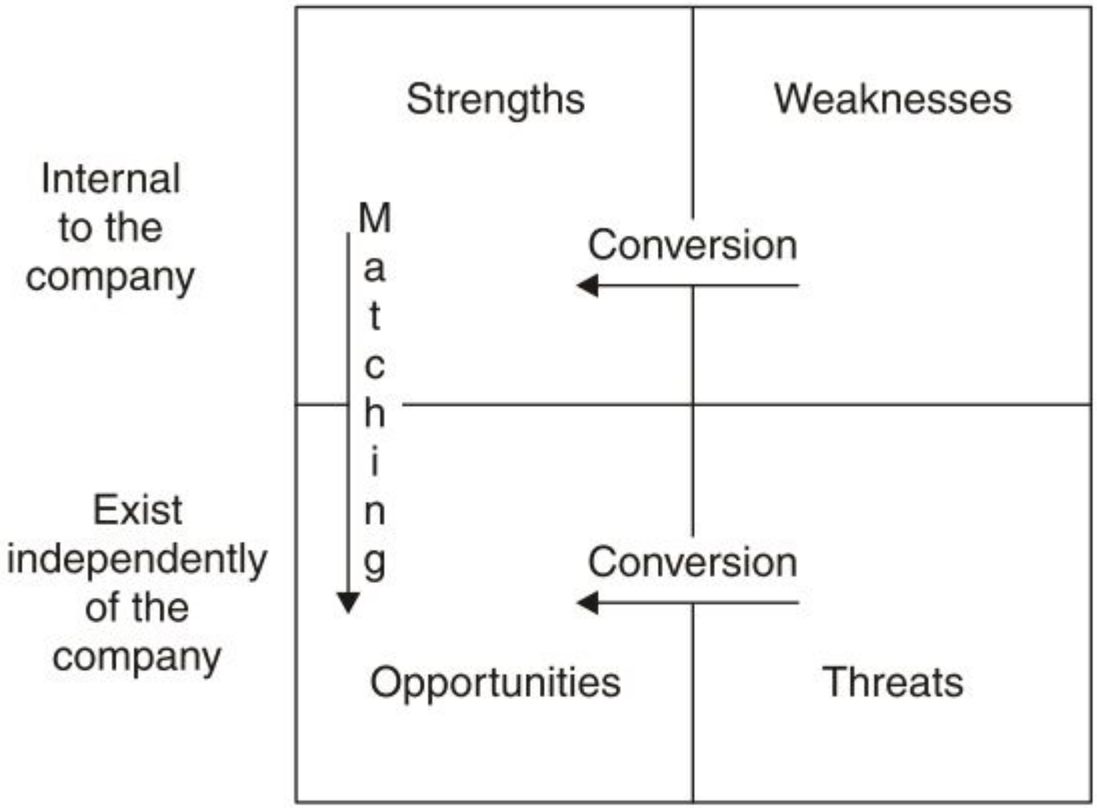
To do this an organization may seek to be a **learning organization** that:

(a) recognizes the significance of people's **intuition**

(b) welcomes **different/conflicting** view; and

(c) makes **experimentation** the norm

SWOT analysis



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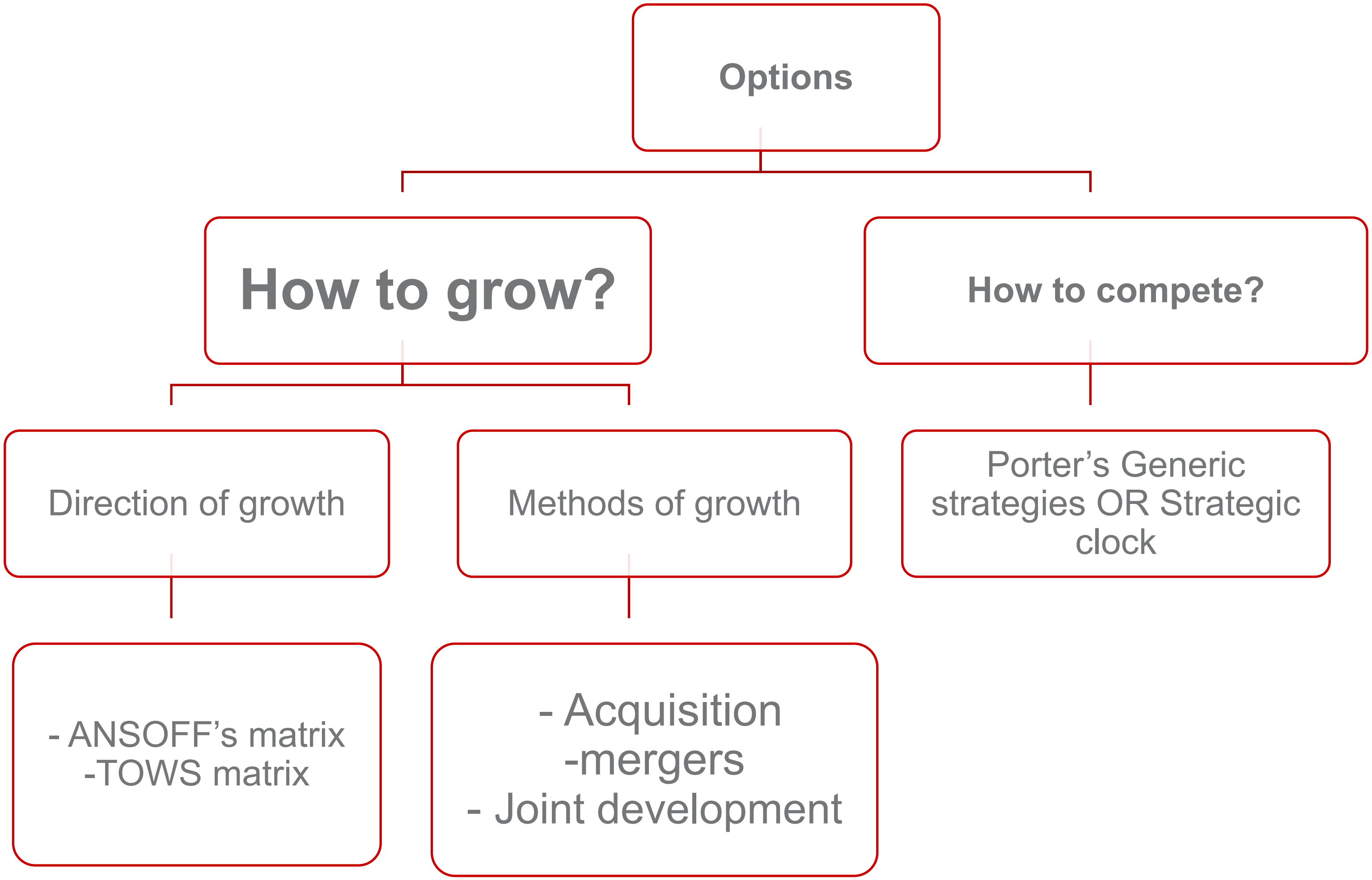
Strategic Choices

