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# Answers

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1 (a) Introduction

There is significant evidence to suggest that organisations go through long periods of relative continuity, during which established strategy either goes unchanged or changes incrementally. However, there is a concern that such relative stability can cause strategic drift, where strategies fail to address the changed strategic position the organisation finds itself in and so organisational performance gradually deteriorates. This is typically followed by a period of flux in which strategies change, but perhaps in no clear direction. This can be followed by a transformational change, in which there is a fundamental change in direction to address the critical strategic position of the organisation. Alternatively, the period of flux may accelerate the poor performance of the organisation and leads to its demise.

Performance 2007 to 2017

2007 to 2013 saw a decline in financial performance at ABC as revenues fell more quickly than costs. Losses (before tax and interest) were reported in both 2011 and 2013. The gross profit margin fell from 30% in 2007 to 18.75% in 2013. A positive net profit margin in 2007, of 10%, became a negative one by 2013. The company attempted to address this deteriorating financial performance by conventional strategies which were essentially more of the same: increasing display advertising and price discounting. However, despite these initiatives, financial performance continued to worsen. Moreover, revenues were declining at the time when interest in ancestry was increasing in Oraria, encouraged by television programmes exploring the family history of celebrities. This important socio-cultural trend in the environment should have been an opportunity for ABC to increase sales of this type of book.

All figures in \$millions

	2007	2009	2011	2013	2015	2017
Revenue	20	18	16	16	16	15
Cost of sales	14	13	13	13	13	13
Gross profit	6	5	3	3	3	2
Operating costs	4	4	4	4	5	3
Net profit	2	1	(1)	(1)	(2)	(1)
GP margin	30.00%	27.78%	18.75%	18.75%	18.75%	13.33%
NP margin	10.00%	5.56%	-6.25%	-6.25%	-12.50%	-6.67%

What ABC also failed to address in its strategy was another socio-cultural force, this time one which represented a threat to the organisation. This was the fundamental change in the way which books were being bought. Between 2007 and 2013, the number of bookshops declined by 28% (from 1,250 to 900 shops). Internet sales of books in Oraria, which even in 2007 accounted for 45% of all sales, had risen to 73% by 2013. Thus the management at ABC was ignoring important information which was available to them. They were not offering the sales channels which customers were increasingly using.

ABC only addressed this issue in 2015 when it launched its own website to offer books online to its customers. However, the development of the website probably contributed to the higher operating costs in 2015, leading to the company reporting another loss. No significant change had taken place by 2017. The development of the e-commerce website possibly reflects ABC's period of flux when the reliance on well-tested marketing approaches and the consensus about channels to market were finally broken.

However, although this change reflected the enthusiasm of the newly appointed sales and marketing manager, it has to be questioned whether this was the right thing to do. Evidence showed that most internet sales were made through intermediaries rather than through the publishers' own websites. Also, this was an increasing trend. In 2007, sales through intermediaries were double those made directly through the publishers' websites. This had grown to three times (55% compared with 18%) by 2013. ABC could have arranged to sell its books through intermediaries much more quickly and cheaply than developing its own website. Perhaps the sales and marketing manager's enthusiasm for developing his own website blinded him to the commercial advantages of just using internet intermediaries in the short term.

Rupert Hart's decision to retire in 2018 probably also reflects the company's failure to address its worsening financial performance. The arrival of new owners gives ABC the chance to reassess its strategic approach. The company has probably been saved from its demise by the intervention of BV Ventures.

- (b) The *strategy by design* lens takes the view that strategy development is a logical process where analysis and evaluation techniques can be applied to establish a clear strategic direction. It is perceived as a rational approach to strategy, where top management decides the strategy of the organisation and then issues top-down directives to implement that strategy throughout the organisation. In this approach, strategic analysis takes place through matching an understanding of the external environment of the organisation (the opportunities and threats it presents) with the internal strengths and weaknesses of the organisation. This leads to the deliberate positioning of the organisation in its market place. The actions required to establish this position often take place over a long period of time (three to five years) and these actions are cascaded down through the organisation to those who have to make things happen. Strategy by design is often associated with clear, specific objectives and a control system of budgets, targets and appraisals which can be used to assess progress towards the overall objectives. Critical success factors (CSFs), key performance indicators (KPIs) and specific performance measures are often associated with strategy by design. At ABC, the new owners, BV Ventures, represent the design lens. Its prescription reflects this approach

exactly, with the SWOT analysis summarising the external environment and internal capabilities of the organisation. The strategic direction is determined by explicitly positioning the company to take into account this analysis. So, for example: using a strength to exploit an identified opportunity or to recognise a weakness which cannot be addressed and so remove itself completely from a market where there is a strong, persistent threat. As already noted, clear objectives and the top-down allocation of actions which should fulfil these objectives are typical of the rational, design approach to strategy.

