

This document should be read in conjunction with the examiner’s suggested answers and marking guidance.

General comments

The Strategic Case Study (SCS) examinations for February 2020 were based on the company Shinepodd (“S/D”). S/D manufactures pods that contain ground coffee and are used to make individual cups of coffee when inserted in compatible coffee machines.

S/D occupies a segment of the coffee market. Its products are relatively expensive but are prized for their high quality. The company sells its pods online, directly to consumers. The pre-seen provided sufficient background for candidates to understand the business and the market for its products. Candidates should have appreciated that S/D sells a luxury product in the sense that there are far cheaper ways to make a cup of coffee, although not necessarily of the same high quality. The company is also dependent on the continuing availability of the coffee machines that are compatible with S/D pods. Those machines are manufactured and sold by third parties.

There were three variants based on S/D. Each contained additional unseen material that complemented the information in the pre-seen, as well as the tasks that were set for candidates. The focus for each variant was as follows:

- Variant 1: S/D faces a change in the law that could make it responsible for the recycling of used coffee pods.
- Variant 2: the retailers who sell the electrical coffee machines that consumers require to make coffee from S/D pods are threatening to rationalise their product lines and may stop selling S/D compatible machines.
- Variant 3: a supermarket has launched its own range of S/D compatible pods under its own brand name.

This case study was the first to be based on the new 2019 syllabus. As such, it complied with the published blueprint and covered the core activities in the prescribed weightings. Each variant consisted of three tasks and each task was further subdivided into separate sub tasks. The weighting attached to each sub task was stated and candidates were advised to allocate the time available for each sub-task on the basis of those weightings. Markers were instructed to adopt a holistic approach to marking, which meant that the answer to each sub-task was read and judged on its merits. Markers were provided with specific guidance as to the characteristics of level 1, level 2 and level 3 answers for each separate sub task.

As always, the key to achieving a passing mark or better is to answer the question as set. Higher marks are awarded to fuller answers that are relevant and correct.



To achieve a level 3 in most sub tasks it was expected that a candidate would demonstrate the ability to resolve strategic problems faced by S/D, using the technical material covered in the syllabus in order to justify and support arguments and recommendations. At the Strategic level, the technical evaluation of most issues requires professional judgement and there can often be room for disagreement. Candidates must be able to demonstrate an understanding of the technical issues and to reflect the scenario when selecting and applying relevant models in response to each task. Candidates who scored at a level 1 on a sub task probably did one or all of the following:

- Failed to answer the question that was asked.
- Demonstrated limited technical understanding of the syllabus content, possibly overlooking or misinterpreting the assumptions upon which the technical models rely.
- Provided insufficient justification for recommendations, bearing in mind that decision makers generally need to know why a particular course of action has been proposed.
- Failed to reflect the scenario or the specifics of S/D in their answer.

Candidates generally demonstrated a good technical grasp of the syllabus content that was being examined across the three variants. Candidates were clearly familiar with content such as ethics, sources of finance and the identification of risk.

Candidates tended to demonstrate a lesser technical understanding of the management of currency risk, the design of internal control and internal audit. These are topics that often result in extensive answers that simply list currency management techniques, types of internal control and possible roles for internal audit. Such answers demonstrate recall of study materials and so a familiarity with the syllabus content, but they rarely answer the question because they either overlook the scenario completely or they make a recommendation that is unsuited to the circumstances.

It should be stressed that the Strategic Case Study continues to be a test of candidates' ability to deal with strategic challenges in a realistic context. Candidates should accept that much of the technical content in the syllabus require professional judgement in its application. It is generally necessary to explain why a particular model or technique is relevant and to identify areas where assumptions are being made. For example, the efficient markets hypothesis (EMH) may be a helpful basis for explaining share price movements to a shareholder or company director, but it is unlikely that a detailed description of the differences between weak form, semi-strong form and strong form efficiency will be of much interest to a decision maker. Answers that scored few marks, comprise technical content with little or no application to the context.

Candidates were generally stronger in core activity A (develop business strategy) and C (recommend financing strategies) and weaker in core activity E (recommend and maintain a sound control environment). The ability to apply and relate to the scenario was generally the key difference.

