Business Strategy and Technology

FRIDAY 02 FEBRUARY 2018- SESSION NOTES

Syllabus

We have explicitly added references to technology/using data in each of the three sections of the 2018 syllabus. BST questions are integrated so now we can examine technology/using data in all three sections.

Technology has already been in the paper for some years to reflect what is actually going on in business, so the addition to the syllabus is not a radical change involving masses of extra detail about technology and technological developments, it is more about emphasis.

Learning materials

There are new sections in some chapters to reflect technology topics, especially:
- Chapter 6 - Crowd funding and cloud computing re strategic capability
- Chapter 14 - Cyber security in boundaryless organisations and block chain re strategies for IT

The exam context at the start of each chapter flags how technology may affect the chapter's contents in the exam, and there are more worked examples with a technology/data slant.

The 2017 exams all contained a technological element and are most representative of the style candidates can expect of the 2018 exams.

There will be a technology flavour to every paper, but not necessarily a specifically technological requirement. The exam could include:

1. a context/scenario where the business/industry involves technology eg eParts, DA plc
2. strategic digital issues in the scenario or requirement eg How can an organisation use data/data analytics to understand customers/markets better? (eg Marcham) OR How to capture qualitative/unstructured data to improve business performance, from social media, website hits etc
3. Big data/data analytics within data analysis requirements e.g. paper could provide data that is more detailed/relates to a shorter period/ is from structured and unstructured sources.

BST in CBE from March 2018

The exam content, style and structure are the same, BST is just sat in the computer environment. Candidates MUST follow advice in ICAEW's guide for CBE and practise using the software
In particular:
- All narrative must be visible – examiner cannot interrogate cells
- Typing/proofing: text must be understandable (minor typos don't necessarily need correcting, but markers MUST be able to understand what candidates have written)
- If using formulae in cells for eg breakeven, include workings because formulae cannot be seen by examiner
- Formatting of numbers (see below)
- Clarity of tables – rows should be labelled

Default formatting of numbers in the spreadsheet cells of the answer screen is to round to whole numbers (0 dp), so candidates need to manually format to 2 dp if they consider it appropriate to do so for the calculation in question. Also they should be careful with regard to formatting percentage calculations.

Candidates are advised not to retype all numbers from the paper before embarking on data analysis.

<u>Comments from BST team in response to tutor questions re CBE</u>

We will probably not ask candidates to draw a value chain or decision tree, although this won't stop us assessing these topics.
e.g. Value chain – may require them to discuss rather than draw. One of the benefits of a diagram is that it integrates the elements of the primary and support services, however candidates should not limit answers just because they are no longer drawing the diagram – they still need to think about integration. That said, when we did ask for a diagram, we never did want candidates to fill in every square – the important bits should always have been focused on.

<u>Advice from Lisa Nelson, AA examiner, based on CBE experiences from AA</u>

1. Presentation

Answer screen opens up as a spreadsheet format.
If candidates use a spreadsheet cell to insert their answer and don't resize the cell then the answer can disappear.
Markers can't interrogate cells so if the answer is not visible on screen it can't be marked.
Recommend candidates to convert their selected cell for text entry to the word processing (WP) tool so the cell configures itself to the amount of text.
WP tool merges cells across the page so it grows as you type, however it is important to use subheadings/paragraphs as you would when writing: dense paragraphs of text are just as difficult to mark in CBE as in handwritten scripts.
It is better to start every new point in a new paragraph as this is easier to mark.

2. Calculations

With calculations it is best if candidates use the spreadsheet cells for functionality.
However if they use the cell formulae, they need to show workings so they can get method marks as again markers can't access the cell to see what formula was used.
Remember to state what you are calculating - show narrative/workings in left hand column.

3. Clearly label the part of the question you are answering

BST answers: what makes a good answer?

On the whole there are some excellent answers in BST, and very few bad fails. Most fails are marginal.

Examiners expect:
- Well-structured and well-informed answers, including use of relevant models
- Application to scenario, not knowledge-dumping
- Justified conclusions, even if the conclusion/recommendation is not the optimum
- Professional style in answers:
  - Explained and linked points, based on numerical as well as written data
  - Clear, separate and structured tables for data analysis
  - Relevant format (eg to, from, date, subject for a report) where required

o A degree of professional scepticism

Further advice:
- Follow pathway of requirements in a question because they are constructed in an order, for a purpose, to suggest a pathway/story – eg don't do ethics first if it is requirement 1.4.
- Apply eg change management models to the actual scenario right from the word go. i.e. don't write a generic paragraph then an applied paragraph. Marks are capped for purely generic answers copied from the learning materials.
- Don't sit on the fence regarding a decision/recommendation. If you can't conclude then at least give a 'next step'.
- Don't throw away the format mark eg a report requires to, from, date, subject.
- Produce data in a table – CBE forces this.
- Don't copy out all the figures and don't just do percentage changes: this seriously limits marks.
- Demonstrate professional scepticism e.g an overheard conversation is not necessarily credible, and a person fighting his or her corner may manipulate figures/facts.

