HELPING YOU TO PASS YOUR EXAM
THE MANAGEMENT LEVEL CASE STUDY

A WALKTHROUGH OF A REAL ANSWER TO THE MANAGEMENT CASE STUDY EXAM (VARIANT 1) FROM FEBRUARY 2016

As part of an ongoing drive to improve support to CIMA students, we have published a new exam resource. The following document takes you through a real student script from the February 2016 case study examination; the answer has been transcribed, anonymised and annotated with observations on strong performance and some areas where performance could be improved upon.

PASSING STANDARD ILLUSTRATED

The script was selected to demonstrate a comfortable passing standard, having earned a score in the 90s. It shows one of many ways in which a candidate would demonstrate sufficient competence to earn such a pass. Please note it is not a perfect answer nor the only one which would have achieved a passing standard. However, the walkthrough will provide an idea of what a strong answer looks like and some examples of where answers might have fallen short and been improved upon.

HOW TO USE THE RESOURCE

To get the full benefit of this resource, you should download: the February case study pre-seen materials and the test variant (1) this candidate was answering so that you have the context for the script. You could also review the examiner’s report, the marking guide and grade descriptors for the MCS which might give you a greater appreciation of the comments on the script. Links to all five of these documents are provided below. You may also benefit from reading CIMA’s published answer to the variant. This gives you an alternative approach to achieving a pass from the same requirements. It is useful to understand how different approaches can earn credit and that the markers are not looking for a ‘model’ answer.

EXAM APPROACH OVERVIEW

Before looking at the real answer script in depth, it’s worth reviewing the key features required to produce a good answer of passing standard. A clear passing answer will demonstrate various features such as evidence of planning; a good layout and structure which make it easy to follow the discussion; an answer which responds appropriately to the task in the format required and from the perspective of the persona described for the Management case study.

The length of your answer will vary, depending on various aspects but remember, the examiner is looking for quality rather than quantity. A long answer does not necessarily equate to a better answer. However, if your answer is too brief, you may not be providing enough detail for the examiner to give you marks. Use the time given for each task as a guide to how much you might write. For example, in section 1 of our sample script, there are 25 marks available, which equates to one quarter of the exam or 45 minutes. In this case there are two requirements per task, equating to 4 tasks in total. You can assume that all sub-requirements carry equal marks, thus you should apportion your time equally (This is confirmed in the allocation of marks provided by the marking guidance document).

As you will see from the commentary below, you must answer all parts of all requirements to be sure of securing a pass.

ADDITIONAL SUPPORT RESOURCES

The following documents are referenced at various stages within this feedback which will enhance your understanding:

- Feb 2016 Variant 1 Exam
- Feb 2016 Variant 1 Answers
- Feb 2016 Variant 1 Marking guide
- Feb 2016 Examiner’s Report
- Grade Descriptors for MCS

OVERALL COMMENTS

At first glance, the overall answers have good paragraph layout to suggest comprehensive coverage of each area of the tasks and subsequent requirements. Overall grading may have been stronger if the script had more structure and persuasive language. In addition, at management level, to achieve a ‘strong’ rating for the competencies, you need to demonstrate an ability to weigh up the pros and cons of a situation and make recommendations; there are opportunities to do that which have been missed in this script.

In terms of writing style, our candidate has kept their replies professional with a good layout. They have used headings to clearly indicate which task they are addressing, which also provides structure to their response. Each idea has a separate paragraph which makes it easy for the marker to follow the train of thought and award marks. You will notice that the candidate has not used bullet points in the sample script; it is better to write in small paragraphs with sub-headings to give clarity.

The candidate has made some errors in spelling and grammar. The examiners have made it clear that candidates will not be penalised for this. The key element the examiner looking for is the ability to address the requirements of the tasks and communicate them effectively within a time constrained environment. Therefore, you will not earn marks unless the examiner can understand what you are trying to say. If communication is not your natural strength, you need to start working on it as soon as possible. Ask friends or colleagues to read your answer for you and see if they can understand what you are trying to say.
**TASK 1:**

**Requirement 1:**

The Chief Executive has asked me to prepare a board paper on two issues. Firstly, what would a value chain analysis involve in the case of Pizzatime and how might we involve our staff more in creating value?

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**VALUE CHAIN ANALYSIS**

**Primary Activities**

A value chain analysis of primary activities should enable us to look at the activities that we are performing and evaluate them in terms of the value that they offer our customers. The idea being that if we can create added value whilst minimising costs we sustain the competitive advantage. We can also remove non value activities that would essentially be a waste of resources.