Task 1

Sub-task 1 required candidates to evaluate whether the reputational risk associated with its environmental impact should have been identified and managed before the online petition was created. This sub task tested core activity B and it was answered reasonably well by most candidates, with a lot of them achieving a level 2 mark. The level 3 answers, of which there were a good number, demonstrated that they had analysed the pre-seen material well and had already identified and considered the measures that S/D had already undertaken, due to being aware of the risks to reputation. Many of the level 3 answers referred to S/D's principal risks register document, the CEO's blog and the recycling plea, which were all given as relevant evidence of S/D's identification and management of its recycling risks.

Candidates who merely wrote about environmental matters and concerns without keeping in mind the focus of the actual question being specifically on reputational risk, achieved a level 1 mark.

In sub task 2, candidates were asked to recommend strategies S/D should implement to minimise the impact of any legislation that would force it to be responsible for recycling its waste. This sub task tested core activity A.

This sub task was answered well by most candidates, with most achieving at least a level 2 mark. Many answers gave a good range of potential strategies to help S/D to minimise the impact of any proposed legislation enforcing recycling of its waste products. Level 3 answers covered strategies including lobbying the government of Midland and developing relationships with other manufacturers in a similar position, as well as strategies to improve its own recycling such as re-engineering the pods.

The low-scoring answers on this sub task tended to be rather thin and did not cover a sufficient range of potential strategies. Most of the weaker answers focused only on trying to re-design the coffee pods, without any consideration of strategies to minimise the actual impact of the legislation, such as lobbying the government. A level 3 answer would have addressed the strategies to minimise the impact.



Task 2

The first sub task required candidates to consider the ethical implications of S/D claiming its commitment to protecting the environment whilst purchasing the recycling plant. This sub task tested core activity D.

This sub task was not answered particularly well by most candidates. However, it was encouraging to see that there were far fewer merely theoretical “ethical code” based answers than there have been in the past. High-scoring answers covered the general sustainability ethical arguments within the framework of the ethical principles and used the ethical issues from the exhibit to structure their arguments against S/D’s claiming it is protecting the environment. Level 3 answers correctly examined whether there were questions of integrity and honesty relating to the recycling plant acquisition.

Low-scoring answers tended to be thin and undeveloped, with some candidates presenting only a few sustainability points which they might have had pre-prepared from the pre-seen material. Also, some candidates incorrectly argued that there were no ethical issues at all and that the acquisition of the recycling plant would firmly enhance S/D’s ethical standing. Most of these answers were in fact not logical and failed to correctly evaluate the material from the exhibit.

There were also occasional unusual approaches, such as using Johnson & Scholes to do a general feasibility study answer related to the pros and cons of behaving ethically and sustainably. Whilst this could gain some marks with points that could be said to be contributing to an appropriate answer, this sort of approach is not likely to gain higher than a level 2 mark. It also wastes valuable time during the case study exam.

Sub task 2 required candidates to recommend how S/D should finance the acquisition of the recycling plant, taking into consideration its current financial situation. This sub task tested core activity C.

This sub task was well answered by most candidates. It was encouraging to see that there was a stronger use of financial data than in recent sessions, with many candidates calculating ratios such as gearing, interest cover and dividend pay-out from the pre-seen material and using the un-seen additional material to enhance these calculations. Most candidates presented a good and balanced appraisal of equity and debt and most also did take into consideration the current financial position of S/D. However, very few candidates mentioned the nature of the asset being purchased or the fact that it was in Greyland. Weaker answers were those that either presented very theoretical answers or those that didn’t include any numbers at all. Given it was a question about financing this was bound to make such answers thin.



Task 3

Task 3 focused on an internal audit report relating to an alleged incident of fraud at the Greyland recycling plant, which was acquired by S/D 4 months previously. The internal audit report sets out how a fraudulent salesperson at the plant was able to divert excess customer payments into their own bank account.

The first sub task asked candidates to advise on the internal controls that should have been in place to prevent this fraud. This sub task tested core activity D.