The *strategy by experience* lens takes the view that future strategies are based on the adaptation of past strategies influenced by the experience of managers and others in the organisation. This approach is strongly driven by the taken for granted assumptions and the 'way we do things around here' embedded in the culture of the organisation. In this approach, there is a tendency for the strategy to build on what has gone on before. Thus strategies develop in an incremental or adaptive way and lead to gradual, rather than fundamental change. This lens is exemplified at ABC by Rupert Hart and his management team. In the period from 2007 to 2013, when there were clear changes in the environment, ABC responded to these by using marketing techniques which they had used before and were comfortable with (increased display advertising and discount pricing). Both of these were insufficient to address the fundamental change in buying patterns which was taking place in the external environment. The problem at ABC was probably exacerbated by the fact that Rupert had largely recruited in his own image, employing ex-military men or people who had history degrees from well-respected universities. Such people are likely to think alike, particularly when the chief executive is also the sole shareholder. The commonality of background might create a strong organisational culture, but can be a problem when there is a need to think outside the box to address problems which threaten the continued existence of the organisation. There was a lack of diversity in the management team needed to make the fundamental change which was required. This approach to strategy is likely to create the strategic drift discussed in the first part of this question, as management fails to see the need for significant strategic change or possess the tools to make such change.

The *strategy by ideas* lens emphasises the need for diversity and variety in an organisation, with variety being used to generate genuinely new ideas. In this approach, strategy emerges from within and around the organisation as people cope with uncertainty and the changing environment of their day-to-day work. To some extent, Rupert Hart attempted to inject this into ABC by appointing Jon Lang. Jon did not come from the same background as his colleagues and, in dressing in casual clothes, indicated that he did not wish to fit in with the prevailing 'suit' culture. It is not possible to plan for such creativity or to reliably pinpoint someone as the 'ideas generator' and there is a danger that a 'new idea' generated within the company is actually inappropriate or less appropriate than other, undiscovered, ideas. This may be the case at ABC where Jon Lang comes up with an idea, the development of the e-commerce site, which does appear to be relatively successful. Although the financial performance of ABC has not significantly improved by 2017, the percentage split of the sales source analysis clearly shows the attraction of the new approach. In 2017, 25% of orders were made through ABC's website, compared to just 10% in the previous year, its first year of operation. Although some colleagues doubted this approach, expressing concern about harming the relationship with book-sellers, there was no other creative alternative. It was, in effect, the only idea on the table. Strategy as ideas is likely to be more successful where the organisational culture encourages a number of competing ideas and the best survive and are adapted and adopted by the organisation. It works better in organisational cultures which encourage variety and informal networking and this seems unlikely in both the current and future structure at ABC. It is interesting that Rupert Hart appears to revert to type when appointing a successor to Jon Lang. The new employee is a male history graduate from the same university which Rupert attended.

- (c) Critical success factors (CSFs) are key elements of organisational performance which the management of the company believes to be fundamental to, or indicative of, the success of the company. Key performance indicators (KPIs) are defined to allow performance in a CSF to be quantified. There are often several KPIs for each CSF. The KPI itself does not include the actual value of the measure, this is specified in a performance objective. These performance objectives are likely to change over time (to reflect changing trading conditions and aspirations) but the basis of the measurement will stay the same, unless it is agreed that the KPI is a poor measure of the CSF, or indeed if the CSF itself is deemed to be no longer relevant.

Some CSFs can be related directly to high-level objectives of the firm (for example: 'to become market leader' would probably translate into a CSF concerned with revenues) whilst others facilitate a high-level objective (for example: customer service excellence should help the company become the market leader). Traditionally many CSFs were financial, because this was the primary measure of organisational performance. However, since the publication of the *Balanced Scorecard* (Kaplan and Norton), there has been increased recognition of other CSF elements. Kaplan and Norton's framework encourages the definition of CSFs from the perspective of the customer, the internal business processes and learning and growth.

At ABC, it is likely that BV Ventures will have CSFs for:

- Profitability (need to publish books profitably, it is also part of the mission statement)
- Revenues (need to increase revenue)
- Return to shareholders (adequate return to shareholders. As venture capitalists, BV Ventures will be particularly focused on return to shareholders)
- Customer delivery (speedy delivery)
- Customer service (dealing with post-sales issues)
- Customer satisfaction (leading to repeat orders and referrals)
- Product quality (the content and presentation of the book)

CSFs might also be developed for employee satisfaction (the 'who people want to work for' in the mission statement).