Strategic Choices

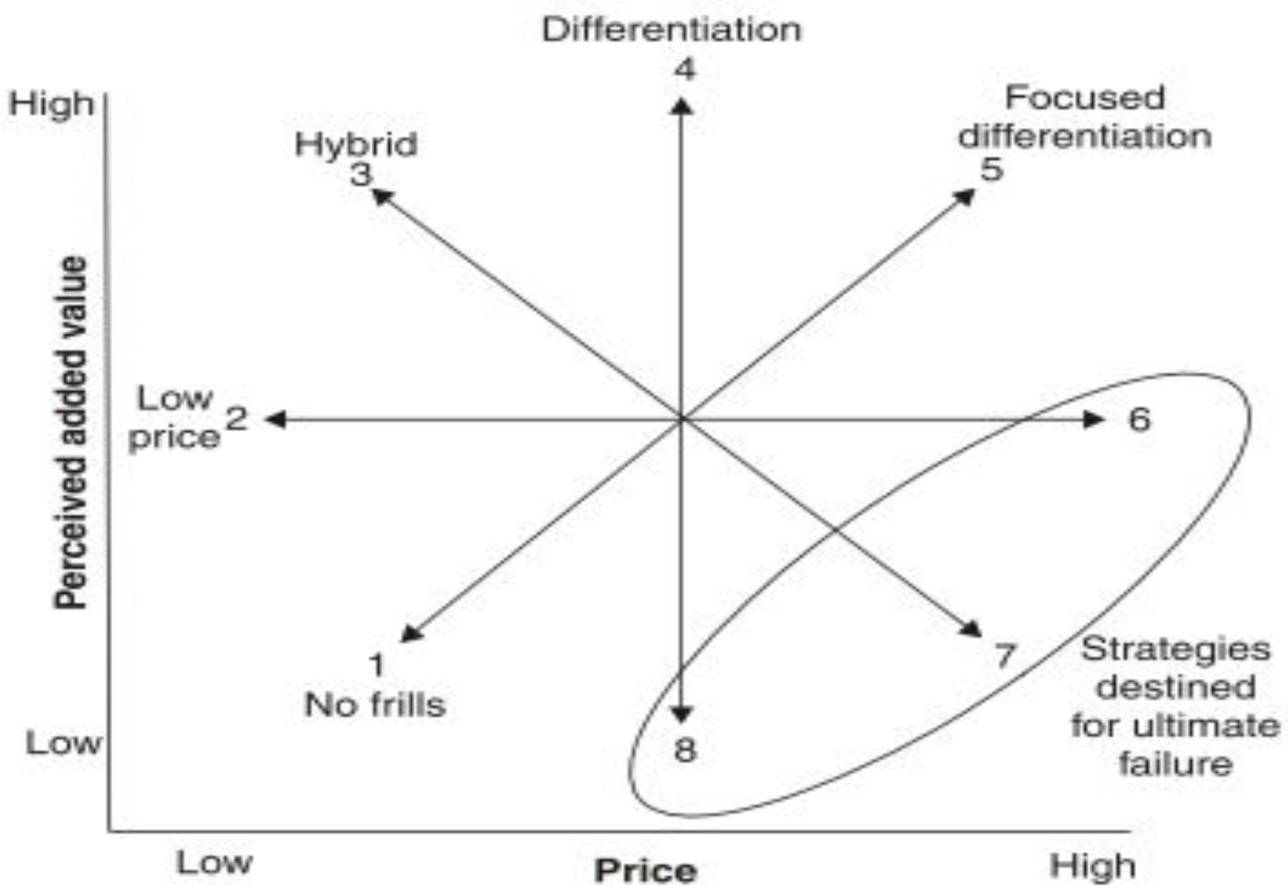


Porter's competitive strategies

It's about the choice between how to compete in market. It can take following forms:

1. **Cost leadership:** selling the same product as competitor's for lower price (be cheap)
2. **Differentiation**: Selling the product which is different from competitors. Product is unique(be better)
3. **<u>Focus (niche) Strategy:</u>** If a firm lacks the resources to dominate the broad (or mass) market, it can **seek to dominate a niche within the markets**

Strategic Clock



AnsOff's/Product-market Matrix

PRODUCT

MARKET	Existing	New
Existing	**Market penetration** ▪ Maintain or increase market share ▪ Dominate growth markets ▪ Drive out competition from mature markets ▪ Increase usage by existing customers	**Product development** ▪ Launch new products ▪ May require new competences ▪ Forces competitors to follow suit ▪ Discourages newcomers
New	**Market development** ▪ New markets for current products ▪ New geographic areas - export ▪ New package sizes ▪ New distribution channels ▪ Differential pricing to suit new segments	**Diversification** Related: Vertical (Forward, Backward), Horizontal Unrelated (conglomerate) New **competences** will be required