This requirement was reasonably well answered by most candidates. The majority of candidates correctly attempted to relate the internal controls they suggested to the facts of the scenario. It was also encouraging to see that most candidates recognised the weakness/lack of segregation of duties from the exhibit and discussed this in some depth.

Weaker answers were often very theoretical with little or no attempt to relate the controls suggested directly to the Greyland plant operations. Although segregation of duties was obviously a very important weakness of the current control environment, some weaker answers went little further than discussing this one control weakness and failed to consider any other weakness which were evident in the internal audit report, this approach usually achieved a level 1 mark.

The second sub task asked candidates to explain how the Internal Audit Department should plan and carry out an investigation to identify the victims of the fraud and the extent of the excess charges imposed on customers. This sub task tested core activity E. This requirement was not answered well by most candidates. Answers to this task were mainly in the level 1 or level 2 range, with few candidates being able to sufficiently discuss the main tasks that should be carried out to investigate this alleged fraud. Many candidates went straight into what should be done to investigate the fraud, disregarding the wording in the requirement which clearly asked for an explanation as to how the Internal Audit Department should plan the investigation. Very few candidates actually considered at all the planning of the audit investigation. Candidates are reminded to read the question requirements very carefully to make sure that they are answering everything that has been asked. Failure to do so results in a low-scoring mark.

It was also quite disappointing how many candidates struggled to identify appropriate points relating to what the internal audit investigation would actually do to fully investigate this fraud. Several candidates also seemed to not fully appreciate that this was a special investigation; instead they merely discussed general planning for an internal audit assignment or focused on what should happen to the perpetrator, which was not asked for in the requirement. Again, this approach did not score well.

Overall, this task of the case study exam was answered less well than the other two. It would appear that candidate knowledge and understanding of internal audit activities is poor and it is an area which candidates need to improve on.

Variant 2

Task 1

Task 1 began by explaining that a major retailer of electrical goods was considering the rationalisation of its product range. Any such decision would probably encourage rival retailers to follow. That could make it difficult for consumers to buy new or replacement coffee machines that are compatible with S/D pods, thereby threatening S/D's revenues.

The first sub task of this task asked how S/D's Board should manage the relationships between S/D, the coffee machine manufacturers and the retailers. This tested core activity B.

A level 3 response to this sub task would have demonstrated S/D's interest in the various relationships and would then have recommended one or more strategies for managing those relationships. Many candidates started by stating that S/D's only real interest is to ensure that there is always a ready availability of machines and that it did not necessarily have to protect all three of the manufacturers. Those candidates generally offered suggestions as to how S/D might encourage retailers to select one favoured manufacturer. As an alternative, other candidates argued that it was not sustainable to depend on retailers and that S/D might develop a more direct relationship with the manufacturers by retailing machines through its website. Those candidates reflected on the fact that S/D already has an efficient online sales and fulfilment operation.

Some candidates failed to recognise that the management of the relationships should be considered from the perspective of S/D's strategic interests. That led to discussions that had little real relevance, such as ways to make sure that S/D ensured fair and equal treatment of all three manufacturers.

The second sub task dealt with the question of whether S/D should have referred to its dependence on these manufacturers in its published risk report. It had always refrained from doing so because of fears that the manufacturers would exploit any such admissions of reliance. This tested core activity D.

A level 3 response would have understood and appreciated that quoted companies are required to publish a risk report before evaluating the need to include those disclosures in that report. The pre-seen contained an extract from S/D's annual report in order to remind candidates of that responsibility. Many candidates missed the point of this question by confusing the external disclosures with the internal risk register.

Level 3 answers understood the question of making these concerns public knowledge in the annual report and then addressed the need to include a reference to this matter. Generally, candidates argued – correctly – that S/D's Board had a duty to make full disclosure and that there was no justification for excluding the information. Stronger candidates developed that argument by pointing



out that the manufacturers and the retailers would realise for themselves that S/D needed an adequate retail network for its machines.

Task 2

The second task explained that S/D had been offered the opportunity to acquire an electrical goods factory from one of the manufacturers of S/D compatible machines. S/D can also acquire the rights to use the trademarks and designs of the three manufacturers to produce the full range of machines using that factory.

