ACCA

Paper P3

Business Analysis

December 2017

Revision Mock B – Answers

To gain maximum benefit, do not refer to these answers until you have completed the revision mock questions and submitted them for marking.

SECTION A

1 LAND OF FOTOS

Key answer tips

(a) When asked for an analysis of a competitive environment the best model to use is Porter's 5 Forces. Some credit would be given for the use of other models, but the scenario gives more information on areas such as suppliers than it does on, say, legal or political issues. When analysing each force you should aim to make points which are relevant to the scenario and explain how they impact on the attractiveness of the industry for LF.

(b) Part (b) will require a good understanding of benefits management. In part (i) do not try to simply regurgitate your knowledge. Instead, aim to make your points relevant to LF. In part (ii) it could be useful to scale benefits in terms of whether they are observable, measurable etc. and to come up with specific suggestions that are relevant to the LF project.

(c) The calculation here should be straight forward and you should ensure that you do not overcomplicate it or spend too long on it. The bulk of the marks are for the discussion on good budgeting practice. The answer uses suggestions from Atrill and McLaney, but any well explained points should score well here.

(a) Competitive nature of the industry

One possible approach to answering this part of the question is provided by using Michael Porter's five forces framework. The framework is designed to analyse 'the structure of an industry and its competitors' (Porter). There are five inter-connecting forces in the framework; potential entrants (the threat of entry), the bargaining power of suppliers, the bargaining power of buyers, the threat of substitutes and the competitive rivalry that exists amongst existing organisations in the industry. Each of these is now considered in turn in the context of Land of Fotos (LF), focusing on those factors that have a significant effect on their industry. It must be recognised that other models might have been used in framing this answer and credit will be given for using appropriate models in the context of LF.

Threat from suppliers

The key suppliers to LF are likely to be larger, overseas suppliers of equipment. They will have many avenues through which to sell their products and many may be forwardly integrated into retail. This is likely to make them powerful and is likely to result in higher purchase costs for LF. In the light of falling exchange rates LF may experience rising purchase costs that they could struggle to pass on to customers and it is likely that margins in the future may be much lower than the 12% margin achieved at present. The new equipment will not be subject to such price increases as the price will be agreed and paid in advance.

Threat from new entrants

There are unlikely to be many barriers to entry in the industry as the business model is easily replicated and there will be easy access to suppliers of equipment and premises. In retail stores and kiosks staff are unlikely to be highly skilled and could be easily replaced. The result of this is that any innovations are easily copied by rivals. However, the current state of the market may deter many potential entrants. The new equipment opportunity gives LF the chance to build a barrier to entry due to its sole supplier agreement and this may give a competitive advantage that rivals find difficult to copy (at least in the short term).

Threat from substitutes

The existing business model faces significant threat from substitute products. Consumers can easily print their own photographs at home using commonly owned digital printers, and professional photographers might even have their own development studios. This means that LF need to keep selling prices low, increase the convenience of the service and offer add-on services that can't be replicated at home. The new product opportunity is unlikely to face such DIY threat and would help reduce the threat from substitutes overall.

Threat from competition

LF appear to face a high level of competition and may be 'stuck in the middle' with respect to their business level strategy. Internet businesses such as Photobox will have a lower cost base and are able to undercut LF on price. At the higher end of the market Covers appear to offer a more convenient service. LF are unlikely to be able to drive down costs to the level of the internet businesses, so it needs to a find a differentiated service to take on competitors such as Covers. The new equipment would be one way to achieve this. It may also attract customers away from Covers for other products as LF are actually cheaper than Covers for most products so can provide a better value for money alternative.

Power of buyers

LF is unlikely to face powerful buyers as they sell to individuals. This may allow them to pass on some cost increases. However, buyers are likely to have lots of alternative options from substitutes and competitors of LF and low switching costs between them which will make it difficult for any business in the industry to have strong brand loyalty. The new machine may provide a unique advantage that reduces this threat.

Overall

LF faces a tough competitive environment. The new machine would alleviate many of the pressures that the business is facing and would seem a sound investment to improve LF's competitive position.