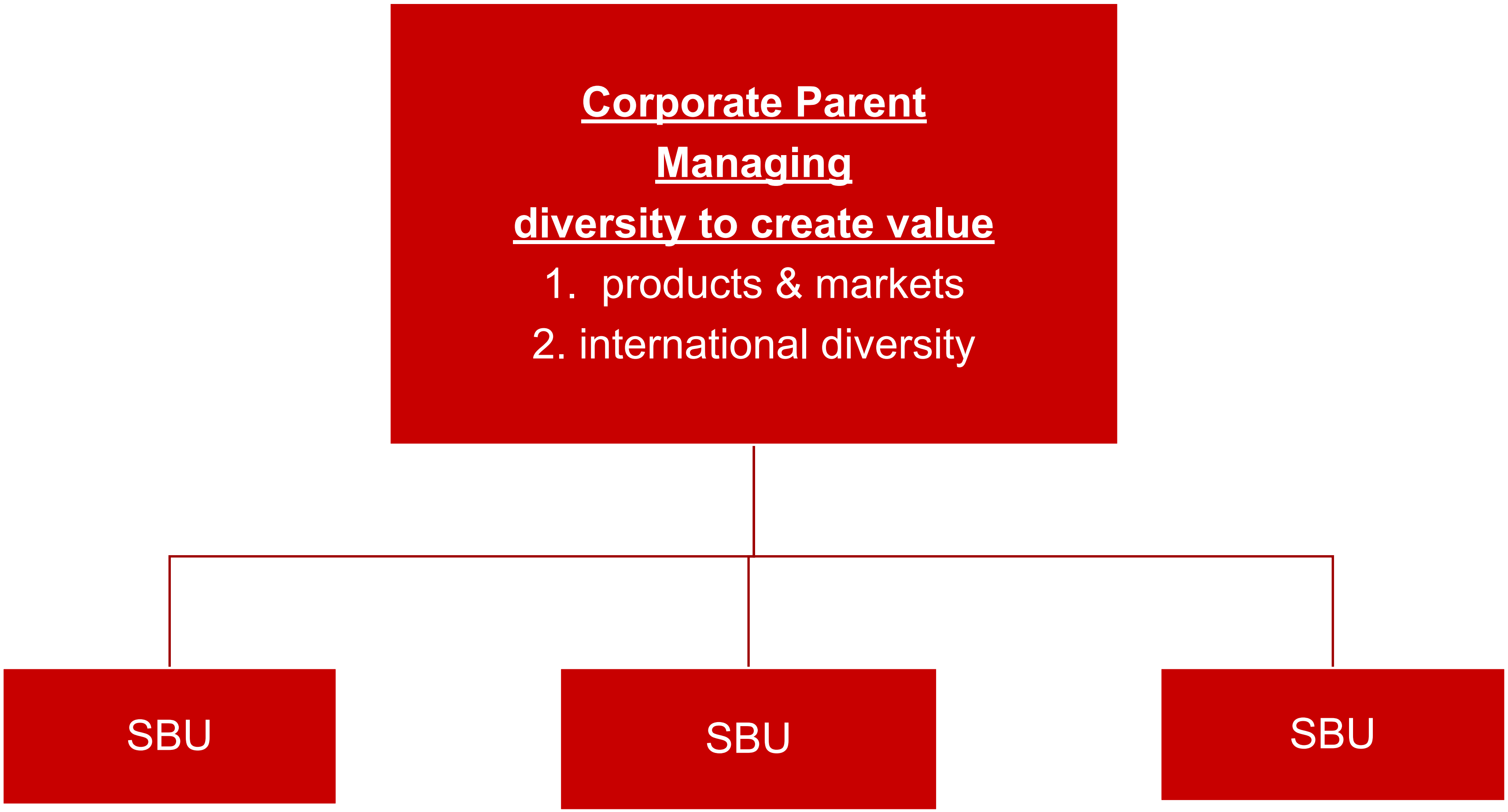
TOWS Matrix

	Strengths	Weaknesses
Opportunity	**SO** use strengths to exploit opportunities	**WO** Overcome weaknesses to exploit opportunity
Threat	**ST** Using strengths to counter threat	**WT** Overcome weakness to counter threat

Methods of growth

	Acquisition	Organic growth	Joint Development
Speed of entry	Fast speed	Slow speed	Fast speed
Cash flows **Outflow** **Inflow**	 Immediate Immediate	 Gradual Delayed	 Low Low
Possibility of cultural conflict	Possible	Not possible	Possible
Availability of an appropriate target	May be a problem	Never a problem	May be a problem
Ability to acquire and manage other businesses	Essential	Irrelevant	Essential

Corporate Strategy



How does Head office (Corporate) add value for business?

1. **<u>Portfolio Managers</u>** – These businesses find undervalued companies, acquire them and then aim to improve profitability. . The role of the parent is to keep Head Office costs low and will typically provide few centralized services to the SBUs.
2. **<u>Synergy managers</u>** – These businesses look for synergies between existing and future SBUs. For example, a company might start providing ACCA courses and then use much of that knowledge to start an SBU delivering CIMA, then another doing other courses.
3. **<u>Parental developers</u>** – These companies look to use the competencies based at Head Office, such as tight financial control, to improve the performance of all the SBUs. The main ways to do this are through:
   a. Providing access to resources the individual SBUs could not access on their own (e.g. financing).
   b. Achieving economies of scale and synergies that an SBU would not be able to achieve on their own (e.g. a coordinated IT system).

BCG matrix

Tell about contribution of different SBUs to business and assess the potential future of a company in a group.

It Consider 2 variables- **Market growth & Market Share**

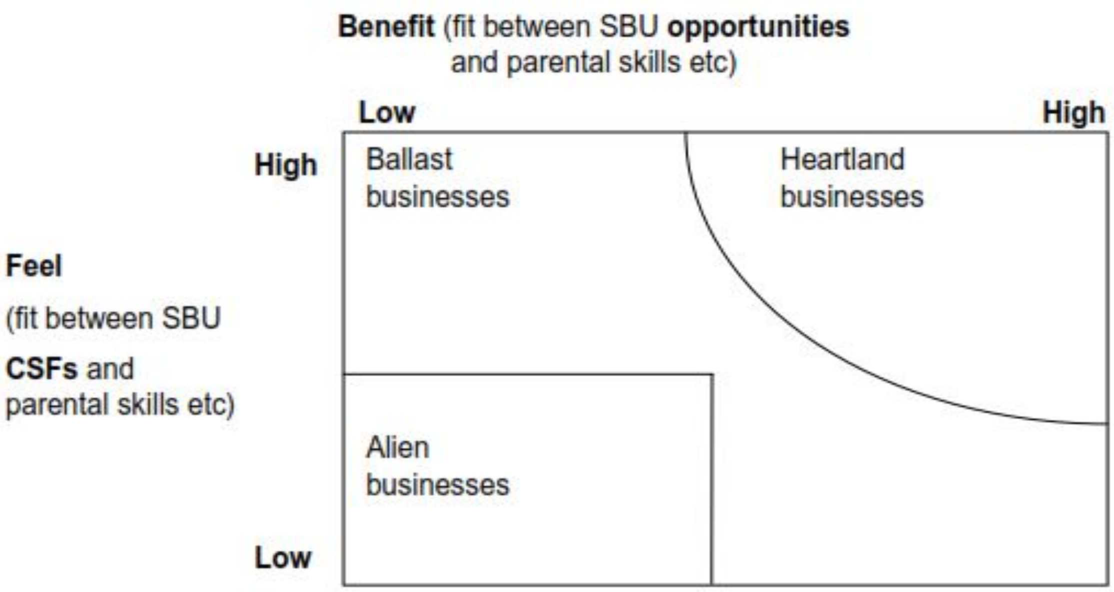
		Market share	
		High	Low
Market growth	High	Star	*Question mark*
	Low	*Cash Cow*	*Dog*

Ashridge Model

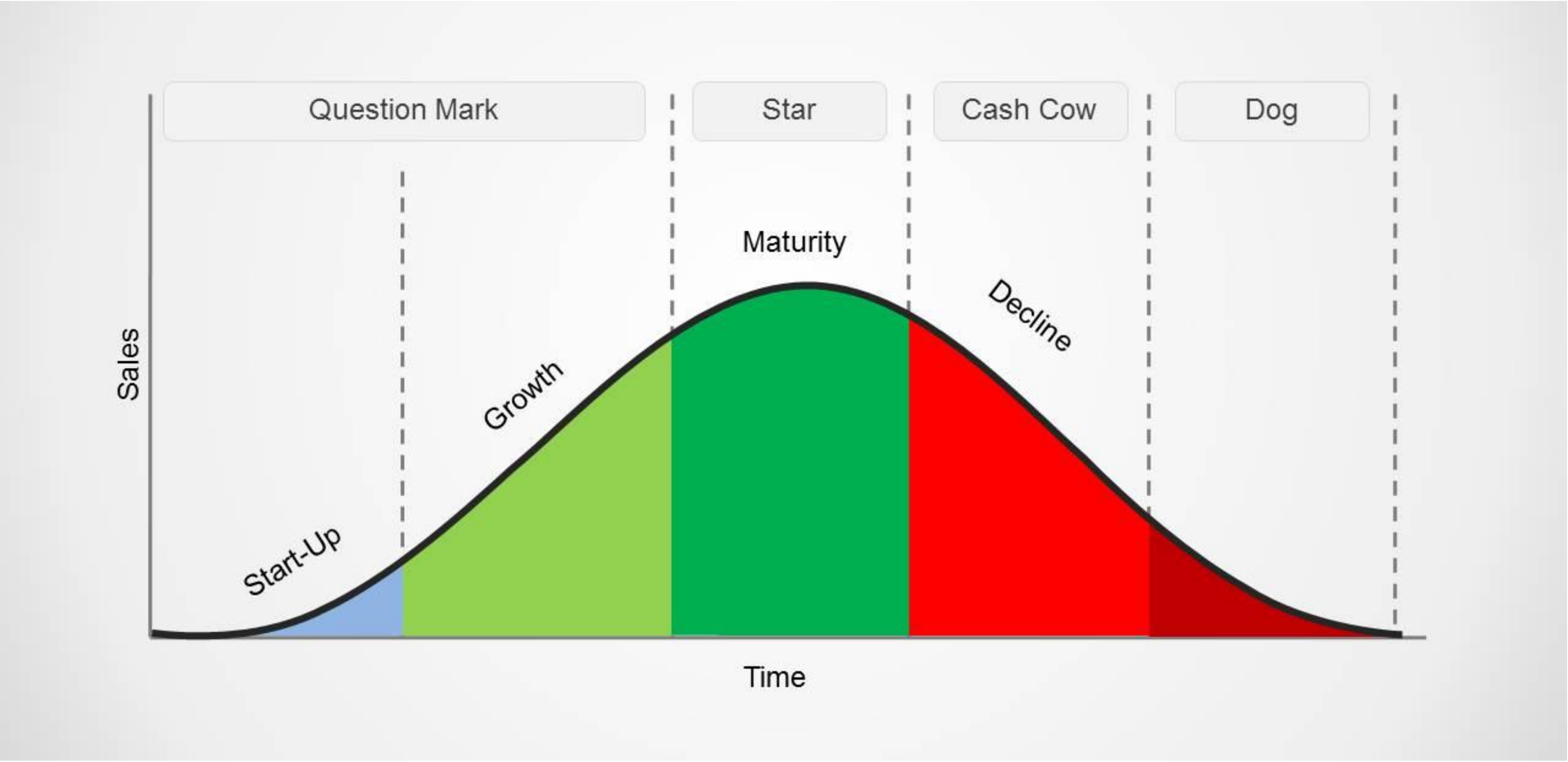
Two variables are considered:

Feel: The degree of fit between the parent's skills, resources and other characteristics and the SBUs' CSFs

Benefit: the degree of fit between the opportunities the SBUs present for parenting and the parent's skills resources and other characteristics



Product lifecycle



Success Criteria/SFA

The exam question of P3 on strategic choices (where examiner asks to evaluate a strategy); the answer can be structured around the following 3 headings to score maximum marks:

1. **Suitability:** Determining the suitability of an option can consider that an option being evaluated can?
2. **Feasibility** : is concerned with whether or not the organisation has
3. **Acceptability:** Acceptability is concerned with the expected performance of outcomes if a strategy is implemented to. Acceptability to shareholders and other relevant stakeholders is considered

Globalization (International Diversification)

Globalisation at a *macroeconomic level* comes from the closer integration of national economies and the elimination of impediments to the transfer of materials, components, products and staff between them.

Management Orientation (international business-way to market:

1. **Ethnocentrism (International):**It ignores any inter country differences. Marketing mix is centralized and standardized with no local adaptations .e.g. paper industry
2. **Polycentrism (Multinational):** Each country is unique, therefore, marketing must be decentralized. This may increase business volume in the target country at the expense of economies of scale. Openness towards other cultures .e.g. food chains
3. **Geocentrism (global environment):**It is based on the assumption that there are both similarities and differences between countries .e.g. construction companies.

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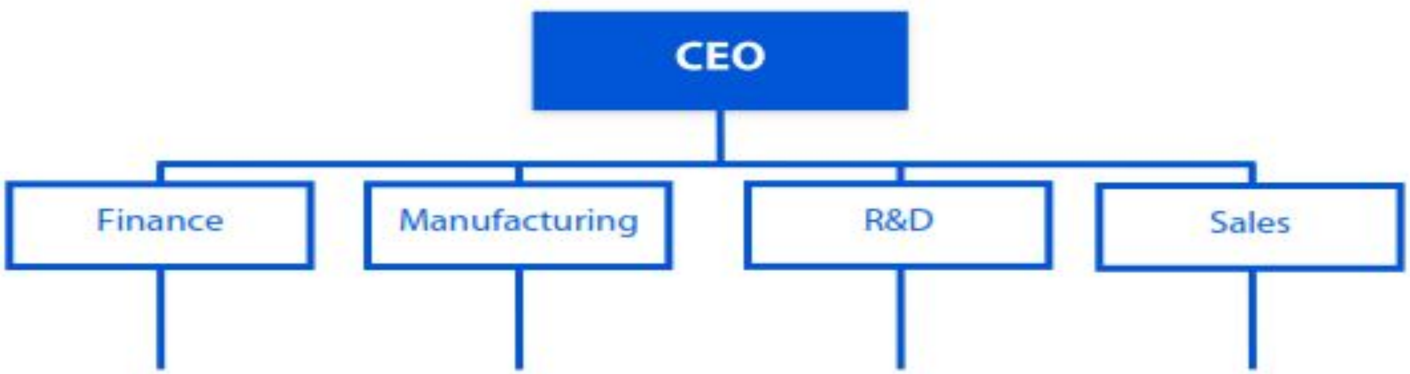
Organizing for success

Organization Structures

1. **<u>Simple Structures:</u>** A highly centralized structure where there is one owner and all other are workers. All decisions are made by the boss (owner)

2. **<u>Functional Structure</u>**:People within the organisation are organized by a function. So there is a finance function, a manufacturing function etc



3. **Divisional structure:** As organizations grow they will often develop a divisional structure.

4. **Matrix Structure:** where there are two bosses to report to

Mintzberg's organisational configurations

Mintzberg suggested that an organisation consisted of five elements:

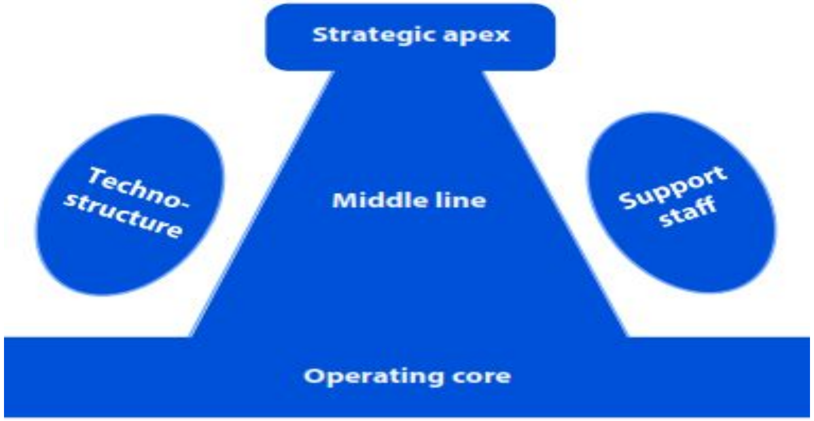
The strategic apex: the board and top management.

The middle line: middle managers responsible for carrying out the decisions of the strategic apex; the chain of command down through the organisation.

The operating core: the workers.

Support staff: departments such as accounting, personnel and IT.

The technocracy: the people responsible for devising and enforcing standards and procedures such as the personnel manual, the internal control system, the quality control system, health and safety rules.