The first sub task asked how S/D should evaluate the acquisition of the factory and the rights. That tested core activity A.

A level 3 response would offer realistic explanations of the factors that S/D should consider. At this level, candidates should have considered the differences between the factory, which is a physical asset and could be repurposed and sold on in the event of disappointing results, while the manufacturing licences are more specific to S/D. Level 3 responses also paid attention to the request for a justification for recommendations, explaining why factors that had been identified were relevant.

Many candidates failed to refer to the manufacturing licences, even though the factory would have little value to S/D unless it had a product to manufacture there.

The second sub task asked about the negotiation and valuation of the interests that are being acquired. That tested core activity C.

Level 3 answers reflected the fact that a business valuation generally involves a negotiation because the buyer's and seller's interests generally diverge. There are many different valuation models and the interested parties will tend to select whichever approach matches their interests. That can lead to some interesting dilemmas. For example, S/D might not be prepared to pay for brand names if it can sell the coffee machines under the S/D brand.

Some candidates suggested negotiating strategies that might be used by S/D. For example, buying the rights to use the Homewyre brand might make it easier to negotiate a lower price for Orpalast and Zendiclam because S/D does not necessarily have to offer consumers a choice of brands of machine.

Task 3

This task began by explaining that S/D had acquired the factory, but that the IT systems used there are incompatible with those of the S/D Group as a whole.

The first sub task asked whether S/D's directors should have been aware of the incompatibility. That tested core activity E.



Level 3 answers tended to focus on the fact that S/D's Board should have conducted a full due diligence investigation before acquiring any new business interest. As part of that, it is more than reasonable to expect that there could be problems with the systems. Some candidates argued that the Board would have been unlikely to obtain detailed access to the systems, even in the process of conducting due diligence, and so the Board should not be held negligent. Both arguments are reasonably valid and so both were awarded credit, even though they are essentially contradictory.

The second sub task asked about the cyber risks associated with creating files for the factory once its system had been modified. That tested core activity D.

Level 3 answers took a wide view of cyber risk, including the risk that data inputs would be incomplete or incorrect. Some candidates focused exclusively on fraudulent inputs, which were certainly relevant to the question and were marked accordingly however restricting arguments to fraud effectively cost them the ability to gain additional points.

The third sub task asked whether it would be appropriate to ask S/D's Internal Audit Department to check the conversion of the files. That tested core activity E.

This sub task could be answered in various ways. Relevant arguments included: the role of internal audit, the need for internal audit to adhere to planned investigations and the competence of internal audit for conducting this task. Candidates did not need to discuss all of those in order to score a level 3 mark, but it was helpful to weigh up the advantages and disadvantages of redirecting internal audit resources in this way.

Task 1

The first sub task introduced the information that Valyoumart, a major supermarket, has begun to make coffee pods which are compatible with the machines used for S/D's pods.

The candidate was first asked to evaluate the possible criticism that S/D's Board should have identified and mitigated the risk that other companies would launch compatible pods. This tested core activity D. Candidates could achieve a level 3 answer by providing a comprehensive discussion of the implications of accepting risk as well as the scope for mitigating them. A level 3 answer would recognise that criticism of the Board is limited by the fact that the pods cannot be patented. Many candidates did not fully grasp the issues, explaining that the Board should have obtained patents, despite the question stating clearly that patenting is not possible.

The second sub task was to evaluate the proposal that S/D should sell its pods through supermarkets as well as online. This tested core activity A. Many candidates achieved high-scoring answers in this section and responses were generally good. Candidates achieved these scores by describing the impact of selling pods through supermarkets very clearly, including the effect on competitive advantage and recognising both advantages and drawbacks of the proposal. On the other hand, some candidates' responses were constrained by the use of the SAF model which limited their discussion on the implications of changing business model and the issues relating to competitive advantage.

Task 2

The second task introduced a proposal that a company called Dolsav wished to launch a range of own brand coffee pods compatible with S/D machines and would like S/D to manufacture them. A key point of this proposal was that the arrangement would be completely confidential.