Key performance indicators might be:

*Profitability:* standard measures such as net profit margin, gross profit margin, return on capital employed (ROCE), etc.

*Revenues:* total sales by value. The link between revenues and profitability needs to be monitored. Revenue can be inflated by price discounting (selling more books for less money) but this critically impairs profitability.

*Return to shareholders:* standard measures such as dividend yield ratio, earnings per share, price/earnings ratio, etc.

*Customer delivery:* percentage of deliveries made within a specified number of days between customer order and customer receipt.

*Customer service:* percentage of service requests dealt with satisfactorily within a specified number of hours.

*Customer satisfaction:* BV Ventures has already suggested potential measures for this, number (or percentage) of repeat orders and number of customer referrals. However, these would need further consideration. A customer may be very satisfied but not wish to order any more books, or not have any friends interested in ancestry and military history. A better KPI might be the 'percentage of people who indicated that they were 'very satisfied' in an independent survey of customers'.

*Product quality:* again, BV Ventures has already suggested that the 'almost elimination' of returned books would be an indicator of product quality. Thus the KPI could be 'the percentage of book returns'. Achieving such a KPI should reduce demand for after-sales customer service.

*Employee motivation* might be measured by staff turnover, average length of service or percentage of employees stating that they are 'very happy' in an independent survey.

- (d) A mission statement is a statement of the overriding direction and purpose of the organisation. It represents its 'reason for being'. Some organisations use the term 'vision statement' and some have both mission and vision statements, distinguished from one another by their level of detail. Although some writers have decried such statements as being too bland or general, the mission statement does provide the opportunity for the management of the organisation to communicate to stakeholders what they believe the organisation is about and what its aspirations are. It is often defined at a level which all stakeholders could subscribe to. In doing so, it emphasises the common ground between stakeholders, not their differences. If there is substantial disagreement about the mission or vision of the organisation, then this is likely to lead to subsequent problems in agreeing the strategic direction of the organisation. The strategic direction needs to be aligned, in some way, to the organisational mission.

At ABC, the absence of a mission statement in the past will have meant that its management was unable to evaluate their strategy against any high level vision. This is consistent with a strategy by experience crafted by individuals who have a common background. There is tacit agreement of what the company is about, it does not need to be articulated.

It is important therefore for the new owners to be clear about their vision for ABC and to communicate that vision to other stakeholders. Without this communication there will be concerns about the motives of the new stakeholders and with a lack of mission comes rumour and uncertainty, particularly when the new owners are venture capitalists, organisations which are often associated with asset stripping. Generally, people react negatively to change and so any positive communication from the new owners is likely to have an impact. The mission 'to develop a profitable, successful company who people want to work for and customers want to buy from' is both short, high-level, and likely to be agreed by all significant stakeholders (shareholders, employees and customers). Consequently, it is probably quite a good mission statement.

It is significant that BV Ventures has tried to reassure both employees and customers in their press statement. The acknowledgement of the work of Rupert Hart *and his team* should also be particularly welcomed by employees.

Integrated reporting provides an opportunity for the company to periodically restate its mission and to indicate how that vision is guiding strategic direction. It can also restate its CSFs and KPIs and demonstrate what progress has been made in achieving the specific performance objectives which underpin the KPIs. In the past, like CSFs, reporting on organisational performance has focused on financial reporting. Integrated reporting widens the scope (just like the balanced scorecard helped widen the perception of CSFs) of reporting and provides a more holistic view of performance. It is also an opportunity for management to reinforce their vision, aspirations and targets.

- 2 (a) The cost-benefit analysis for the project has been calculated using simple payback. This method determines the cumulative net cash flows and determines the point at which the initial investment has been repaid. The cost-benefit analysis appears to suggest a solid case for going ahead with the project on financial grounds, as payback is achieved in year two.

This method has its advantages, especially when the project is being managed by non-financial personnel, because it is easily understood. It allows those responsible to ensure that the initial funds invested will be paid back and quickly make a return on that investment.

However, the decision ignores all future cash flows after the breakeven point. It also does not take into account the time value of money, nor the risk involved in a project. These could be accounted for by using net present value techniques or discounted payback, incorporating both time value and risk into the discount factor used for the calculation.

Additionally, the method of appraisal, when used correctly, only incorporates actual cash flows. Whilst Andrew might be more concerned about the educational benefit of the restaurant, presumably the college would like to ensure that the returns are consistent with other capital projects. There is an element of capital investment which is likely to be depreciated over the duration of the project. It may be that calculating the return on investment would give a clearer indication to the college of whether this project was financially worthwhile, although that method also has its limitations.