**Inbound Logistics**

Our inbound logistics will mainly focus on delivering our dough from our central plant to our restaurants across the three countries. In the first instance, orders will need to be placed promptly and correctly in terms of volume to anticipate the next weeks demand. It’s important that deliveries are then delivered on time and with the correct ingredients equipment to ensure that customer demand can be met. It is also important that the individual suppliers are delivering correctly and on time. Delivery drivers and factory staff will need to be made aware of the implications of untimely and incorrect deliveries cause.

**Outbound Logistics**

This is essentially our restaurant floor staff. Once the pizza is cooked it will need to be ‘delivered to the customer’ we need to ensure that this is done in a timely and efficient manner. However, we are also know for our quality of service and so standards need to be set on what is acceptable or not when serving customers.

**Sales and Marketing**

An important part of what we do, not only do we need to retain our current customer base but also attract potential new customers. It is vital that our marketing staff know who our customers are and target our advertising towards them. The use of promotions loyalty schemes may encourage our loyal customer base to use us more.

**Service**

Any complaints would generally be deal within our restaurants by our restaurant staff. It is vital that it if a customer does raise a complaint that it is dealt with promptly and efficiently. A complaint could mean that we are likely to lose that customer, perhaps if incentive is made for them to return (i.e. perhaps a voucher for their next visit) this could create a means of retaining them. Staff will need to ensure the customer that their feedback is valued and not just brushed aside like some many other restaurants.
There appears to have been a slight problem with time management in this section. Whilst the analysis of the value chain is full and well-structured, points made in the pricing section appear to me more rushed and, in some cases, incomplete. The answer demonstrates adequate familiarity with the scenario from the pre-seen materials and the extra material delivered in the exam. However, this section does not appear to be part of the same board paper as the piece on the value chain. If this section were to acknowledge that the value chain analysis would contribute to any decision on the pricing strategy, it would give a greater chance to earn credit, not only for the business skills being tested but also for integration.

Some really good points have been made, however, it would have looked better to explain ‘why’ or ‘what’. For instance, why would a low cost strategy prove a barrier to entry for other providers or, what are our actual margins? As it stands, this point does not illustrate an adequate understanding of the business, even though it is addressing a key issue.

Requirement 1:
Secondly, the Chief Executive is unsure whether we should focus our value chain analysis in a low-cost strategy or a differentiation strategy.

Given the value chain analysis, although the question does not explicitly request a recommendation, it would be expected at this level and your role within the organisation, that it would have been appropriate to give an opinion of which strategy may be best suited to Pizzatime. A stronger score could have been achieved by drawing relevant conclusions that follow logically from the analysis.
TASK 2

Requirement 1:
I need you to email me your thoughts on the following:
How can we organise our supply chain better to prevent a recurrence? Clearly, flour is only one of the many ingredients that we purchase.

SUPPLY CHAIN ORGANISATION

Given our JIT system in the factory, this scandal will have caused major disruption. Clearly our flour supplier has acted unethically in supplying the flour that was out of date, but there is also an issue here in terms of internal control and understanding of what is acceptable.

In future we will need to ensure that our suppliers are meeting our quality standards – given the nature of food production and the end consumer. This is not a trivial matter and is now resuming in us potentially having to pay out serious amounts of compensation. In a JIT system, close collaboration is key to success in the system. Any new supplier of flour (or any ingredient) we will need to meet with and discuss the standards that we are expecting. There may be potential for a contract here, and potentially we could make penalty clauses as a part of this contract.

Relationships with our supplier will be key here, and we will need our procurement staff to identify potential new suppliers for flour and meet with them to ensure that they have a good understanding of our standards. A JIT System is of course susceptible to the supply chain, and so again, it may be wise for procurement staff to liaise with current suppliers to strengthen their relationships and re-clarify standards to strengthen our present relationships.

We will also need to have much tighter control of our inbound logistics. Any deliveries will need to be checked and if necessary, rejected, should they not be in date or be of a high enough quality etc.

This unfortunately is a bad reflection of our staff in the factory and even though it is not necessarily the stance that all staff take, the actions of one has tainted them all. It is vital that all staff understand the gravity of bad/out of date ingredients, and so training of our staff on what checks need to be made.

Requirement 2:
I need you to email me your thoughts on the following:
How can we address the inevitable claims that we have acted unethically and against the public interest?

ADDRESSING CLAIMS

It is important that we appear as transparent as possible to the press and public. This is a major scandal and will potentially impact our sales on a large scale.

We will need to make it clear to the public that we find the situation absolutely unacceptable and are working as quickly as we can to identify new suppliers and remedy this.

The public will need reassurance that this will not happen again so we will need to communicate that we are to implement far tighter controls and a staff training scheme to ensure this isn’t repeated.