In the first sub task candidates were asked how shareholders might perceive the new business and how their fears about the impact on the financial results could be allayed. This tested core activity B. A level 3 answer would have focused on what the shareholders would see reported in the financial statements and how they would perceive the impact on the results. This sub task was often not well attempted with a significant number of candidates not scoring highly by failing to recognise that S/D were unable to disclose the details of the confidential arrangement to shareholders. Many assumed that the confidentiality of the agreement did not apply to shareholders. Some candidates did appreciate that shareholders would not be given information about the agreement and wrongly



described a lack of ethical behaviour, explaining that the Dolsav deal should be rejected as not informing shareholders would be unacceptable.

The second sub task asked candidates how best to raise the funds needed to finance the property plant and equipment needed. This tested core activity C. Many answered this very well achieving level 3 answers by correctly identifying the options and backing up their discussion with relevant calculations and also using the extracts of S/D's financial statements provided by the pre-seen material. Candidates who provided less comprehensive discussion scored at level 2, but some weaker answers recommended the use of S/D's retained earnings to finance the investment.

Task 3

The final task raised the issue of the confidential and commercially sensitive information S/D will have relating to Dolsav.

In the first sub task candidates were first asked what safeguards should be put in place to protect the data that the liaison team would be working with. This tested core activity D. The majority of candidates described details of practical safeguards that could be put in place to protect the confidential arrangement, this represents a new area within the changed syllabus and was answered very well. Many achieved level 3 answers by not only recommending safeguards but also providing solid justification of their choices, and by providing comprehensive answers discussing both software and procedures to be introduced.

In the second sub task candidates were asked what tests S/D's Internal Audit Department might undertake in order to check compliance with the safeguards. This tested core activity E. To achieve a level 3 answer candidates needed to recognise the need to treat this as an area of priority and carry out regular reviews. Appropriate tests would include reviewing evidence of training, reviewing the behaviour of staff and checking that appropriate software is in place. Whilst some candidates attempted this well, level 1 scripts discussed the theory of Internal Audit testing rather than explaining the precise tests which should be undertaken in these circumstances.

The final sub task was to explain whether creating an exit strategy for S/D at this early stage might imply weak and indecisive governance. This tested core activity E. A level 3 score would be achieved by recognising that an exit strategy would help to mitigate the risks arising from the business relationship, and that it would be much easier to negotiate the necessary agreement at an early stage. Whilst some candidates approached this well, responses were often scant and lacking in depth of discussion and therefore were low scoring.

Tips for future candidates

Good answers require:

- relevance to the requirement
- a good understanding of the technical content of the syllabus
- the ability to analyse strategic challenges faced by quoted companies
- well-structured answers, with good use of paragraphs to clarify the development of an explanation
- justification of the arguments made in the answer.

This can be achieved as follows.

Before the exam

- Revise study materials thoroughly. Candidates should study all areas of the syllabus and ensure that all three pillars are covered. It is risky to skip topics, even if they are difficult.
- Read the pre-seen material carefully and think about it. Think about the industry and the entity. That is important because the tasks are all about application to the scenario, which could mean that the technical issues have to be applied in a particular way.
- Practising tasks from past case studies and reflect on whether your answers are full and relevant. Take the time to type or write full answers. You need not necessarily do so under exam conditions at first because part of the value of this exercise is to ensure that you can interpret and answer questions correctly. As you progress in your studies, you may attempt some requirements against the clock.
- Read the business press carefully. The issues arising in the SCS are generally of sufficient magnitude to be discussed in the quality press and in professional magazines. Reading about real events can provide helpful and realistic insights into the best way to approach scenarios.

During the exam

- Plan your answers during the exam and pay close attention to timings. It is very helpful when constructing your answer that it has a logical structure. The Strategic Case Study often asks you to justify your answer. Typing an outline answer plan at the start of each task or sub-task, will help you to plan the structure and reduce the risk of forgetting any good points.



- Commit to an argument. Some answers are weak because they seem to have been written with the intention of avoiding contradicting the examiner's suggested solution. Remember that the marker is under strict instructions to mark answers on their merits. There can sometimes be more than one correct answer in business. If you are unsure then it might be better to invest a minute or two in thinking and developing an argument rather than typing something vague.