Alternatively, if the evaluation is for Andrew's purposes only, rather than for the approval of the college directors, it may be that a traditional investment appraisal, using financial measures only, may not fully provide the justification for the project. Even if there were to be a cash outflow overall, the benefit of enhanced student performance may be sufficient to justify the expense. (See part b for further discussion of this.)

#### Analysis of costs

The costs all appear to be relevant to the investment appraisal, although may vary in their level of accuracy. However, there appear to be some costs missing from the appraisal. For example, note 4 suggests that food costs are likely to be 80% of revenue, but these have not been included. Either the benefit needs to be reduced to show net cash flow from revenues or a separate item needs to be recorded for the food costs.

The hardware and software seems to have been sourced and costs applied accordingly. Therefore, these should be included in the appraisal. There is no allowance for an increase in the annual maintenance fee, so the college will need to confirm that the price will remain the same over the next few years.

The electricity and gas charges may be difficult to forecast as, when the lunchtime café is active, there are presumably other appliances and parts of the college using energy sources at the same time. Again, there has been no allowance for an increase in these, but energy prices are likely to fluctuate over time and therefore this should be taken into consideration. The forecast is based on a single year only, whereas an evaluation of previous years may give an indication of the average annual growth in prices.

Staff overtime seems necessary if staff are needed to observe and assess the students in the evenings. However, it may be worth considering whether this could be carried out as part of their routine duties, with an evening replacing a day's teaching, for example. Even if the overtime is seen to be necessary, an increase of 10% in year three seems excessive, unless the restaurant is to be open for 10% more hours over the week.

#### Analysis of benefits

Ward and Daniel classify benefits as observable, measurable, quantifiable and financial. These effectively lie on a continuum from observable benefits, which cannot be objectively measured, to financial benefits, which can be fairly accurately forecast in advance, such as specific cost savings involved in the disposal of a building. None of the benefits included in the cost-benefit analysis for the restaurant appear to be financial, being at best quantifiable.

*Increased revenue* – It is unclear how the forecast for revenue has been calculated, but it could be assumed that it has taken into account the number of diners who could be served in each sitting and the average meal price, given that an annual increase has been based on the estimated increase in diners and meal prices. This is an entirely new initiative for the college and it would be difficult for them to accurately forecast the number of diners in advance. It is unlikely that the customer group would be the same as the lunchtime café, which is a service to students, whereas this is a restaurant open to the public. An additional problem with forecasting may be the distance from town and the public transport which stops running at 22:00 daily. This may limit the number of diners later in the evenings. Therefore, this should be considered either a measurable benefit, whereby the actual financial benefits can only be accurately quantified after they have taken place or a quantifiable one, if the college has done sufficient research to forecast the revenue reasonably accurately.

*Reputation* is an observable benefit, which can only be determined by experience, and should not be included in the financial analysis. Whilst an improvement in student experiences could indeed lead to an increase in student numbers, and therefore revenue from course fees, there is no experience of this or information with regards to how this reputational impact will be forthcoming. There is no evidence of increased capacity for student numbers, nor of the actual number of students expected to enrol as a result of this initiative. It is also an intangible benefit in that an increase in student numbers could be attributed to many factors, not just to this initiative.

*Economies of scale* – It is difficult to understand what the analyst is referring to with this benefit. The notes mention equipment and supplies, but given that neither of these have any cash outflows associated with them in the investment appraisal, presumably, there should be no associated benefit either. This should not be included in the investment appraisal.

Should the above considerations be taken into account, the investment appraisal may resemble the following, and fail to pay back its investment:

Costs (\$)	Year 0	Year 1	Year 2	Year 3	Year 4
Booking system	36,000	1,000	1,000	1,000	1,000
Electricity and gas		5,000	5,000	5,000	5,000
Staff overtime		50,000	50,000	55,000	55,000
<b>Benefits</b>					
Net cash flow from takings		8,000	8,800	9,680	10,648
Net cash flow	(36,000)	(47,000)	(46,200)	(50,320)	(49,352)
Cumulative net cash flow	(36,000)	(83,000)	(129,200)	(179,520)	(228,872)

However, as mentioned previously, in his role as head of educational development, Andrew is likely to be concerned with more than simply the financial benefits of this initiative, he will be concerned with the intangible educational benefits such as student satisfaction and improved performance. Therefore, he must take more into consideration than simply the cost-benefit analysis.

- (b) A robust benefits management process should ensure that the college sees the best outcome from the restaurant initiative.

The purpose of the process is to enhance both the identification and the delivery of benefits expected from a project. Thus, the outcomes of the project will be maximised. The purpose may also include the reduction in non-value-adding activities from the project.