(b) Benefits Dependency network

(i) Benefits and problems

A benefits dependency framework or network is aimed at ensuring that the business drivers and investment objectives are achieved by ensuring there are appropriate business changes made within the organisation. It has the following benefits and problems:

Benefits

- It clearly illustrates why the project has been put forward. These can be seen from the business drivers which should in turn follow from the strategic analysis carried out in other parts of the business case document (for example, building on the 5 forces analysis carried out in the previous section, the need to reduce the threat from substitutes might be a business driver).
- Enabling changes can be followed through to the business drivers. Other members of the board will be able to follow through and see the importance of enabling and business changes. For example, a reader could follow through the areas from a temporary store closure all the way through to the differentiation of the shops. Likewise, if a business or enabling change is not made, the impact this would have on business benefits and investment objectives can also be assessed.
- It can help identify unnecessary changes. In the network created by Mark Secap the enabling change of increasing shop space does not link forward to any business changes or benefits. Mark should therefore remove this from his plan.
- It can feed into the project plan and improve the efficiency of that stage of project management. As Mark will be managing the project in its entirety, this will improve his understanding of what is needed to make the project successful and make later stages of project management easier.

Problems

- It can be a complicated process. Mark Secap's network is not complete, yet it already appears complicated. As more benefits, changes and associated linkages are added it may be too difficult to interpret and use.
- Not all links from enabling changes to business changes and so forth may be identified. This might mean that some enabling changes might be removed if they are not linked to future benefits. In hindsight it might mean that important changes have not been made and that the project has difficulties because of this.
- Overall, if Mark Secap plans to take the project management role seriously then the use of a benefits dependency network would appear to be a good first step.

(ii) Other potential benefits

Ward and Daniel suggest that project benefits can be classified to fit along a scale. The following analysis gives some ideas of benefits that could be added to Mark Secap's benefits dependency network.

The first level of benefits are observable benefits. These are benefits that cannot be measured. For LF it might be that this new project leads to better staff satisfaction, for example, or less conflict between the key stakeholders as the business moves forward with a better long term plan.

The next level of benefits are measurable ones. Often these can only be quantified in hindsight. For example, LF might experience increased footfall from customers, an increased market share or knock on increases in the sales of other products. It would be difficult to quantify these in advance, but each is likely to arise and should be include in the benefits dependency network.

Benefits might also be quantifiable. These can be forecast in advance. They might include areas such as time freed up by the new management information system, reduction in delivery times and increases in customer satisfaction surveys.

The final level of benefits are financial ones. These will be strongly linked to the positive NPV investment objective. They will include increases in revenue (brought about by the new product range) and cost savings (if, for example, less pre-printed t-shirts and other products need to be bought in the future).

(c) Budgeting

$$\text{Break-even point} = \frac{\text{Total fixed costs} + \text{Target profit} + \text{Depreciation}^*}{\text{Contribution per unit}}$$

$$= \frac{\$50{,}000 + \$65{,}000 + \$70{,}000}{\$26 - \$2}$$

$$= \frac{\$185{,}000}{\$24}$$

= 7,708.33

= 7,709 units per annum

Depreciation = $280,000/4 years = $70,000 per annum

Having a budget target for sales will only be the first step in a budgetary control system. Atrill and McLaney identify a number of characteristics that are common to businesses with effective budgetary control. Examples are:

- A serious attitude is taken to the system. It will be important that Mark gets the other board members on board as well as shop managers and staff.
- Clear demarcation between areas of managerial responsibility. It will be important to ensure that staff and managers know who is responsible for each cost and revenue as well as all other (likely non-financial) costs and benefits.
- Budget targets that are challenging yet achievable. It may be that the target of 7,709 is too difficult in the first year of a new process, for example. So it will be important to consider a bedding in period as well as the reaction of customers to the new process. Targets and rewards may have to be flexed subsequently. Market research might help develop more appropriate targets.
- Established data collection, analysis and reporting techniques. The new information system should help in this process and it will be important that Mark and shop managers have regular, accurate information on budget performance.
- Fairly short reporting periods. Mark should review shop performance at least once a month to find and solve problems at the earliest instance.