Mintzberg identified five configurations depending on the relative importance of the elements of the organization as follows:

	Co-ordination mechanism	Key part	Environment	Possible characteristics
Simple	Direct supervision	Strategic apex	Simple/dynamic (even hostile)	Small, young, centralised, personality-driven. Crisis of leadership
Machine bureaucracy	Standardised work processes	Techno-structure	Simple/stable	Old, large, rule-bound, specialised
Professional bureaucracy	Standardised skills	Operating core	Complex/stable	Decentralised, emphasis on training
Divisional form	Standardised outputs	Middle line	Varies; each division is shielded to a degree	Old, large, divisions are quasi-autonomous, decentralised, bureaucratic
Adhocracy	Mutual adjustment	Support staff	Complex/ dynamic	High automated, 'organic'

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Strategic Change Management

Types of changes

Scope of change

		Realignment (minor change)	Transformational (fundamental change)
Nature of change	Incremental (gradual)	*Adaptation (most common type of change)*	*Evolution*
	Big bang (sudden)	*Reconstruction (rapid & expensive action)*	*Revolution*

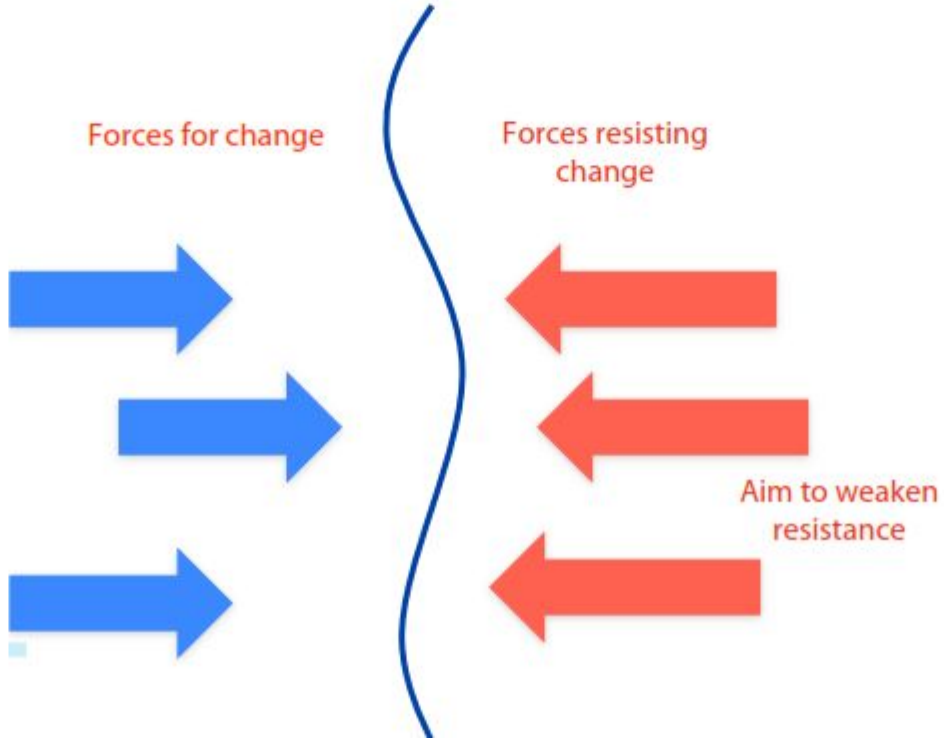
The contextual feature Model

The following factors increases/decreases the acceptance of change in any situation:

- **Time-**is sufficient time available to implement change?
- **Scope-**wider or narrow?
- **Preservation-**will current competences and knowledge and skills of people be required after change?
- **Diversity-**Difference of opinion about the change-normally depends of past experience
- **Capability-**change management skills available in the organization?
- **Capacity-**resources to bring change available?
- **Readiness-** with regards to 'acceptance of stakeholders (mendelow's stakeholder matrix can help)
- **Power-**with regards to key stakeholders.

***** Conclusion should be written in exam questions.***

Force Field Analysis (Lewin's)



Driving forces for change: e.g. new legislation, professional commitment, reporting requirement etc.
Restraining forces for change: e.g. belief that existing system is sufficient, cost, complexity, employees resistance etc.
-driving forces should be built on and restraining forces should be reduced

Roles of management/Style of introducing change

1. **Participation/collaboration:** bring those effected by change in decision making
2. **Negotiation:** with employees or those resisting change
3. **Education/Communication:** explaining/persuasion
4. **Intervention:** by change agent
5. **Manipulation:** focus on the positive aspects of change
6. **Coercion:** implementing a change by force/use of power

Turnaround Strategy

Turnaround Strategy: when the business faces terminal decline and there is a need for rapid and extensive change.

- **Crisis stabilization:** serious cost cut/increase revenue
- **Changes to management:** old management is replaced
- **Communicating with stakeholders:** taking stakeholders into confidence
- **Financial restructuring**: further finance is arranged either by gearing or equity
- **Concentration of effort**: focusing on core business activity-outsource rest of them
- **Attention to target markets:** focus on appropriate target markets
- **Prioritization:** of the above strategies-very important for success of turnaround strategy

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Business process Change

What is a business process?

Arrangement of resources and competences to convert input into output to satisfy customer needs. For a process, more than one department are involved

Outsourcing

Outsourcing is when any operation or process that could be – or would usually be – performed in-house by an organization's employees is sub-contracted to another organization for a substantial period

<u>Advantages</u>:

1. It allows the organization to focus on its core, value-adding activities without the distraction of having to run support services.
2. Cost savings
3. Cost certainty
4. Cost restructuring
5. Access to cutting edge expertise and talent.
6. Better quality.
7. Risk transference.
8. Capacity management

<u>Disadvantages</u>:

1. Unexpected costs.
2. Difficult to reverse.
3. Damage to reputation.
4. Non-congruent objectives and loss of managerial control.
5. Success depends on another company's performance.
6. Confidentiality/security issues

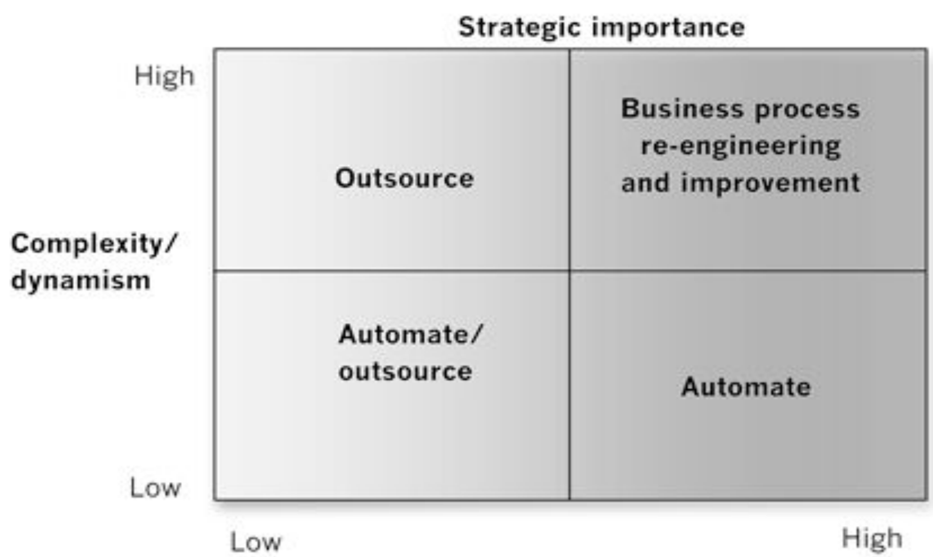
Harmon's process strategy matrix

What should be outsourced?

Harmon's Process Strategy Matrix provides very useful guidance about which processes can be safely outsourced and which should be kept in-house, but subject to automation or other improvement.