A benefits management process will include the following stages, although these may be repeated or revised throughout the process:

- Identify benefits
- Plan benefits realisation
- Execute benefits plan
- Monitor and evaluate results
- Establish potential for further benefits

In the context of Tailia College, the above stages would ensure that Andrew was able to maximise the potential for a positive outcome on his stated benefits, but would also allow him to consider benefits which he had not previously identified.

*Identify benefits* – At this stage Andrew would agree project objectives for the restaurant proposal. It appears that he is currently considering the financial benefits to the college as a whole (maybe this has been demanded by the board of directors) but is concerned that his educational benefits may not be achieved. However, this suggests that there should be a wider range of formal objectives than simply revenue or increase in student numbers. The benefits should be linked to the business strategy of the organisation, which is clearly the case when considering educational benefits within a college environment.

It is at this stage that benefit owners should also be assigned. By assigning an owner who will be responsible for the delivery of the benefit, there is likely to be a greater focus on the delivery of each of them, rather than disproportional concern for a single benefit. For example, a benefit owner could be assigned to the benefit of the enhanced grades, being responsible for designing the learning outcomes from the restaurant experience such that there is a clear learning outcome associated with it. A different owner, maybe from the marketing department, could be assigned to the reputational benefits.

The measures to determine the success, or otherwise, should also be determined at this stage, as should the current performance levels. For example, the desired increase in the number of student applications should be clarified and compared to the existing level of enrolments.

*Plan benefits realisation* – A benefits realisation plan will involve the completion of a benefits dependency network to link the investment objectives, traditionally seen in the investment appraisal, and the benefits to the business. As Andrew stated, if they deliver the benefits of improved student experience and learning, then the investment benefits should be forthcoming. The plan will show how the benefits are interlinked and what needs to take place to enable those benefits to be delivered. For example, the booking system will be an IT enabler, allowing the change to take place. If this does not deliver its objectives, the rest of the network will suffer.

Within the plan, the benefit owners should also identify those issues which could prevent the benefits from being delivered. For example, if staff are not available to oversee the restaurant, then it will be impossible to deliver the experience. The transport issue could be another limiting factor, so the college may consider an enabling change in the form of negotiation with the transport provider, or in the form of provision of its own transport.

*Execute benefits plan* – This is where the plan is implemented. The overall project manager would oversee the benefits plan and communicate with the benefit owners to ensure they are being delivered. It is at this stage that problems must be dealt with and plans changed where appropriate.

*Monitor and evaluate results* – Although monitoring will take place during the execution of the plan, there should be a formal evaluation process after the execution of the project. The benefits realisation review would normally take place later than typical post-project evaluations as it can take a prolonged period of time for all the benefits to be realised. For example, there is no expectation of increased student numbers in year 1, as presumably, they would not yet be aware of the initiative. This stage will assess whether or not the planned benefits have actually been delivered.

*Establish potential for further benefits* – When the project is under way, it may be that the college recognises the potential for further benefits, which it was unaware existed prior to the project.

The benefits management process is therefore important to ensure that the full benefits are delivered and that any further gains which could be forthcoming from this project are identified. Without the process, the enablers may not be identified, leading to failure before the project is really under way.

- 3 (a)** 'NICE' is seeking growth to satisfy its shareholders, and does not feel that it can achieve that growth in its existing market. Applying the five forces model to Beron, it can be determined the attractiveness of this market to 'NICE'.

*Threat of new entrants* – As 'NICE' is planning to enter the market, it needs to be able to overcome any barriers to entry which may prevent it from being successful. However, an attractive market will have sufficient barriers to stop many other new companies from entering, and possibly saturating, the market. Barriers may include capital investment requirements, knowledge or legislative barriers. Capital and knowledge should not be a problem for 'NICE' as they already operate within the same industry in Lentonia. Strong barriers do not appear to exist to prevent smaller regional companies from joining the industry. However, it seems that the existing major brands in the industry have acted to prevent overseas companies from entering the market, having cooperated on nationalistic marketing campaigns and lobbying the authorities. Local authorities refusing planning permission could be a problem for 'NICE' as they will need outlets to operate.

*Competitive rivalry* – The industry itself is more than double that of Lentonía, with a total market turnover of \$7,000 million. Lentonía has an annual turnover of £3,445 million (758\*100/22). With a growth of 5%, it could still be considered attractive, even if this has slowed down from previous years. There are only three main competitors in Beron, but they hold 65% of the market between them. This would suggest that they will be approximately double the size of 'NICE', with an average turnover of \$1,517 million (7,000\*65%/3). It appears that they are not afraid to cooperate with each other to protect their share against foreign competitors. This market appears to operate on two different models, depending on whether the market is considered to be regional or national. The larger brands seem to be undifferentiated, offering a wide variety of menu items, and possibly operating a low-cost model, given the lower profit margins than in Lentonía (18% compared to 30-61% achieved by 'NICE'). However, the regional brands appear to focus on the particular preference of the region in which they operate.