ACCA marking scheme

			Marks
(a)	Competitive analysis		
	Up to 3 marks for each of the five forces		Up to 15
	Professional skills: these marks should only be awarded if the answer has the correct 'slant' i.e. is written in a way that supports the strategic decision		3
	Total		**Max of 18**
(b)	Benefits Dependency Network		
	(i)	2 marks for each explained benefit and problem	Up to 12
	(ii)	2 marks for each benefit example explained	Up to 8
	Total		**Max of 20**
(c)	Budgeting		
	Calculation of the break-even point		2
	2 marks for each budgeting characteristic explained		Up to 10
			Max of 12
Total			**50**

SECTION B

2 MARLOW FASHION GROUP

Key answer tips

(a) Although a model is not required in part (a) you may have found the use of a model such as the SWOT model to be useful. However, it will be important to focus on strengths and weaknesses and not to drift into opportunities and threats as these are not required here.

(b) Try to break the requirement in part 3 into its three parts in order to ensure you have covered all 3 elements – you need to explain benchmarking, its benefits and its limitations.

(a) Strategic Position

To: Susan Grant

From:

Strategic strengths and weaknesses in Marlow Fashion Group

In carrying out a strategic strengths and weaknesses analysis one becomes aware that what were formerly strengths often become weaknesses as the competitive environment changes over time. Strengths and weaknesses analysis is focused on the internal side of the business and is usually linked to an external appraisal of the external opportunities and threats facing the company. Marlow Fashion Group is clearly at a crisis point in its company life and needs a strategic turnaround in order to survive. The business model that has served them so well is no longer appropriate to the fashion world in which they are now competing. Rodney and Betty Marlow have built a highly vertically integrated model, which gave them considerable control over the growth and development of the company. In terms of the value chain the relationship they built up with suppliers was mutually supportive and clearly facilitated the global expansion of the group. Control was even tighter over the design, manufacturing and retailing of the company's products. Marlow Fashions had successfully developed a niche market for its products based around traditional English values. This enabled it to expand successfully and develop a worldwide reputation for design excellence and quality.

Unfortunately, its competitive environment has changed considerably, becoming increasingly competitive and hostile. The economics of clothing manufacturing has changed, with most clothing retailers choosing to outsource the manufacture of their clothes. Women's tastes in clothing have also changed and there is no longer the market for the clothes Marlow Fashion sells. The tight control exercised by the founders has prevented recognition of these changes. Marlow Fashion has continued to pursue outdated designs and expensive manufacturing processes that had served it well in the past. There has been some recognition of the strategic nature of the problems as indicated by the succession of CEOs since 2000 given the task of preventing the fall in sales and cutting costs. Unfortunately, the changes in its environment have led to some uncertainty as to whether Marlow Fashion is a brand, a manufacturer, a retailer or an integrated fashion company.

It is also unclear whether any strategic competitive advantage remains. The company appears to be 'stuck in the middle'. On the one hand they do not have the cost controls, economies of scale or access to cheap foreign imports that would be necessary to compete at the bottom end of the market. But on the other hand their clothes are seen as dated, poorly branded and unfitting to the market that would be necessary to compete at the higher end of the market. This is made even worse by the poor marketing techniques and the overall lack of either strategic planning or external analysis. Because the company appear to have been caught unawares by the market changes (or perhaps the Marlow's controls and 'wait and see' attitude have forced the company to ignore these changes) the company have been left behind by rivals.

Overall, Marlow Fashion, from being in a strategically sound position, now requires a swift strategic turnaround. Its products and markets have changed; the relationships it has with key stakeholders are no longer strengths and its value chain and system no longer deliver distinctive value to its customers.

(b) Benchmarking at Marlow Fashion will not be an easy exercise. Marlow Fashion has developed a distinctive way of reaching its markets that means direct comparisons will be hard to make. Certainly, it can carry out **historical benchmarking** in comparing how its own processes and activities have improved, or otherwise, over a relevant period of time. Unfortunately, this is likely to simply confirm the worsening performance and add little to what Susan Grant has already discovered.

It can compare its own key operations against the **'best in class';** regardless of which industry the excellent performer comes from. It could and should have been carrying out **competitive benchmarking** on the retail side of the business where information should be more easily available. There may be an opportunity to benchmark itself against firms that have gone through a similar crisis and achieved a successful turnaround.

The process should begin with an appraisal of the critical success factors that are relevant to the current business environment such as innovation, branding, price and quality. Key Performance Indicators (KPI's) should then be attached to these critical success factors (this might, for example, be a target for % of purchases made from foreign suppliers). The targets for each KPI can then be set using benchmarking. Using the example given, if the aim for Marlows is to move downmarket, then the % of purchases made could be aimed at similar stores who already follow such as strategy such as Harpers.