It uses two axes:

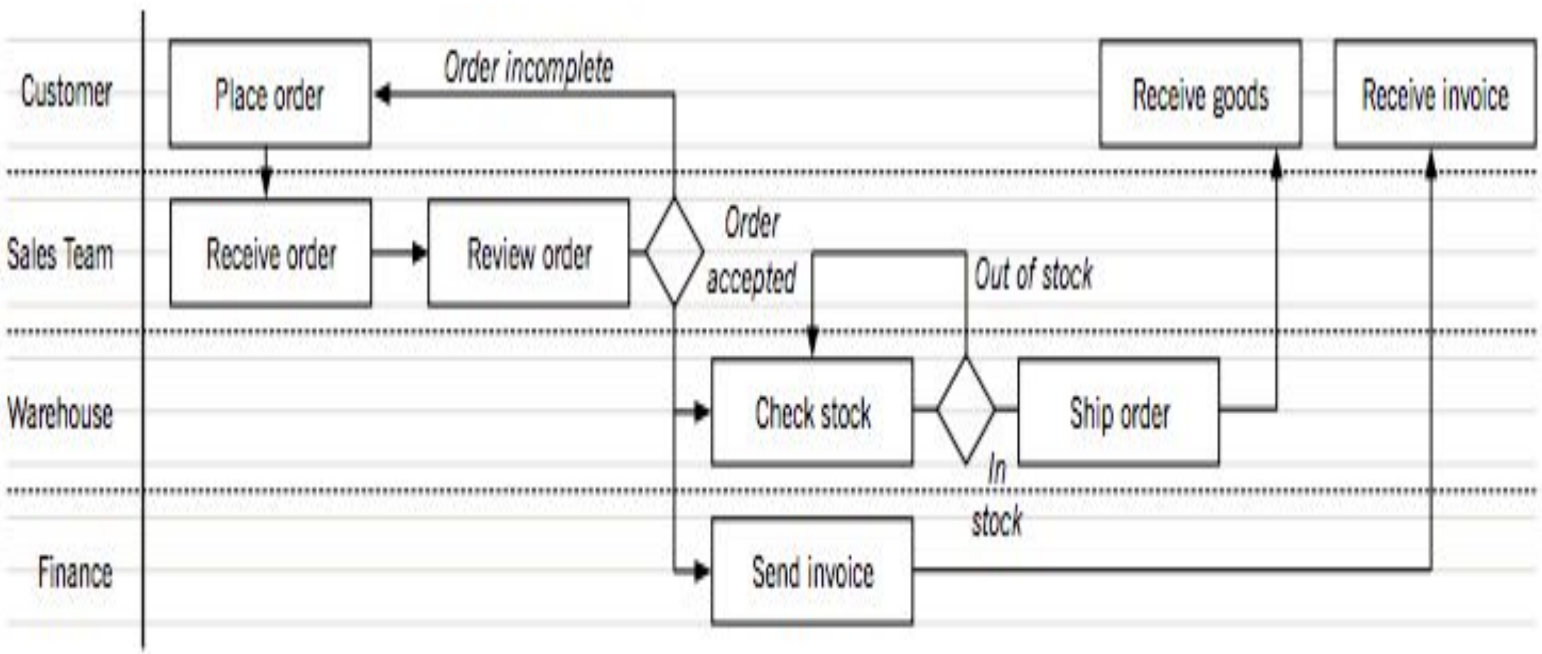
- Complexity of the process
- Strategic importance of the process



Harmon's pattern of Re- Design

1. **<u>Simplification:</u>** The simplification pattern assumes that most established processes (or sub-processes) are likely to have developed elements of duplication or redundancy. Process efficiency can be improved by removing these
2. **<u>Gaps & Disconnects:</u>** Many of the problems affecting process performance (and businesses more generally) result from a failure in communication between functions or business departments. The focus of this redesign pattern is to ensure that the appropriate checks and controls are in place so that efforts are coordinated between functions and departments
3. **<u>Value-Added Analysis:</u>**Harmon suggests that non-value-adding activities should be eliminated as far as possible. Obviously, some of them (for example set-up activities) may be essential for the value-added activity to take place. These essential support activities are known as value-enabling activities, and cannot be eliminated altogether
4. **<u>Re-engineering:</u>** As one would expect, given the levels of change we looked at earlier, the re-engineering pattern relates to a fundamental rethinking of existing processes to achieve major efficiency improvements

Example


Customer
Sales Team
Warehouse
Finance
Place order
Order incomplete
Receive goods
Receive invoice
Receive order
Review order
Order accepted
Out of stock
Check stock
Ship order
In stock
Send invoice

POPIT Model

This approach to business change suggests that four elements need to be considered to achieve successful business change

Organization: consider the organizational capabilities and structure and ensure that these are suitable.

Processes: How are the core business processes carried out? Also, Analyse the value chain and understand the processes (activities) and their linkages.

People: Roles, job descriptions, competences, motivation, rewards, culture.

Information technology: IT architecture, IT capabilities, controls, software and information provision.

Software Selection

	Standardized software /off the shelf software	**Customized software/bespoke software**
Time	*Immediately available*	*Long process*
Cost	*Low*	*High*
Possibility of initial error	*Nil*	*Strong possibility*
Level of user friendliness	*High*	*Relatively low*
Possibility to provide competitive advantage	*No possibility*	*Very high possibility*
Ability to meet specific need of the organization	*No*	Yes

Assessing a software Package(Skidmore & Eva)

At the time of acquisition of software:

1. **Functional requirements-**Basic requirement e.g. to support business operations
2. **Non- functional requirements-**e.g. user friendliness, integrity
3. **Technical requirements-**is it compatible with your current operation system or hardware
4. **Design requirements-**colours, fonts etc.
5. **Supplier's stability requirement-**supplier's going concern?
6. **Supplier's citizenship requirements-**reputation and image of supplier
7. **Initial implementation requirements-**who will install/training procedures/data migration etc.
8. **Operational requirements-**user manual/helpline
9. **Time requirements-**how much time will it take
10. **Cost requirements-**what cost will it incur

Software Selection- 4 or 5 stage Process (Skidmore & Eva)

The company may decide to have a software package written especially (known as a bespoke package). There are five stages the company goes through:

Stage 1: Define need/requirements of the software and Obtain tenders

Stage 2: First pass selection

Stage 3: Second pass selection

Stage 4: Implementation

Stage 5: Managing long-term relationship.

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Information Technology

E-Business

E Business- transformation of key business processes through the use of internet technologies

E commerce-Buying and selling over the internet (financial transaction)

Benefits of adopting E-Commerce/E-Business?

1. **Cost reduction-** e.g. using teleconferencing saves travelling and accommodation cost for important meetings.
2. **Capability-**e.g. online store-unlimited items can be displayed
3. **Communication-**online chat windows
4. **Competitive advantage**
5. **Controls-**e.g. in online banking

Barriers in adopting E-Commerce/E-Business?