Weaknesses in marginal scripts

Time management is not usually an issue for marginal candidates: they usually make an attempt at all requirements.

Marginal candidates generally:
- Produce generic answers
- Mix up models
- Just restate facts from the scenario without analysis or development
- Just restate their own calculations in words
- Don't use a report format or produce a structured table for data analysis
- Don't provide calculations even when specifically asked for
- Don't show appropriate knowledge in relation to scenarios
- Don't conclude/recommend even when required to do so

Further advice:

Weaker candidates are often characterised by:

- Restating facts with no added value, eg with Five Forces they state the barrier, but don't state its significance or strength
- Repeating calculations (ie percentage changes) in words, without interpretation
- Being poor at questions which ask for supporting calculations – they either produce all numbers with no discussion, or ignore numbers completely.

Use of models

- The BST exam has evolved and many models are assessed in BTF, so BST rarely requires candidates to use a specific model; if we do then often the model is only partially required e.g. 3 of 5 forces
- If we have asked for a specific model the candidates should make sure they include the relevant buzzwords eg for barriers to entry, state economies of scale etc when applying each one to the scenario

- May ask them to refer to relevant or appropriate models and leave them to choose what is appropriate: eg Ansoff, BCG, Gemini

- In some cases we expect use of models even when we don't mention them: eg change management

Comments in response to tutor questions re models

- If a candidate has used a different model to the one the examiner had in mind in the answer, this only restricts marks if the one used was badly chosen. Candidates may not get the knowledge mark(s), but they should usually still be able to access skills marks
e.g. If we ask for Gemini, and we are given Lewin, the candidate won't get the K mark but will still access the S marks
e.g. benchmarking – if they don't use the relevant headings, they will lose K marks and may struggle to access the S marks.

- K marks can be implicit or explicit eg if they state 'switching costs' re five forces, they will get an explicit K mark; if they talk about switching costs but don't use the explicit term, they will still get a K mark if knowledge is clearly implied. This distinguishes candidates who are just using common sense, not knowledge from the learning materials.

- Failure to state/use key terms can however affect marginal candidates who talk around a subject but never quite demonstrate knowledge, either express or implied.

- Language barriers for candidates whose first language is not English: we aim to make the paper accessible and we try to look for implied knowledge in answers.

- If a candidate is short of time, they don't need to start by explaining what eg a barrier to entry is; they could just say 'the barrier is low because there are no switching costs'.

- If in doubt, candidates should focus on S application marks, as K marks are then more likely to be picked up by implication.

Numerical skills

Two types of question:

1. Data analysis and interpretation: 'analyse using information supplied'
2. Do a specific calculation: 'Provide supporting calculations'

Total mark allocation for requirements involving some form of data analysis or calculations is usually between 20 and 30 marks

Data analysis scores are generally really good, but calculation requirements are usually not answered well. Requirements with calculation elements in 2017 exams were all poorly done:
   - M17 Q1.3 (target sales/profit)
   - J17 Q3.1 (maximum profit under three scenarios)
   - J17 Q3.2 (whether to incur step change in fixed costs)
   - D17 Q1.3 (breakeven)

Data analysis

- Different types of data are presented
   - Not necessarily annual eg 6 monthly/quarterly
   - May include operating or market data (not just financial)
   - Micro-data, big data eg detailed production stats for a week

      − Presented in different formats eg charts/graphs
- Need agility/flexibility to spot what is happening in scenario and therefore what calculations/analysis are helpful
- Ratios may be calculated from:
    - Two financial figures e.g. operating margin
    - Two operating figures e.g. number of employees per shop
    - One financial/one operating figure e.g. revenue per shop

Further advice:

- It should be obvious what the key issues are as they are flagged in the scenario
- Candidates should pause to work out what's going on, so they can decide what issues are relevant, before launching into calculations
- Calculations should be presented as an up-front table
- Weak candidates copy out numbers, then just do percentage changes
- Strong candidates recognise key issue is eg cost base, then focus on profit/cost calculations, use operating ratios, and relate financial to operating data.
- Best to do a little bit of everything to show skills

Comments in response to tutor questions re data analysis

- Candidates don't necessarily have to calculate every ratio for every year when there are lots of columns in question – they need to be judicious about what will be helpful.
- Using the ratios is more important than calculating them so, if running short of time, do a few calculations, write about them, then if there is time go back and do some more.
- Balance is important in answer between doing own calculations and using data given.
- Data given by the examiner is not incorrectly calculated, so it does not need to be checked, though it may be biased (eg sales director did them to push a particular marketing plan).