Benchmarking can then be further extended beyond rivals so that KPI's such as sales per employee might be benchmarked against other industries so that Marlow's aim not only to match and catch up with existing rivals, but they also aim to out-do them and set higher standards for the industry going forward and ensure that the problems experienced over the last few years do not recur.

In terms of the advantages and disadvantages of benchmarking, the willingness of managers responsible for a key area of performance to compare themselves against relevant external performance measures should make them take responsibility for any changes necessary. In Marlow Fashion, the acceptance that things have to be done differently will be the first stage in the turnaround. Getting managers face-to-face with the problems, accepting responsibility for change and recognising that the necessary changes are 'doable' is an important stage in creating a willingness to change. The disadvantages are that every organisation and situation is different and there is no one best way. Marlow Fashion thought it had discovered the best way and this created an unwillingness to change. There is also the danger that you are solving today's problems with yesterday's solutions. A good competitor will be trying to maintain its competitive advantage through constantly improving its processes. It also has a vested interest in trying to prevent its improvements from being revealed to its competitors. Also, many of the 'softer' processes – typically involving people – are difficult if not impossible to replicate in another organisation. These advantages are to do with culture and leadership and not easily transferable to another organisation and the context in which it is operating.

Marking scheme

		Marks
(a)	2 marks for each area covered as long as the focus is on internal strengths and weaknesses rather than future opportunities and threats	Max 14
(b)	Explanation that historical benchmarking would be of little use	3
	Suggestions for improvements	Max 4
	Potential limitations	Max 4
Total		**25**

3 GATEWAY LEISURE

Key answer tips

(a) This requirement focused on the culture of the organisation and asked you to think about why the YourWay changes to the pilot stores would have caused resistance. The best way of handling this would have been to use the cultural web. However, if you couldn't remember the model, you still could have obtained a reasonable mark by simply identifying the reasons for the behavioural problems, which should have been straightforward.

(b) Part (ii) required you to think about approaches to dealing with the staff resistance. Kotter and Schlesinger would have been the easiest model to use, but you could have obtained credit with an alternative model as long as it was well applied. Remember the question asked for you to **evaluate** so you need to look at pros and cons of each approach you identified.

(a) Analysis of the culture of the redeveloped stores

According to Charles Handy, corporate culture is 'the way we do things around here'. An analysis of culture exams how staff interact and behave with each other and what they believe about the organisation. This could give Gateway Leisure an indication of why there have been staff behavioural problems within the redeveloped stores. There are several models that could be used to analyse the culture, but the Cultural Web may be the most effective here.

Stories and myths

This looks at what stories employees pass on to one another within the organisation – in other words what staff talk about. This can give valuable information regarding their mindset.

Within Gateway Leisure's pilot stores, there are a couple of 'stories' that may be contributing towards employee dissatisfaction. Firstly, there is the perception amongst standard staff members that YourWay staff typically give poor service to adventure or package holiday customers. Standard staff may be concerned that their bonuses may suffer due to loss of custom through the actions of YourWay staff and this will cause tensions between the two groups. (Note that YourWay staff are not rewarded or assessed on non-YourWay sales, meaning that there is no incentive for them to perform well when selling these other products.)

Controls

This part of culture examines how employees are controlled and incentivised by management.

Standard staff have traditionally been given bonuses based on their financial performance across all product ranges. The YourWay staff members are being assessed based on the quality of the service they provide on just a single product range.

The fact that YourWay staff have a higher overall take-home pay than standard staff reinforces a 'them and us' attitude and is likely to lead to conflict between the two groups.

Power

This looks at management and their influence on corporate culture.

Gateway Leisure's management appear to be favouring the YourWay employees. Not only have they offered them a higher rate of pay, but they also appear to have largely ignored the complaints of standard staff about the poor performance of YourWay staff when selling other products.

It could be argued that the management's suggested solution (that YourWay staff simply do not help other customers) seems to reward the YourWay staff by giving them less work. It also increases the workload for the remaining standard staff in-store.

Symbols

This looks at the symbols and symbolic actions within the organisation. This area also indicates reasons for conflict between the two groups of staff.