1. Setup cost
2. Maintenance cost
3. Lack of knowledge/skills
4. Security concerns
5. Culture

Influence of Internet on Strategy

- **Disintermediation-**some intermediaries going out of business e.g. business now sell online directly to end user, so need of distributors
- **Re-intermediation-**new intermediaries are coming in e.g. a website for online booking of an air ticket
- **Power moving to customers-** because they have a lot of information, reviews and analysis available on internet about products and service. They can do comparisons of prices, quality etc.
- **Growing international competition-**more and more companies are going international via internet
- **Increasing international customers**

Stages in the use of technology in a business (Nolan's Model)

1. **Initiation-**start of IT- main reason to use IT is the accuracy, speed, efficiency of work.
2. **Contagion-** the use of IT spread in the organization-everyone want to use it (spread in whole organization).
3. **Control-**Senior management now starts to plan the budget. Start making cost benefit analysis-decisions about how much to incest in IT-maintenance etc.
4. **Integration-**Different departments start to integrated through computer systems and networks.
5. **Data Administration-**After few years the ***data*** become more important than the devices itself
6. **Maturity-**Data becomes information and becomes the asset for the organization

Forms of E-Commerce

There are four different forms:

1. **Business to Business (B2B)-**involves companies doing business with each other
2. **Business to Customer (B2C)-**involves businesses selling to general public, typically through catalogues with shopping cart software
3. **Consumer to Business (C2B)-**a consumer post their project with a set budget online and within hours, companies review the consumer's requirement and bid on the project. The consumer review the bids and selects the company that will complete the project
4. **Consumer to Consumer (C2C)-**consumer sell their goods to other consumers directly e.g. eBay, OLX etc

E-Marketing

Application of internet technology to achieve marketing objectives **(the 7 Ps)**

Different Characteristics of E-Marketing (6 Is Model)-a very important model for exam questions. The six features are:

1. **Integration-**advertisement and sales are integrated in online marketing. Customers can buy the products right on the spot if they like it . in traditional marketing however if a customer watch an ad on television . They have to make an effort to go to the shop and buy it-so sales and marketing are not integrated(websites recognizes the computer systems and record data)
2. **Interactivity-**recording of information -of customer's computer system-also through registrations on websites the customers applies
3. **Intelligence-**understanding customers, identification of preferences, patterns and trends analyzed from the data recorded in interactivity. ***Intelligence and interactivity are linked.***
4. **Individualization-**promotions according to individuals interest e.g. on Facebook
5. **Industry Structure-** Intermediation plus disintermediation(as discussed above)
6. **Independence of Location-**marketing can be done from anywhere even from home. No specific need of an office etc.

Customer Relationship Management (CRM)

Establishing, developing and maintaining long-term relationship with customer

Building relationship with customer

1. Develop a customer database
2. Have more direct contact with customer-via Surveys,e-mail etc.
3. Develop customer oriented products/services to cater for the changing needs of customers

Customer relationship goes through following stages:

Customer selection(understanding who your customers are/segments)

Customer acquisition(promotions/discounts)

Customer Retention(understanding customers preferences and developing products according to that)

Customer Extension(Try and find/attract more customers)

Big Data

Extremely large collections of data (data sets) that may be analysed to reveal patterns, trends, and associations, especially relating to human behaviour and interactions

Characteristics of Big Data, known as the 3Vs:

Volume 2. Variety 3. Velocity

Volume

Via loyalty cards being swiped at checkouts: details of all purchases you make, when, where, how you pay, use of coupons.

Via websites: every product you have every looked at, every page you have visited, every product you have ever bought.

Social media (such as Facebook and Twitter): Friends and contacts, postings made, your location when postings are made, photographs.

Mobile phone companies: Numbers you ring, texts you send etc

Banking systems: Every receipt, payment, credit

Variety:

- Financial transactions
- Buying habits
- Reaction to advertisements on the internet or to advertising emails
- Geographical information
- Information about social and business contacts etc

Velocity:

Information must be provided quickly enough to be of use in decision making

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Leadership & Human Resource Management

Leadership theories

1. **Trait theories**

   Good leaders share similar characteristics

   It is possible to develop leaders by learning these characteristics

   Individual is more important than situation

2. **Style theories:**

   Which assumes that leadership style will affect the motivation of workers

3. **Situational theories/Contingency theories**

   Good leaders have ability to adopt their leadership style depending upon

   Task

   Team they are interacting with etc

Styles of leadership

1. **Transactional leaders**

   Use systems and processes to control the behavior of team members

   More suitable for relatively static environment

2. **Transformational leaders**

   Change from within

   Empower others

   Be visionary

   Passionate for their beliefs

   Clarity of direction about how to achieve their targets

Kurt Lewin's 3 styles of leadership

Autocratic

Leaders take decision without consulting the team members

Democratic

Team members are allowed to participate in decision making but leaders take the final decision

Positive impact on the team members

Learning opportunities foe team members

Not suitable where a range of options are available

Laissez – fiare

Allow team members to take decisions and be responsible for the effects

Suitable where team members are capable and motivate

Job Design

Job Design is essentially about organizing work and that has always been a major role of management. Four approaches are;

1. ***<u>The scientific approach:</u>***

This approach is associated with Frederick Taylor (1856–1915). The results of his studies in search of efficiency were that:

- Jobs were fragmented into simple tasks
- Manual workers simply had to get on with their simple, repetitive task and leave decision making to managers. The skill in each job should be minimised

.

2. ***Job rotation, job enlargement and job enrichment:*** This approach gave rise to attempts at job redesign where managers aimed to produce 'better' jobs. Methods available are:

- **Job rotation**. This is a horizontal change in the job, meaning that a worker is regularly moved from one simplified, de-skilled job to another. This should reduce worker boredom (at least for a while).
- **Job enlargement**. Another horizontal change, but each job now consists of several unskilled tasks.
- **Job enrichment**. This is a vertical change in which some of the tasks previously carried out by managers and supervisors are added to the job

3. ***Japanese management:*** This approach is also known as 'lean manufacturing' and it concentrates on eliminating any activity and expenditure that does not add value to the finished product or service. There are three elements:

- Elimination of waste
- Flexibility
- Quality

4. **Business process re-engineering:** This approach says that the structure of work has to be radically changed

Competency framework(HRM)

The required outcome expected from the performance of a task in a work role, expressed as performance standards with criteria’

Uses/Advantages of competency framework

- Hiring
- Training
- Appraisal
- Promotions
- Dismissals

Appraisal (HRM)

- Expected performance vs actual performance
- Appropriate timing
- Should be based on controllable factors
- Performance measures must be pre-decided and communicated
- Appraisal has to be future oriented

Appraisal Methods

1. Tell
2. Tell and sell
3. Listen, tell and sell

Succession planning

Facilitates management development at all levels. It refers to developing a system to ensure important staff is replaced. Key features will include:

- Early identification of potential candidates for senior management.
- Training linked to career development.
- Development of contingency plans in case a post becomes vacant sooner than expected.

