



# *Case Study: what does good look like*

## ADVANCE INFORMATION – PREPARATION AND ANALYSIS

Tutors and examiners all say that a key to exam success at Case Study is to be well prepared. Looking at them in order, here is what you need to know:

1. **Requirement one – the financial statement analysis.**  
Most students tackle this pretty well as you'd expect, in your third year of training. The only real danger here is spending too much time on this requirement precisely because you can do it.
2. Many think **requirement two – the financial data analysis** – is the hardest part of the exam because of two things:
  - a. you only get all the information you need on the day of the exam and you then have to deal with it under exam pressure
  - b. it combines both number work and strategic discussion.
3. However, **requirement three** – the operational and strategic analysis and ethics is generally the worst scoring element of a student's exam. This is because:
  - a. students don't have enough ideas to talk about in other words, their preparation is just not good enough
  - b. students tend to answer the question they want to answer and not the one that is actually in the exam, and
  - c. students simply run out of time.
4. **Executive summary** – students again tend to run out of time or they don't have a plan and so they don't cover all the requirements to the right level of detail
5. **Appendices and report format/style** – most students competently present their report and appendices

## HOW TO PREPARE FOR YOUR EXAM – SKILLS ASSESSMENT

You don't need to have 50% competent grades in each of the four skills areas to pass, but it will help you make the most of your preparation time if you know which skills you need to focus on. As a reminder the skills areas are:

1. **Assimilating and using information (A&UI)** – this is electing relevant information from the Case Study material and your own research and using it appropriately.
2. **Structuring problems and solutions (SPS)** – this is identifying the relevant analytical tools to use and applying them in a structured way to answer each requirement.

3. **Applying judgement (AJ)** – this is developing and evaluating your commentary, identifying linkages between different points, demonstrating your professional scepticism and assessing ethical issues.
4. **Drawing conclusions and making recommendations (C&R)** – which is self-explanatory.

Most students can do SPS, structuring problems and solutions pretty well. This is your number work or your basic strategic analysis such as SWOT and the first level of your commentary on it.

A&UI, assimilating and using the information from the case is not done as well as you might expect. Too many students don't use enough of the wider issues in the case material to develop their commentaries. When I review an exam script that has failed, I always look to see what grades were given here, they're nearly always IC (insufficiently competent) or less.

C&R, conclusions and recommendations. Most students are okay at conclusions, but poor at recommendations. So, you need to ensure your recommendations flow from your analysis and are commercial, practical and specific.

AJ, applying judgement. This tends to be done the worst and that's not surprising because it's all too easy to jump from your analysis straight to your conclusions without demonstrating how you have applied your judgement. However, if you look at the competency boxes within the marking key for AJ, you'll see that competency is given for:

- prioritising key events
- making links between business issues
- evaluating options or developing your arguments by providing more depth of analysis
- demonstrating your professional scepticism
- assessing the impact of ethical issues.
- 

Developing your ability to apply your judgement is an area in which small improvements can make a big difference to your performance.

## **HOW TO PREPARE FOR YOUR EXAM – WHAT DOES GOOD LOOK LIKE?**

Your preparation needs to cover:

1. analysing and using the advance information (AI)
2. planning and structuring your answer
3. practising by doing mock exams (timed and on the computer software)
4. getting feedback on your mock exam results that will help you to improve
5. analysing the advance information for your live exam
6. practising using the advance information to ensure your knowledge is good enough.

In the marking key as a whole, almost 20% of the boxes relate to wider issues and ethics. So you also need to develop your appreciation of what's going on in the business world today and identify specific issues that you think could be relevant to the exam.

So, if good preparation involves all these points, let's look at each one in order.

## **1. Analysing and using the AI to prepare for your Case Study exam**

Having completed your preparation, you should be ready to:

- discuss the company's trading results with confidence in requirement one
- understand the possible areas that may be the basis for your data analysis in requirement two
- know how to use your SWOT and PESTEL analyses to prepare for the strategic analysis in requirement three
- have considered possible ethical issues that might also arise in requirement three, and have identified the themes underlying the company's business.

What do I mean by AI preparation? Before I run a class for any Case Study, I spend about two days preparing my notes in such a way that I can access them quickly if I have to. This doesn't mean that I've committed my notes to memory. What it does mean is that I use my proprietary work to identify a small number of business themes that underlie the company's business. This is the story behind the numbers. If you're comfortable with the story, then you'll find that it's much easier to assemble the business issues that you need in your planning when under exam stress.