The fact that management refers to existing staff members as 'standard' could be perceived as insulting to majority of the workforce and suggests that the YourWay staff are superior.

Training is also likely to be a problem area. Employees have asked for training in the past, only to be told that it is not cost effective. The fact that YourWay staff are being given this additional training is likely to cause animosity between the two groups.

Routines and rituals

This looks at standard behaviour and actions of employees within the organisation.

For Gateway Leisure, its current culture is one where all staff members work together for mutual benefit as they are assessed as a single store. By removing YourWay employees from the bonus scheme, they are being set apart by management from the rest of the employees, giving them a different and potentially incompatible culture to the rest of the company.

Structure

This looks at how the structure of the organisation influences corporate culture.

The reporting structure is different for the YourWay to the standard employees. YourWay staff report directly to regional managers, while standard staff report to the individual store managers. This means that YourWay staff may appear to have more influence than standard staff, which is likely to cause rivalry between the two groups.

Paradigm

This pulls together the other aspects of the cultural web and looks at the overall corporate culture of the organisation.

Gateway Leisure's managers have created a two-tier system within the pilot stores, with most of their actions reinforcing a feeling that YourWay staff are superior to the rest of the workforce.

In addition, the YourWay staff are motivated in a different way to the rest of the workforce and have different goals, which is likely to lead to incompatibility with the other employees.

Unless changes are made to the structure of the YourWay strategy, Gateway Leisure can expect to see these behavioural problems begin to occur throughout the rest of the organisation if the pilot is rolled out.

(b) Leadership approaches

There are various leadership approaches that could be taken by Gateway Leisure in order to deal with the problems caused by the YourWay strategy. The key approaches were outlined by Kotter and Schlesinger.

Participation and involvement

This approach suggests that employees should be involved in the change process, with input into the decisions that are made.

For Gateway Leisure, this would mean that the company should open the proposals out into a wider employee consultation before proceeding. If all staff are involved with the decision making process, they are much more likely to accept the changes that are being made, improving motivation.

The main drawback of this approach for Gateway Leisure is that it will be time-consuming. Also – staff may be unhappy with the strategy as a whole, given the significant changes it involves to the company's culture. This may lead to them suggesting wide-ranging changes to the proposed YourWay strategy that may render it ineffective.

Education and communication

This involves the belief that communicating the benefits of change to the employees will result in their acceptance of the proposal. Gateway Leisure would need to convince its staff that the YourWay strategy would benefit everyone.

The main difficulty here is that the proposal only really seems to benefit the YourWay staff (who get better terms and conditions as well as increased pay) along with the management (who will be more able to meet their financial objectives).

Standard staff will see few benefits – in fact their position may become worse due to increased workload and (potentially) lower bonus payments if the non-YourWay sales suffer as a result of lower sales staff levels. It may therefore be impossible to convince them that they will see benefits.

Facilitation and support

This involves Gateway Leisure counselling workers to help them overcome their fears and anxieties about the proposed change. Gateway Leisure's employees may fear the worst about the difficulties they will face after the proposed changes come into effect (especially if they have spoken to employees from the pilot stores).

Gateway Leisure could consider setting up training seminars with its staff across the company before rolling out the YourWay proposals and explaining the effect it will have on staff. Being open and honest about the proposals may reduce resistance once the plans are put into operation.

Unfortunately, this approach would be time consuming and expensive. In addition, there is no guarantee that it would work, given the potentially detrimental effect the proposals will have on standard staff.

Negotiation and agreement

This would require Gateway Leisure to bargain with its staff to find a proposal that is acceptable to all parties. It may involve offering standard staff some additional benefits to ease their feelings of being 'second-class' employees compared to YourWay staff.

This could involve offering them additional training (which is clearly a problem area in the pilot stores) or changing their bonus structure to ensure that they do not lose out after the YourWay project goes ahead.

While this could be an effective way of reducing resistance, it may be expensive. Offering additional benefits to standard staff may mean that the YourWay project is no longer financially viable.

Manipulation and co-optation

This involves dissemination of information relating to the proposal that is selective and distorted. For example, Gateway Leisure could consider telling its workforce that the company's financial situation is poor, or selectively releasing information about the poor uptake of some Prestige Travel packages to indicate that the change being suggested is essential.