*Power of suppliers* – The major suppliers are the producers of the raw ingredients, as well as of the processed ingredients. The scenario suggests that there is no shortage of the raw ingredients, with there being a strong farming industry. Therefore, the farmers may have little power over the fast food suppliers, as it is likely they can source the raw ingredients elsewhere. However, the vertical integration of the major brands has given them ownership of the food processing plants. These suppliers have power over the regional competitors. Given that the three major competitors own some suppliers, similar power is not exercised over these. This could also act as a barrier to entry for 'NICE' depending on the type of menu they decided to offer. Given their current specialisation, it is likely they would need to purchase processed ingredients were they to offer a wider menu. However, if the company were to enter the market with its current specialisation, it is likely that suppliers of their ingredients are already in place in Beron and could possibly support their new venture.

*Power of buyers* – There is little mentioned in the scenario about the buyers, but it would be a reasonable assumption, given the nature of the industry, that the buyers are individual customers, with few, if any, major customers. A large volume of individual buyers would indicate low buyer power. However, if they were to act together, and start using an alternative fast food outlet, then this would have a major effect on a particular brand or outlet. The lack of differentiation amongst the major competitors does make it easier for buyers to switch, and so their custom may depend on factors such as pricing, location or brand recognition. If pricing is an issue, this could have an effect on 'NICE's currently high profit margins.

*Threat of substitutes* – Substitutes can lead to the complete decline of an industry, should they replace the need for that product or service in the long run. It is unlikely that the fast food industry will enter total decline as a result of substitutes, given that it is still growing at a rate of 5% a year. However, different, new varieties of fast food may become substitutes to the existing market offerings. Substitutes may be direct, e.g. another type of restaurant or an alternative approach to dining. It is suggested that healthy eating is becoming important and this may lead to a decline in the fast food industry. However, 'NICE's menu of noodles and rice dishes could themselves be considered to be healthy, allowing them to thrive where other companies may fall victim to the trend. Substitutes could also be indirect: an alternative use for the funds spent on this industry. Whilst people must eat, it is likely to be cheaper to buy their own ingredients and cook at home.

In summary, the market is large, twice the size of in Lentonía, and is still growing at a reasonable rate. This should satisfy the shareholders' desire for growth. However, there are strong threats, lowering the attractiveness of the Beron market. 'NICE' may be in a position to overcome a number of these threats, such as the supplier power, provided the entry to the market is carefully planned. It may be that an initial entry in one region avoids the attention of the major brands, allowing 'NICE' to get a foothold in the market before making plans for further expansion.

- (b) Entering the Beron market through an agreement with Go appears to be a better method than to go it alone, as it seems that the major competitors only take action against overseas entrants. By using either acquisition or joint venture, 'NICE' may avoid any direct action aimed at preventing its entry into the market. It would also help to overcome the authorities' stance on new outlets, as it would have access to the existing 25 outlets.

It needs to be considered whether either of these alternative approaches will lead to less resistance than the other. Go would prefer a joint venture and has stated that the terms must be right for an acquisition. This could mean that, if an acquisition went ahead, 'NICE' would end up paying a premium for the company, which in turn could lead to a poor financial position as a result. Additionally, competitors may be more likely to resist an acquisition than a joint venture, as Go would be under foreign ownership as a result.

However, an acquisition would bring a number of benefits to 'NICE'. It would have full control over the operations of the company and could continue to offer a menu of its own style of food, without having to consult over this and other strategic and operational decisions. Whilst there may be cultural problems in dealing with suppliers, customers and other stakeholders in Beron, there would be a lower chance of cultural problems in the internal operations of the company.

'NICE' should be able to fund the acquisition as Go is much smaller than 'NICE'. Its average turnover per restaurant is \$2.3 million, compared to 'NICE's \$3.13 million (\$758 million/242 restaurants), and it has only 25 outlets. However, it is better than industry average and perhaps reflects a positive reputation in its region. This may make it easier to grow into other regions. Go clearly thinks that further growth is possible as it approached 'NICE' with this in mind. With acquisition, 'NICE' would take the full benefits of this growth, but it would also incur all of the risk.

A joint venture would still have many benefits but probably of more of an intangible nature. Working together with Go, 'NICE' would have better knowledge of the market and of the competitors. This could lead to the formulation of better strategies for this market. Additionally, Go would have the contacts with suppliers. This would ensure the company continued to satisfy the 'eat local' campaign. Go may also have built up a regular customer base, who may not appreciate any changes which 'NICE' might make if they take over entirely. Tangible benefits may be forthcoming too, as the sharing of 'NICE's resources, with Go's knowledge, could lead to synergistic benefits.