We also need to ensure that it is known that we are considering this matter as extremely serious and there will be serious investigations into exactly how and why it was allowed to happen and who was directly responsible. There may even be a need to suspend the employee in question and / or the factory manager to show that we are dealing with this in an ethical but serious way.

There is of course potential to take action against our flour supplier here although it may be wise not to go as far as this until serious investigations have been concluded and a decision has been made on how to proceed.
Requirement 3:

I need you to email me your thoughts on the following:

What are the accounting issues associated with determining the need for a provision in the financial statements?

ACCOUNTING ISSUES

You are right in that we will need to make some kind of accounting disclosure here regarding the potential claims that we are likely to have to handle.

IAS 37, Provisions Contingent Liabilities and Assets states that for an accounting provision to be made there is a present obligation arising from past events which will result in a probable outflow of economic benefit required to settle. The criteria also states that the amount required to be settled can be measured reliably and the timings are known. Essentially for a provision to be made the details will need to be almost certain.

Although we know that we are almost certain to receive claims from customers regarding this issue our lawyers have given no indication of whether these are likely to be successful or not. Therefore we are unable to say with certainty that the outflow of economic benefit is probable at this stage. Furthermore we do not have any indication of when these claims are likely to be made or even an estimate of how much we are likely to pay out.

Given the circumstances of the situation as now we would need to disclose in the form of a note in the Financial Statements details of the estimated timings amount nature and circumstances of these claims. However as time goes on we are likely to gain more detail and understanding of the amount and timings of these claims.

If between now and the yearend we were to receive an indication of timing and amount of successful claims against us then we should either provide for this in the financial statement if we are able to measure with certainty or if successful claims are probable but we are unable to estimate how much we are likely to pay out or when, then a contingent liability would be appropriate.
RELAXING TARGETS

Since the documentary has been released several of our restaurants have seen a downturn in profits. The fact remains that the flour scandal was not the fault of the restaurant managers themselves and so this adverse publicity and loss of public confidence they were not responsible for.

If we were to consider changing restaurant targets it would be important to be able to gauge what the trend for each of our restaurants is in this difficult time. I appreciate you have had several emails from restaurant managers but given that this downturn is likely to affect their salaries. It is driven by self-motivation. To get a fairer picture we would need to consider the reduction across all similar restaurants to try and gauge an appropriate target if we were to maintain that their target were based on financial measures only. To do away with targets completely would be a bad move even in this period of difficulty.

We need to appreciate that some costs are out of control particularly as mentioned they are not allowed to make staff cuts, even though it would appear on the face of it the sensible thing to do. Again shutting restaurants down was not controllable by managers and it would appear that to assess their performance on revenue for that period would be unfair. It may also and damaging to the restaurant managers morale id we were not to relax/change the targets. The Jaytown manager is clearly very good at her job having always hit the target in the past and so we must be able to retain staff such as her. By not changing target she and other may be motivated to leave Pizzatime and go to our competitors.

REALISTIC TARGETS

There are several ways that we could go about setting a realistic and motivating target for our restaurant managers. As I already mentioned we need to assess the trend across the board with some accuracy if we are to continue to assess managers in terms of profitability. This would see a reduction in profit margin as the target.

However, there may be many other ways to set these to make them more relevant. The biggest problem that we have right now is loss of sales and customers. Our main focus should be gaining the trust of these customers since the flour scandal. It may be wise for us to set a target for our restaurant managers in terms of the amount customers through the door and further breaking this down through whether they are new or returning customers. This could be ascertained through a simple question from staff to our customers when they are here. However this method may be susceptible to some creativity from staff. We could remedy this by monitoring growth in revenue.

Again focusing on customers their satisfaction and peace of mind is going to be key in retaining/retracting those that we have lost. Word of mouth is a powerful force and so if customers who have come back to us have had a pleasant experience then they are likely to pass this on. At the same time a bad experience will also be passed on. We could certainly assess our managers in terms of customer satisfaction. A simple survey to be completed on line or instore (perhaps with the added incentive of being entered into a prize draw on competition) about their experience would enable us to see whether managers are performing well in terms of both themselves and their staff maintaining high customer service levels.
Requirement 3:

We need to decide on the following:

Looking forward, beyond the present concerns about the documentary, should we consider linking the restaurant managers' bonuses to a balanced scorecard approach? What would the implications of that be?

BALANCED SCORECARD

Given the current circumstance that Pizzatime is in, it is unlikely that maintaining profitability targets will be motivating for restaurant managers. The introduction of a balanced scorecard system could provide many benefits. We are already using a similar system in our PCCS programme and so we could build on this to implement a full balanced scorecard system.