While this can be a quick and easy solution, it can lead to future staff problems if employees feel that they have been manipulated and may undermine the company's strong relationship with its workforce. In addition, this approach would typically be seen as unethical and Gateway Leisure needs to consider if it is appropriate to proceed in this manner.

Coercion

This involves the compulsory approach to dealing with change. Management could simply exercise their power and force the change process through across the company.

As with manipulation and co-optation, this is a fast method for dealing with resistance to change. However, it is likely to damage Gateway Leisure's industrial relations with its staff and would potentially cause ongoing problems if it damages employee morale.

Gateway Leisure's management need to remember that they see their friendly, good quality customer service as a key market differentiator. If they cause their staff to lose motivation, this could compromise the company's unique selling point and damage their reputation in the market.

Tutorial note

Only FOUR approaches were required in your answer. The others have been included for tutorial purposes.

Marking scheme		
		Marks
(a)	Up to 3 marks for each area of the cultural web – 1 for definition/application to Gateway Leisure, 2 marks for explanation of reasons for behavioural problems in pilot stores.	**Max 15**
(b)	Up to 3 marks for each leadership approach required – 1 for identification/application to Gateway Leisure, 2 marks for evaluation.	**Max 10**
Total		**25**

4 DRB ELECTRONIC SERVICES

Key answer tips

Part (a) of the question is only worth 9 marks and it will therefore be important to manage your time well and ensure that you do not spend too much time adding extra content that will not add extra marks. Also note that only the primary activities are asked for and no marks will be awarded for a discussion of any support activities.

In parts (b) and (c) it will be important that you can distinguish between the upstream and downstream supply chains. You should then aim to make points which are as relevant to DRB as possible.

(a) Value Chain

DRB appears to be competing as a differentiator. It will be important that this competitive advantage is exploited as the organisation expands. Some of the key issues in the current value chain of DRB are as follows:

Inbound logistics: Excellent quality assurance is required in inbound logistics. This is essential for pre-configured equipment where customers have high expectations of reliability. As well as contributing to customer satisfaction, high quality also reduces service costs.

Operations: This is a relatively small component in the DRB value chain and actually adds little value to the customer. It is also being undertaken in a relatively high cost country. DRB might wish to re-visit the current arrangement.

Outbound logistics: Customer feedback shows that this is greatly valued. Products can be picked up from stock and delivery and installation is provided if required. Most of the company's larger competitors cannot offer this service. However, it is unlikely that this value can be retained when DRB begins to increasingly supply outside the geographical region it is in.

Marketing and sales: This is very low-key at DRB and will have to be developed if the company is to deliver the proposed growth. The limited functionality of the web site offers little value to customers.

Service: Customer feedback shows that this is greatly valued. Most of the company's competitors cannot offer this level of service. They offer support from off-shore call centres and a returns policy that is both time consuming to undertake and slow in rectification. However, it is unlikely that this value can be retained when DRB begins to increasingly supply outside the geographical region it is in.

(b) Upstream Supply Chain

DRB has already gained efficiencies by procuring products through the supplier's web-site. However, the web site has restricted functionality. When DRB places the order it is not informed of the expected delivery date until it receives the confirmation email from ISAS. It is also unable to track the status of their order and so it is only when it receives a despatch email from ISAS that it knows that it is on its way. Because DRB is not the owner of the shipment, it is unable to track the delivery and so the physical arrival of the goods cannot be easily predicted. On occasions where shipments have appeared to have been lost, DRB has had to ask ISAS to track the shipment and report on its status. This has not been very satisfactory and the problem has been exacerbated by having two shippers involved. ISAS has not been able to reliably track the transhipment of goods from their shipper to EIF, the logistics company used to distribute their products in the country. Some shipments have been lost and it is time-consuming to track and follow-up shipments which are causing concern. Finally, because DRB has no long term contract with ISAS, it has to pay when it places the order through a credit card transaction on the ISAS website.

DRB has stated that it wishes to continue importing fully configured products. It is not interested in importing components and assembling them. It also does not wish to build or invest in assembly plants in other countries. However, it may wish to consider the following changes to its upstream supply chain:

- Seek to identify a wider range of suppliers and so trade through other sell-side web sites. Clearly there are costs associated with this. Suppliers have to be identified and evaluated and financial and trading arrangements have to be established.
- However, it removes the risk of single-sourcing and other suppliers may have better systems in place to support order and delivery tracking.
- Seek to identify suppliers who are willing and able to re-brand and package their products with DRB material at the production plant. This should reduce DRB costs as this is currently undertaken in a country where wage rates are high.