Calculations

- Performance is usually better if candidates are told what calculation to do eg break-even.
- However, if asked eg whether to set up a factory, reduce a price or take on a new contract, and to provide supporting calculations, performance is much weaker.
- In this case, any calculation is better than none, even if the candidate just quotes numbers from the question: this shows at least some use of data given.
- The key skill is to balance numbers and writing in this type of requirement – we are looking for both financial and non-financial elements in the response
- If asked for a specific calculation, the candidate should think about why this is important and respond accordingly eg if asked for breakeven, they could go on to discuss risk and sensitivity.

Review of December 2017 paper

Question 1: Furniture for businesses and schools

This was the big case study question, and there was some evidence that weaker candidates maybe spent too much time on 1.1 and 1.2, so made a choice to focus on either numbers or discussion in 1.3.

- o 1.1 Business and schools divisions were deliberately kept separate with separate issues as we were expecting candidates to look at divisions separately, not company as a whole
- o 1.2 Factors that might affect move to Liverpool were generally well done.
- o 1.3 Candidates didn't like this requirement – we were expecting breakeven (they were given information about changes in fixed costs and variable costs, which should have been a clue). Many just calculated the change in costs and went no further. In addition, the investment in software was to provide better service and get better data, so candidates also needed to talk about how the investment (including the buzzword, data analytics) would affect the business segment, i.e. they needed to consider both financial and strategic issues
- o 1.4 Ethical requirements are now answered much better than they were, although there is some over-reliance on transparency/effect/fairness framework – we would like them to think about eg integrity/honesty/objectivity also. Again they need to step back and think what is most important; in this requirement a key issue was transparency and the application of it – was Jayne being bribed? – but they also needed to demonstrate professional scepticism (querying the hearsay evidence).

Question 2: Manufacturer of electrical appliances coming into free market conditions

- o 2.1 Many missed K marks for four types of benchmarking. They did get some marks for implied benchmarking eg if they talked about comparison to competitor
- o Many talked about KPIs/BSC in both 2.1 and 2.2 but could only get credit once
- o 2.2 Many tried to force in the balanced scorecard just because they saw the buzzword 'performance measurement', and some still don't understand KPIs: eg "sending out a questionnaire" is not a KPI. The requirement asked them to appraise the proposed performance measurement system not just the suggested performance measures; the four production lines were becoming four divisions so we wanted them to talk about divisional performance, profit centres and possible different KPIs for different centres, but very few did.
- o 2.3 Change management requirement seemed to be welcomed by candidates.

Comment in response to tutor questions re wording of 2.2 requirement:

Q: Does 'critically appraise' mean look at what isn't working or look at good and bad?
A: Rest of requirement asked for suggested improvements so essentially we wanted "what's not working and what can we improve".

Question 3: UK charity suffering fall in income and facing need to ration its allocation of funds

The charity was faced with falling funding/income but still needed to be sustainable.

- o 3.1a Needed to identify the impact of the charity's situation on stakeholders: many did this well but then got stuck by applying Mendelow which was not so relevant/useful here because the question was about the impact on the stakeholders rather than on how the charity should manage them. If candidates have an urge to write about a particular model then it is worth stepping back to think about whether it fits the direction of the question as

a whole. There was also some stated conflict in the scenario between stakeholders and trustees and among groups of stakeholders – this theme is often likely to be relevant in NFPs but was not recognised by many candidates.

- o 3.1b How is the charity going to allocate its limited funds? Some candidates continued to discuss stakeholders here although really the focus was on the trustees and how they could make a decision – we were looking for some criteria they could use to help them.
- o 3.2 There were lots of clues in the requirement about what the mission statement needed to address but many missed this and still did a very short mission statement which they tried to justify.

D17: Marking exercise

- Published mark plans – tutor plan sets out split of K and S marks, with some headroom S marks, plus a marking guidance table
- Candidate plan provides full answer and examiners' comments

Workshop compared a good script (Script B) with a marginal script (Script A) – some parts are very similar but in other places you can see what makes a high scoring script rather than a marginal one.

- Script A – a bare pass – some good answers e.g. 1.2, 1.4, 2.3 just made up for weaker responses to other requirements
- Script B – mid to high 80s – like most candidates, a few marks were lost along the way, and an inconsistent answer to 1.3 stopped them scoring in the 90s.

Question 1

Requirement 1.1

Better candidates did different calculations for businesses and schools as segments and identified that the issues were different. There were marks available for a conclusion on the key drivers in each section (it didn't have to have a conclusion heading, just a summary of the overall position re drivers).