As I already stated, profitability it is potentially on the back burner for the time being, given the loss of sales that we have experienced. By using a range of non-financial and financial measures to assess the performance of our managers we are encouraging a long term view of pizzatime. Right now, our strategy needs to focus on getting our lost customers back from competitors and restoring their faith in us. By using a balanced scorecard system (and PCCS) we can assess our customers’ perception of us and alter our appearance to attract more.

This system is also likely to be very motivating for managers. Looking beyond what is a difficult time for us, profitability may be an unfair ways assess in the long term. Given our geographical spread, margins are likely to vary from area to area and so what might be considered poor in one area or outlet may be considered strong in another. Using a BSC will provide consistency across the board as well as enforcing our expected standards, measures such as cleanliness and customer satisfaction are all things that managers are in control of and so assessing them on this basis makes sense.

When using financial measures alone, the focus on gaining maximum sales may come at the detriment of other important aspects of Pizzatime. It is likely that if managers are pushing to decrease table turnover time during a sitting, it will impact on the customer experience. This view would encourage short termism in the managers but in the long term we may have potentially just lost a loyal customer because they feel uncomfortable and rushed. By measuring performance from four perspectives, the aspects are balanced.

The risk of introducing a BSC system however is that managers may view these measures as subjective and possibly not take them seriously. It still leaves room for some dysfunctional behavior for example under the learning perspective – if a manager was being assessed on training days of staff alone there may be potential for them to go too far with these and training becomes excessive. There is also the danger of the content of these days being poor or inadequate so really we have not gained better staff but the manager has got the “tick in the box” that they want. It’s therefore important that we ensure that these measures can be controlled and the risk of dysfunctional behaviour minimised.
DISPOSAL OF SUBSIDIARY
The main change here is if we are to reduce our holding from 100% to 10% then we will need to change our accounting for the subsidiary via the acquisition method.

Depending on when the transaction is made, we will need to value our holding to its' fair value, including any good will arising from acquiring the subsidiary. The accounting treatment will then be simply the consideration received for our 90% holding, less the fair value and any goodwill at that date. This will form a net gain /loss on disposal which will be shown in the SPLOCI. Since we are no longer the controlling parent, any goodwill that arose on the original purchase will need to be re-leased from the CSOFP. Given that it has a large retained earnings balance, the figure in the CSOFP is likely to drop considerably.

Once the disposal has been made, assuming that we do not have significant influence (we will need more detail to establish whether this is the case which case a different method is needed). The 10% minding will be classed as an Available for Sale Asset. Initially it will need to be measured at fair value and any transaction costs arising will need to be added. At each reporting date, the asset will need to be restated to it’s fair value and any adjustment being taken to a reserve account within equity section of the balance sheet.

MANAGEMENT OF THE SUPPLY CHAIN
Our management of the supply chain is going to have to be controlled tightly in order to prevent another scandal happening. We will be solely relying on another company to provide this dough for us and unlike with our subsidiary we will have no say in the way that this is done. We will be able to mitigate these risks by an in-depth Service Level Agreement, this will need to include penalties of not meeting our standards.

Our relationship with this supplier is going to be imperative we are to stick with our JIT system as we are extremely susceptible to disruption Constant communication will be vital.

There is also potential for a gain sharing scheme there we could specify to our supplier regarding the target we require and offer them a parentage should these targets be met it’s imperative that both parties are rewarded for their efforts.

We will be in a vulnerable position once a contract is signed as we will have divested in our subsidiary and so attaining a new supplier could be difficult. We need to ensure that once we are tied in with this new supplier, there is a limit on what price changes (rises) are acceptable. Our new supplier will know that it will be difficult for us to change back so we do not want to be put in the positions of them increasing prices and knowing we cannot get out.
Requirement 3:

Please email me your thoughts on the following:

How can we tell whether the net effect of divesting this subsidiary and buying in dough will be to enhance future cash flows?

FUTURE CASHFLOWS

We will need to work out the implications of this transaction. Given that we’re buying the dough from our subsidiary at market-t price means that we are unlikely to see our price of buying increase. We may in fact see a fall in the purchase price of dough given that the provision has now been competitive-indeed.

There is now potential that we could be paying a lower price for dough from another supplier, and our subsidiary manages to gain another major contract elsewhere. In which case we will still be entitled to 10% of the profits from it. This would suggest that our cash flows will certainly increase.

We will need to perhaps create a projected analysis listing all of the cash inflows and outflows for each year. These cash flows will need to be discounted possibly using our Weighted Average Cost of Capital (WACC) to take the risk of the new arrangement into account. We will also need to state any working capital or capital investment used to fund this venture. By using this we will be able to ascertain a Net Present Value the venture. We can compare this to a similar analysis our current operations under this supplier to see which gives the greatest NPV.