I use my two days roughly as follows:

- Half a day on my financial statement analysis
- One day on my AI notes which are a summary of each of the exhibits in the AI. They have no intrinsic value in the exam, but they're a really good way to identify the key issues in the material and start to get the information that is across the 50 pages of AI information into your head
- Half a day summarising my business issues, strategic analysis, SWOT, PESTEL, and Porter's 5 Forces and ethics.

**There's no shortcut to doing this work. It is really important to do your AI preparation well.**

### **1A) ANALYSING THE INCOME STATEMENT**

You should begin your AI analysis with the company's financial performance and break this down into two parts, the numbers themselves and the story behind the numbers.

**These are the sorts of questions that you should be asking yourself about the numbers....**

1. What has been the trend in total revenue and for each revenue stream?
2. Why might a certain year's results be considered to be even better or worse than reported?
3. What are the most significant revenue streams?
4. What's the overall gross profit margin, and if relevant, the gross profit margins for each revenue stream?
5. What has been the trend in gross profit margin?
6. What is the most significant overhead?
7. What's the operating profit percent?
8. What is the trend in operating profit percent?

The consequence of not knowing your way around the company's financial statements well enough will be that when you come to prepare your requirement one appendix and plan your answer, you just won't be able to do it fast enough. The Case Study is a time pressured exam, but don't worry, you don't need to be able to recite these figures off by heart. What you need to do however is to prepare a really good set of notes, so that you can find the information you need quickly. This is why you have to do our own work. It is no use relying on anyone else's work because they will have set their work out how they like it and that probably won't be the same as how you like it.

**However, here are some tips on laying out your financial statement analysis:**

- Think about the design so that you'll have all the periods on one page
- Start the income statement, balance sheet and cash flow statement on separate pages
- Use different colours to highlight key bits of information
- Work logically down the income statement, balance sheet and cash flow statement so that you know where to find information quickly
- Calculate the changes between periods in pounds and percentages – this is good practice for your exam appendix one in which the examiners like to see both
- Make sure you identify the trends in the results.

These are the foundations for the story behind the financial statements. As you use your analysis in your mock practice exams, you will find that the key figures stick in your mind and this will also speed up your work. This type of practice and preparation together will help to save you time when it comes to the exam.

**1B) ANALYSING THE FINANCIAL POSITION**

**Consider the following questions:**

1. What is the current ratio?
2. What is the trend in the current ratio?
3. What is the quick ratio?
4. What is the next cash position?
5. What is the gearing?
6. What is the trend in the gearing?
7. What is your view of the overall strength of the balance sheet and why?
8. Re: the cash flow statement – if the balance sheet is otherwise strong but it lacks cash, you can be sure that the cash flow statement is even more likely to feature in some form in the exam. This is because the examiners have persistently stated that students are poor at analysing and discussing cash flow statements so they tend to ask for some sort of discussion of cash in most cases of the exams.

**For the cash flow statement, consider the following:**

- How would you best describe the trend in cash from operations?
- Is there anything unusual about the change in working capital?

- What is the significance of the cash consumed by investing activities and/or financing activities?
- Does the trend in the total cash generated / absorbed follow the trend in profitability? If not, why not? This might paint a quite different picture from the balance sheet. If it does, you can see why the examiners tend to focus on the cash flow statement rather than the balance sheet in the case study exam.

### **1c) Understanding the story behind the company's business**

As part of your AI preparation, it's also important that you prepare a list of facts from the AI and the articles in it that when put together tell the story behind the company's business. It's useful to organise them under the following headings:

- the company
- the industry – that's the suppliers and production processes
- the market – in other words customers and competitors
- the economy

When you complete your planning, you're going to use these facts to write your commentary and develop your links for which 70% of the grades for each requirement are awarded.

Try to develop about a page for each heading.

### **1C) UNDERSTANDING THE STORY BEHIND THE NUMBERS**

This is the second part of your analysis of the company's financial performance. Let's look at preparing for requirement one first.

**Requirement one** – you need to use your analysis of the company's financial statements and your list of facts to identify the headlines of the company's story.

You can then use these themes as a framework for storing your facts and figures so that you can access them quickly under exam pressure. It's amazing how with a bit of practice in your mock exams you start to remember facts and figures and when you do, it saves an awful lot of time when you do your planning for requirement one.