Marginal script:
- Separated calculations between business and schools but then merged commentary, which was not an effective approach
- Did a fair number of calculations but lots were just percentage changes
- Repeated calculations in discussion without adding value
- Scored around 13/22 marks overall

Better script:
- Produced a good variety of calculations, made good points in discussion and linked these to the working assumption that without discounts etc performance would have been the same year on year
- Also addressed the requirement to "identify key drivers" directly, which conveyed better understanding
- Overall candidate scored around 11-12 for business and 7-8 for schools ie around 19/22 marks in total

Requirement 1.2

Candidates made similar attempts.

Marginal script didn't really address capacity, supply chain or transition costs effects of move and scored around 6/10.

Better script also omitted size of factory and transition costs but did look at more strategic issues, SCM and effect on schools segment so scored around 7.5/10.

Some candidates did too much on the upgrade of technology which was really relevant to 1.3 –candidates should read ahead and make sure they think about where to cover content to avoid duplication.

Requirement 1.3

It was probably more difficult to tackle this if the candidates hadn't done cost ratios in 1.1. Many didn't spot the need for breakeven calculation although they could get some marks for looking at costs savings and increments. Many of the weak candidates did the discussion and no calculations.

Marginal script:
- initial paragraphs just repeat information from question
- scored a calculation mark for reduction in variable costs, but the answer was very limited. Around 3/7 marks in total

Better script:
- The candidate did well on calculations, making an attempt at breakeven so got the K mark and some of the S marks as the principles were there.
- The discussion is not very strong and has not addressed the strategic benefits of the data analysis software
- Although a strong candidate, this is the requirement that was inconsistent across the paper as a whole, and it is this inconsistency that often prevents candidates getting really high marks
- Scored around 4/7 marks in total

Requirement 1.4

Both candidates scored similar marks and neither were weak answers by any means.

Marginal script:
- Used ethical language – self-interest, objectivity, honesty, clear understanding of transparency.
- Also expressed professional scepticism.
- Limited in relation to actions so this limits marks to a degree as there are usually 2-3 marks for next steps.
- Overall score around 6/8

Better script:
- A bit more legalistic and developed bribery into MLR.
- Also picked up professional scepticism.
- More extensive, covers TEF and actions but didn't score all the marks as focussed a bit too much on ML
- Overall scored around 7/8

Question 2:

Requirement 2.1

Answers were clearly better if candidates knew the types of benchmark.

Marginal script:
- implied internal benchmarking between the four production lines and competitive benchmarking with comparison to Stiegel but this answer failed overall (around 3/9).

Better script:
- Starts by identifying the four types of benchmarking and describing them, then applies them on pp15-16. A very good answer which scored full marks (9/9).

Requirement 2.2

We were hoping that candidates would talk about the system and the targets as well as just the KPIs/CSFs, but many unfortunately became distracted by the possibilities of implementing the balanced scorecard and therefore failed to answer the requirement.

Marginal script:
- Mentioned targets, wasted some time by repeating information from question at the start, and provided only limited discussion
- A marginal pass - scored 6/11 marks

Better script:
- Lacked discussion of divisional aspects but applied knowledge to CSFs and suggested some good KPIs. Scored around 8.5/11 marks.

Comment in response to tutor question re marking of definitions:

Q: Would they get K marks for regurgitating definitions of CSFs and KPIs?
A: Probably ½ K mark for each but it would be better/faster to do this in an applied rather than generic way.

Requirement 2.3

Answers to change management were generally good.

Marginal script:
2.3a – reasonable answer, scored around 4/5 marks
2.3b - talks a lot about change management but doesn't really address barriers specifically, so scored around 4/6 marks

Better script:
2.3a – A considered answer which links to their other answers and makes quite a few different points, so scored a good mark at around 4.5/5 marks
2.3b – Starts less well but then makes some good points about barriers and mitigation – scored around 5/6 marks

Question 3

Requirement 3.1

Marginal script:
3.1a: - Made an attempt at a report style but not sufficient for the full mark.
         - Covers a few stakeholders but doesn't really address uncertainty and conflict
         - scored around 4.5/7 marks
3.1b: V short answer– no real criteria apart from VFM and efficiency. Scored 0 K marks and 2 skills marks: 2/7 in total

Better script:
Produced a consistently good response, although didn't put in the report format. The answer to (b) on allocation of funds was particularly good. Scored around 12.5/14 in total for 3.1.

<u>Requirement 3.2:</u>

Marginal script:
- We asked for an expanded mission statement and got a one liner, but this was justified.
- Panicked answer – got around 4/8 marks

Better script:
- Produced a really good answer – talks about purposes, values, etc
- Revised statement recognises constraints per requirement and is well justified
- Scored full marks 8/8