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Project management

Project management

<u>Project:</u> A project is an undertaking that has a beginning and an end and is carried out to meet established goals within cost, schedule and quality objectives

<u>Project management</u>

Project management is the combination of systems, techniques and people used to control and monitor activities undertaken within the project. A project will be deemed successful if it is completed

- At the specified level of **quality**
- On **time**
- Within **budget**
- Within the specified **scope**

Stages in the project life cycle

Every project is different but each will include at least the following stages:

1. Initiation
2. Planning
3. Execution
4. Control
5. Completion

Step 1. Project initiation

At this stage, a project initiation document (PID) is formed

A project initiation document has the following elements:

1. An assessment of ***current strategic position*****.** It includes:
   - SWOT
   - What is wrong with the current system?
   - How the project will assist in achieving objectives
2. The ***constraints*** that are likely to exist for any project. *There are three key project constraints*
   - *Cost*
   - *Time*
   - *Scope*
3. The **risks** that might arise for the project and how these will be managed
4. An assessment of **benefits and costs (Business case)** of performing the project

Risk assessment

Risk can be analysed and evaluated according to:

- The likelihood that they will occur
- The impact that they could have on the project

		Likelihood	
		Low	**High**
Impact	**Low**	**Accept** (no action is taken, accept the risk at its present level)	**Reduce** (control the risk for example through internal control systems)
	High	**Transfer** (sharing the risk with 3rd party e.g. joint venture or insurance)	**Avoid** (if in doubt do not perform the activity, if already in it,exit)

Step 2.Project planning

A project plan is needed to ensure that the project objectives are achieved within the constraints of quality, cost and time. It includes:

- ✔ Scope
- ✔ Quality
- ✔ Time
- ✔ Budget
- ✔ List of deadlines
- ✔ Ways and time of communication
- ✔ Team structure
- ✔ Roles and responsibilities
- ✔ Any other relevant clause agreed by project sponsor and deliverer.

Must be signed by both parties

Step 3. Project execution

A **project team** is formulated to execute a specific project

Ideally a project team should be:

- Small
- Cohesive
- Right mix of personalities

Some of the **roles taken on by team members** in organizations include:

- Co-ordinator
- Shaper
- Plant
- Monitor/Evaluator
- Resource invigilator
- Implementer
- Team worker
- Finisher

Step 4. Project monitoring and control

A project is monitored throughout for the purpose of review and control to track all major project variables and to ensure the team is making satisfactory progress to the project goals.

All projects have targets relating to cost, time, scope, and quality; these should be defined in the PID. Regular review and monitoring is important for a successful project.

Step 5. Project completion

A project is completed with a

1. *a **post project review (PPR):** It is normally*

- Done by the deliverer
- Done at the last stage before the formal dissolution of the project team
- Focus on the conduct of the project
- What went well and what went wrong
- To improve the project management skills to conduct future projects in more efficient way

3. *A **post implementation review (PIR):*** It is:

- Done by the sponsor
- Allow actual user to experience the product delivered by the deliverers
- Product delivered must be exactly according to the PID

3. *A **benefit realization review:*** is done to assure that all the benefits promised at the evaluation stage have been subsequently realized. It is:

- Done by the sponsor
- Allow actual user to experience the product delivered by the deliverers
- Product delivered must be exactly according to the PID
- Focus on the product delivered rather than the conduct of the project

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Forecasting & Finance

Ratio analysis

Profitability ratios

1. Gross profit margin = $\frac{\text{Gross profit}}{\text{sales}}$ x100

2. Net profit margin = $\frac{\text{Net profit}}{\text{sales}} \times 100$

3. Return on capital employed = $\frac{\text{Profit before interest and tax}}{\text{capital employed}} \times 100$

   (capital employed = long term liabilities + share capital)

4. Asset turnover = $\frac{\text{Revenue}}{\text{Capital employed}}$ x 100

5. ROCE = asset turnover × net profit margin

Liquidity ratios

1. Inventory days = $\frac{\text{Inventory}}{\text{Cost of sales}} \times 100$
2. Debtors days = $\frac{\text{Trade receivable}}{\text{Credit sales}} \times 100$
3. Payable days = $\frac{\text{Trade payables}}{\text{Credit purchases}} \times 100$
4. Current ration = $\frac{\text{Current asset}}{\text{Current liabilities}}$
5. Quick ratio = $\frac{\text{current asset – inventory}}{\text{Current liabilities}}$

Investment ratios

1. P/E ratios = $\dfrac{\text{Price per share}}{\text{Earning per share}}$

2. Earning per share = $\dfrac{\text{Profit after tax}}{\text{No of ordinary shares}}$

Risk measurement ratios

1. Interest cover = $\frac{\text{profit before interest \& tax}}{\text{Interest charge per year}}$

2. Gearing ratio = $\frac{\text{Long term liablity}}{\text{Long term liablity + capital}}$

Forecasting

1. **<u>Linear Regression Analysis:</u>** finds the equation of the straight line (line of best fit) and used to forecast.

   $Y=a + b x$

where

y = total cost

x = No of units produced

a = the slope or gradient of the line (e.g how much the cost increases for each additional unit)

b = the intersection of the line on the y axis (the cost that would be incurred even if production were zero).

It is also known as least square method.

Forecasting

Correlation: relationship between two variable

- Positive
- Negative
- No correlation

Correlation coefficient(r):

it tells the strength of relationship between two variables

Range= -1 to +1

Perfect negative-inversely proportional

Perfect positive-directly proportional

Coefficient of determination(r)

It tells us the % dependency of dependent variable on independent variable

Forecasting

2. Time series: A time series shows how an amount changes over time. Time series analysis usually recognises four effects:

- **A trend.** This is the underlying growth or decline in an amount
- **Seasonal variations.** These are variations which repeat fairly consistently within a period of no more than a year
- **Cyclical variations.** These are variations which repeat over longer than a year. For example, economic boom and depression
- **Random variations.** Unexpected changes in what might be expected.

Pricing

• Mission and marketing objectives
• Pricing objectives
Costs
Marginal
Total absorption
Opportunity
Competition
Type of market
Price competition
Non-price competition
Other marketing mix variables
Customers
Consumers
Intermediaries
Perceived value of the goods
Nature of the goods
Controls
Statute
Regulation
Contract

Short term decision making

Relevant costing: A relevant cost is

1. Future cost
2. cash flow
3. Incremental cost

Decision making relevant for P3

1. Make or buy
2. Outsourcing
3. Shutdown decisions
4. Limiting factor analysis
5. Special contracts/ accept or reject

Practice

Decision making:

Budgeting

A plan, not a forecast. It’s a short term plan expressed in financial terms .It converts strategic plans into specific targets.

Objectives of budgetary planning and control systems

- Ensure the organization’s objectives are achieved
- Compel planning
- Communicate ideas and plans
- Co-ordinate activities
- Provide a framework for responsibility accounting
- Establish a system of control
- Motivate employees to improve their performance

Styles of budgeting:

1. Imposed (top-down)
2. Participation (bottom-up)
3. negotiated

Standard Costing

- Types of standards
- Variance Analysis
- Flexed budgeting and variance Analysis

Activity based costing

Treatment of overheads according to what causes the cost

Advantages of activity based costing ABC

Accurate cost calculation

Accurate selling price

Better cost control

Better decision making

Better planning/ activity based budgeting

Better performance measurement

Corporate Social Responsibility

Corporate Social responsibility (CSR) centers on the approach taken by organizations to provide benefit to society in general rather than specific stakeholders.

Examples of CSR include:

- Acting ecologically
- Fair employment policies
- Charitable donation

Corporate Governance

It is the conduct of the organizations senior management. It's the way the organizations are run and controlled.

- Abuses have led to a range of measures to improve corporate governance.
- Non-Executive directors(NEDs) have a particular role to play being independent of management

Integrated Reporting

'An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term' (IIRC draft framework, April 2013).

Following IR Content Elements are particularly relevant to Paper P3:

- Organisational overview and the external environment
- Opportunities and risks
- Strategy and resource allocation
- Business model
- Future outlook