One of the difficulties of a joint venture is determining the terms, and this may be difficult for 'NICE' as it is not based in the country of operation. Go might continue to operate in their own style and resist any input from 'NICE'. This could be detrimental to the growth 'NICE' is hoping to achieve. The terms would also include how the profits would be divided, and this can be a matter of disagreement initially.

However, the joint venture may overcome some of the potential difficulties with acquisition, such as resistance from competitors.

Overall, it seems like there is a risk that the planned growth may not occur, given the refusal of planning permission for local companies. There also seems to be quite a nationalistic culture in Beron. Therefore it could be that the benefits of a joint venture operation outweigh those of acquisition in this instance.

- 4 (a) The project has been completed 18 months later than announced by Samuel and apparently over budget, although it does seem to be effective. However, there were problems encountered which may have been avoided/minimised if there had been more focus on the early stages of the project lifecycle. There does not appear to be any evidence of a project initiation document (PID) or formal business case.

One of the issues with the project appears to have been that of the project staff and their responsibilities. The project sponsor (Samuel) was defined from the beginning but he only allocated a project manager, Da Lin, after announcing the initiation of the project. The PID would have stated the key personnel of the project and their roles. Thus, consideration would have been given to the time needed to fulfil their project roles. It appears no thought was given to this, as the project manager was given the role in addition to his full-time responsibilities. Whether this has contributed to his health issues, is not known, but his successor (Byron) appears to have found it difficult, given his reaction at the end of the project.

In addition to the lack of consideration of project responsibilities, a clear problem occurring during this project was the turnover of the key staff who were involved in the project. Samuel moved onto another company and as a result, the importance of the project may have been lost on his replacement, Meesha. Until the meeting on the planned completion date, she does not appear to have involved herself with the project. Had a business case been in place, she would have been able to understand a clear justification for the project going ahead and may have focused more attention on it.

Simultaneously, the project manager had been absent for six months, so with the departure of the project sponsor and the absence of the project manager, there would be nobody focusing on the project, or possibly understanding what was needed to complete it. A clear business case and project initiation document would have informed them of the following:

#### **Objectives**

Samuel outlined efficiency savings, profitability and an increase in market share by 20% over three years in his initial introduction to the project. It is not clear that these objectives were formalised, and supported by relevant data. The supporting data could have provided an important insight into how the objectives could be achieved, as there seems to be no mention during the project of how sales will be increased. An increase in production capability does not necessarily mean an increase in sales revenue.

Additionally, these objectives all appear to be business objectives, but there seems to be no mention of project objectives other than a completion date of August 2016. The project manager, a factory shift manager, will not be in a position to deliver the business objectives. The new project sponsor may have recognised this, on reading the documentation, and allocated benefit owners accordingly.

#### **Scope**

The scope of the project was not well defined initially. It seems that the project was for a production line for one product line only. However, one of the delays was in waiting for approval for new designs which would allow it to be used to manufacture a number of different products. Had this been clearly stated originally, then there would be no requirement for designs to change, and therefore incur a lengthy delay. This change of scope could also have led to the project being over budget, as this may have incurred greater design costs, as well as costs in the development and installation of the production line.

#### **Constraints**

The time for delivery of the project was clearly stated but although there does appear to have been a budget set (as Meesha commented that the project is over the amount budgeted), it may be that it is recorded only in the accounts rather than in any project documentation. As COO, it may be that Meesha was unaware of the budget, unless it was brought to her attention by the finance department. It is important that a full cost-benefit analysis is provided, as Meesha could then focus on the different financial costs and benefits involved and ensure they occur as planned. For example, she would be able to see whether the new designs lead to installation expenses being over budget, and could determine whether these would be justified or not.

#### **Risk**

Although risk measurement and control is an ongoing element of project management, there should have been an initial attempt to list and consider actions relating to the key risks. Contingencies could then have been put in place for the risks identified, such as loss of key personnel. This could have included a succession plan, whereby there was a deputy project manager involved throughout. This would have ensured that, as soon as Da Lin became absent from work, there was someone who would have knowledge of the project and what tasks needed completing. Similarly, there may have been contingencies for slippage which could have minimised the delays.



In conclusion, a business case and PID would have clearly justified the project and informed project team members of the project details and what was required by them. A PID is important in any project, but it is even more so if key personnel change, as it is important that the original details do not get lost in the handover.

- (b) Now that the execution stage of the project is complete, it is important to close the project correctly in order to formalise acceptance of the project, evaluate the project to learn from what occurred and to determine whether any further action is needed. Within the completion stage, there should be three reviews carried out, all of which have different purposes: post-implementation review, post-project review and benefits realisation review.