- Re-consider the decision not to negotiate long-term contracts with suppliers (including ISAS) and so explore the possibility of more favourable payment terms. DRB has avoided long-term contracts up to now. It may also not be possible to enter into such contracts if DRB begins to trade with a number of suppliers.
- Seek to identify suppliers (including ISAS) who are able to provide information about delivery dates prior to purchase and who are able to provide internet-based order tracking systems to their customers. This should allow much better planning.
- Consider replacing the two supplier shippers with a contracted logistics company which will collect the goods from the supplier and transport the goods directly to DRB. This should reduce physical transhipment problems and allow seamless monitoring of the progress of the order from despatch to arrival. It will also allow DRB to plan for the arrival of goods and to schedule its re-packaging.

DRB might also wish to consider two other procurement models; buy-side and the independent marketplace.

In the buy-side model DRB would use its web site to invite potential suppliers to bid for contract requirements posted on the site. This places the onus on suppliers to spend time completing details and making commitments. It should also attract a much wider range of suppliers than would have been possible through DRB searching sell-side sites for potential suppliers. Unfortunately, it is unlikely that DRB is large enough to host such a model. However, it may wish to prototype it to see if it is viable and whether it uncovers potential suppliers who have not been found in sell-side web sites searches.

In the independent marketplace model, DRB places its requirements on an intermediary web site. These are essentially B2B electronic marketplaces which allow, on the one hand, potential customers to search products being offered by suppliers and, on the other hand, customers to place their requirements and be contacted by potential suppliers. Such marketplaces promise greater supplier choice with reduced costs. They also provide an opportunity for aggregation where smaller organisations (such as DRB) can get together with companies that have the same requirement to place larger orders to gain cheaper prices and better purchasing terms. It is also likely that such marketplaces will increasingly offer algorithms that automatically match customers and suppliers, so reducing the search costs associated with the sell-side model. The independent marketplace model may be a useful approach for DRB. Many of the suppliers participating in these marketplaces are electronics companies.

(c) Downstream Supply Chain

DRB's downstream supply chain is also very simple at the moment. It has a web-site that shows information about DRB products. Customers can make enquiries about the specification and availability of these products through an e-mail facility.

Conventional marketing is undertaken through local advertising and buyers either collect their products or they are delivered and installed by a specialist group of technicians. DRB could tune its downstream supply chain by using many of the approaches mentioned in the previous section. For example:

- Developing the web site so that it not only shows products but also product availability. Customers would be able to place orders and pay for them securely over the web site. The site could be integrated with a logistics system so that orders and deliveries can be tracked by the customer. DRB must recognise that most of its competitors already have such systems. However, DRB will have to put a similar system in place to be able to support its growth plans.
- Participating in independent marketplace web sites as a supplier. DRB may also be able to exploit aggregation by combining with other suppliers in consortia to bid for large contracts.
- DRB may also consider participating in B2C marketplaces such as e-bay. Many organisations use this as their route to market for commodity products.

DRB may also wish to consider replacing its sales from stock approach with sales from order. In the current approach, DRB purchases products in advance and re-packages and stores these products before selling them to customers. This leads to very quick order fulfilment but high storage and financing costs. These costs will become greater if the planned growth occurs. DRB may wish to consider offering products on its website at a discount but with specified delivery terms. This would allow the company to supply to order rather than supply from stock.

Marking scheme		
		Marks
(a)	**Value chain**	
	1 mark for each relevant point up to a maximum of 3 marks for the value chain	3
	1 mark for each relevant point up to a maximum of 6 marks for the significance and value of the primary activities.	6
(b)	**Upstream supply chain**	
	1 mark for each relevant point up to a maximum of 6 marks for identifying upstream changes.	6
	1 mark for each relevant point up to a maximum of 4 marks for identifying how these changes address problems experienced by DRB	4
(c)	**Downstream supply chain**	
	1 mark for each relevant point up to a maximum of 6 marks for identifying upstream changes	6
Total		**25**