As we've already said, most candidates perform requirement one pretty well in the exam. However, it's also potentially the most time consuming. Many candidates fail the Case Study exam because of poor time management and it generally starts to go wrong with requirement one. It's very easy to spend too long on appendix one, spend too long planning and write too much in your report. So how do you stop this happening?

**The keys to passing requirement one are:**

- practice preparing your appendix one over and over again so that you can do it under the pressure of exam conditions in no more than 20 minutes
- really understand the story behind the company's historical results in the AI
- develop your themes so that you can use the information you are given in the exam paper to explain the actual results quickly.

**Requirement two** – considered by many to be the hardest of the three requirements. So what should your strategy be? As it's the hardest, it may also be the one where it is actually easier to differentiate your performance from other candidates. Although you only get the information on the day, you can still prepare for it.

**The requirement is broken down into three parts:**

- the calculations together with a list of assumptions in appendix two
- your discussion of three key assumptions including the demonstration of your scepticism
- your discussion of the more strategic aspects of the proposal.

Your calculation should be simple, generally no more than five or six lines as they're merely a vehicle for demonstrating your scepticism and discussing the proposal. You need to read the relevant exhibit in the exam really carefully as the examiners generally give you pretty clear guidance on how to structure your calculations. Why do they do this? In order to make the exam markable, they need to ensure that most candidates take the same approach without actually telling you exactly what to do.

70% of the grades for requirement two are for demonstrating your scepticism and your strategic discussion. You need to use your list of facts from the AI to support or question your assumptions. Similarly, you use them to develop your strategic discussion. You'll need to prepare by doing different exercises during your exam preparation so that you become comfortable using the data that has been provided in the AI.

**Requirement two is tough to prepare for. The best preparation is to have a really good understanding of the case material and a clear planning process for constructing a good enough answer.**

**Requirement three – strategy.** This is much more open than requirement one so you need to be ready to deal with whatever the examiners ask you on the day. However, because it's more open, the marking key is also more generous.

Each of the grade boxes has five or more bullets in the range. Students do worst at this requirement because they run out of time, they don't answer the question that has been set, they answer the question they want to answer or they run out of ideas.

**The secret to passing requirement three** is therefore making sure that you don't fall into any of these traps.

Running out of time and not answering the question depend on how you manage the stress of the exam. To avoid running out of ideas, you need plenty of ideas in your strategic analysis of the AI. To generate your ideas, you need to choose the elements from the three tools for strategic analysis which best fit the company's business, SWOT, PESTEL, and Porter's 5 Forces.

You then need to use your analysis to tackle the likely strategic issues for the company that have been highlighted in the AI and might arise in the exam. Look at the financial, commercial, and operational issues and the benefits and risks relating to each of them.

**Requirement three – ethics and business trust.** Your answer to each of the business trust and ethical issues in the exam paper has four parts:

- a description of the issue
- your risk assessment with supporting reasons
- your conclusion
- your recommendation

Identify a list of possible ethical issues facing the company that might arise in the exam and consider how you would address them if they did arise.

### **In summary**

Most of your work in your AI preparation is developing your understanding of the company's business story. You also need to think about how you'll use your information for each of the requirements in the exam.

- For requirement one – be ready to discuss the results for each of the company's revenue streams whether they go up, down or stay the same
- For requirement two – you will have identified four to six possible areas for data analysis which will give you a good body of information so that you can demonstrate your scepticism and write your discussion section
- For requirement three – you will have identified five to eight possible areas for your strategic analysis and at least six possible business trusts and ethical issues.

Don't try to predict the exam requirements but give yourself plenty of opportunity to use your strategic analysis to write an answer to the requirements that are actually asked.

There will of course be some overlap in your preparation for each of the requirements particularly between requirements two and three. It's up to you how to organise your notes in your exam folder. You may just put the information in once under the requirement where you think it's most likely to turn up. On the other hand, you might decide you want to duplicate information in your exam folder so that you have it available under each relevant requirement. It doesn't really matter what you do, what is important is that it's your information and it is organised how you want it.

By doing this, you will be able to find it quickly and adapt it appropriately under exam pressure. Good luck with your exam preparation.

**With thanks to Neil Russell, Programme Director at Training-by-EOS, tutor and former senior examiner for the Case Study**