A *post-project review* takes place at the final stage of the project, with the review culminating in the sign-off of the project and the formal dissolution of the project team. In TEV's case, this should be occurring immediately, as the production line has now been installed. The post-project review identifies the lessons learned, such that the conduct and outcome of future projects may be improved. Thus, the focus of this review is on how the project itself was managed, rather than whether it delivered the required business objectives. The review should highlight what went well and what went badly in the project.

This seems particularly important to TEV as Meesha is considering further automation projects. The project finished over time and over budget and it is important to recognise what led to this and how to avoid it in future. The points picked up in part (a) of this question would have been highlighted and would ensure that future projects were initiated correctly. Furthermore, the review would pick up on the apparent absence of other project management features such as clear plans, with defined gateways. Thus, deadlines for different stages of the project should be adhered to in the future and issues, such as a failure to sign off new designs, should not occur. In turn, this would remove or reduce the delays. The importance of a defined project team and responsibilities, with sufficient time to manage the project, should also be addressed in the post-project review and therefore corrected in further projects.

The production line is now operational. Once it has been in use for a short period of time, anywhere up to six months, a post-implementation review should be held.

A *post-implementation review* focuses more on what the project delivered. It aims to discover whether the project met its objectives and delivered the elements originally defined on initiation. It should also be used to consider the fitness for purpose of the deliverables created by the project, in this case the production line.

By carrying this out after the deliverables from the project are apparent, this allows TEV's manufacturing staff to use the new production line and to give their feedback. It seems from the first production run that the customers are happy with the quality of the output, but there is no mention of the production staff views. The line has also not been in operation long enough to see if there are any problems, for example, maintenance or issues with setting up the line. The review will consider strategies for fixing or addressing any identified faults in this period and make recommendations on how to avoid them in the future.

Again, this could be key to future projects at TEV, as the company is considering further automation. Any issues caused by the design of the production line could be corrected in future designs and thus avoid repetition in future projects. Until the production line has been in place for a few weeks or months any issues may not be apparent, but it may be that the line is not as flexible as hoped for, or requires more staff, or is too noisy for the factory environment. The scenario makes reference to the noise of the new machinery. If this proves to be an issue which needs correcting, it should be mentioned in the post-implementation review, and solutions found. This would then be taken into consideration for future projects such that the solution would be found during the project rather than after implementation.

A *benefits realisation review* considers whether the benefits stated in the business case have been achieved as stated. It would usually be the final review to be carried out, as sufficient time is needed to determine whether the planned benefits have been realised. For example, Samuel mentioned increased market share by 20% over the following three years. This can only be reviewed after three years have passed, although progress towards it could be measured at an earlier stage.

The review will analyse the original business case to see whether the forecast costs were correct and the benefits realised. As there does not appear to have been a formal cost-benefit analysis, this aspect of the review may not be of a great deal of use to the company. However, it could still provide information on the actual costs which could be taken into consideration in future projects.

The efficiency and increased profitability would also be considered, although they too do not appear to have been quantified. Some of the benefits could be measured at post-implementation stage. For example, improved efficiency seems to be apparent almost immediately, with daily production now being produced in two hours, but this will need to be further assessed to determine profitability as the costs of running automated production lines will be very different to the current costs and cannot be measured simply on time. There will be electricity and maintenance costs to consider, as well as any reduction in staffing costs.

The benefits realisation review will give Meesha the best indication of whether it is worthwhile implementing further automated production lines in the future and how to ensure that the planned benefits are actually delivered.

- 1** (a) Up to 1 mark for each relevant point up to a maximum of 12 marks.  
(b) Up to 1 mark for each relevant point up to a maximum of 12 marks.  
(c) Up to 1 mark for each relevant point up to a maximum of 12 marks.  
(d) Up to 1 mark for each relevant point up to a maximum of 10 marks.

**Professional marks**

Up to 1 mark for the structure of the answer.  
Up to 1 mark for the coherence of the answer.  
Up to 1 mark for the style of the answer.  
Up to 1 mark for the clarity of the answer.

- 2** (a) Up to 1 mark for each appropriate point up to a maximum of 15 marks  
(b) Up to 1 mark for each appropriate point up to a maximum of 10 marks
- 3** (a) Up to 1 mark for each appropriate point up to a maximum of 18 marks  
(b) Up to 1 mark for each appropriate point up to a maximum of 7 marks
- 4** (a) Up to 1 mark per appropriate point up to a maximum of 13 marks.  
(b) Up to 4 marks per heading. Up to a maximum of 12 marks overall.