

**CIPS Level 6 – Professional Diploma in Procurement and Supply**

# **Global Commercial Strategy [L6M2]**

**Sample answer guide**

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## (Q1)

### Question one

Assess the characteristics of strategic decisions which should be considered when developing a global strategy in organisations.

[25 marks]

LO: 1

AC: 1.1

### Planning your answer

#### Command Words

It is important in any constructive response question to understand the Command word used in the question as they tell you exactly what the assessor wants you to do. In this question the assessor will want you to clearly **Assess** the characteristics of strategic decisions which should be considered when developing a global strategy in organisations.

The Command word in this question is **Assess**: “Evaluate or judge the importance of something, referring to the special knowledge of experts where possible. This may involve quoting from other texts.”

### Answering the question

A good approach to answering this question would be to have a short introduction that recognises strategic decisions are the means by which an organisation’s vision is translated into actions and that these types of decisions have key characteristics.

Johnson and Scholes suggested that characteristics most pertinent to strategic decisions include:

- Long term in direction;
- Scope of an organisation’s activities;
- Competitive advantage development;
- Strategic fit with global business environment;
- Organisation resources and competences and
- Values and expectations of stakeholders

We can then go on to assess perhaps around five of these in breadth and depth to accrue good marks.

This approach helps to ensure that you understand the question, recognise the command word and assess the characteristics of strategic decisions which should be considered when developing a global strategy in organisations.

**The following is suggested answer content rather than a model answer.**

Characteristics of strategic decisions which should be considered when developing a global strategy in organisations include but not limited to:

- The long-term direction of an organisation.

This can include for example Product Development. Product Life Cycles particularly in areas of high technology are reducing rapidly. Competing companies such as Apple and Samsung are introducing new technologies with each new product launch. Savvy technology companies are developing products using 5G technologies to replace current products and develop new ones for new markets.

- Scope of the Organisation

Strategic decisions are likely to be concerned with the scope of an organisation's activities. For example, does (and should) the organisation concentrate on one area of activity, or should it have many? The issue of scope of activity is fundamental to strategy because it concerns the way in which those responsible for managing the organisation conceive the organisation's boundaries. This could include important decisions about product range or geographical coverage including global aspects. Amazon for example has progressed from book selling to become a global e-commerce giant operating a multitude of different businesses.

- Competitive Advantage Development

Strategic decisions are normally about trying to gain competitive advantage for the organisation over its competition. Refer to 5G technologies above as an example. Companies who stay with 3G/4G may and are likely to be, overtaken in the market. Historically companies such as Polaroid, Xerox, and Hoover may be examples of companies who lost sight of technological change. Ericsson, Nokia and Motorola were cell-phone global market leaders and have disappeared completely from this market having been overtaken entirely by smartphone technology leaders such as Apple and Samsung.

- Strategic Fit with Global Business Environment

Strategy can be seen as the search for strategic fit with the business environment. This could require major resource changes for an organisation in the future. For example, decisions to expand geographically or globally may have significant implications in terms of the need to build and support a new customer base. It is important to achieve the correct positioning of the organisation, for example in terms of the extent to which products or services meet clearly identified market needs. Tesco's for example failed with their geographical expansion into the U.S.

- Resources & Competences

Strategy can also be seen as creating opportunities by building on an organisation's resources and competencies. This is called the resource-based view of strategy, which is concerned with exploiting the strategic capability of an organisation, in terms of the resources and competences, to provide competitive advantage and/or yield new opportunities. For example, a large multinational corporation may focus its strategies on those businesses with strong brands. Amazon progressed and expanded from book selling over the internet by leveraging their technology platforms.

- Values and Expectations of Stakeholders

The strategy of an organisation is affected not only by environmental forces and strategic capability, but also by the values and expectations of those who have power in and around the organisation. Sustainable

product development and ethical sourcing is now very much to the fore in the global strategy of many organisations.

There are numerous other characteristics of strategic decisions to which answers may refer for example uncertainty, subjectivity and risk.

There are also many other important writers in the area of business strategy and strategic decisions that can be referenced to include but not limited to Pearce & Robinson 2005 and Ezendu 2011.

**Other valid responses and answers will be accepted.**

## (Q2)

### Question 2

Using the Five Forces Framework, evaluate the competitive environment of an organisation with which you are familiar.

**[25 marks]**

LO: 2  
AC: 2.1

## Planning your answer

### Command Words

It is important in any constructive response question to understand the Command word used in the question as they tell you exactly what the assessor wants you to do. In this question the assessor will want you to clearly '**Evaluate** the competitive environment of an organisation with which you are familiar, using the Five Forces Framework.'

The main Command word in this question is **Evaluate** "Calculate or judge the value of something; include your personal opinion in your evaluation. Often includes an assessment of strengths and weaknesses."

## Answering the question

A good approach to answering this question would be to have a short introduction to Porter's Five Forces Framework and that the theory is based on the concept that there are five forces that determine the competitive intensity and attractiveness of a market. The five forces framework helps to identify where power lies in a business situation. This is useful both in understanding the strength of an organisation's current competitive position, and the strength of a position that an organisation may look to move into.

And then following on from the introduction perhaps have a short sub-heading along the lines of: Using the 5 forces framework we are going to assess the competitive environment of Company A.

We can then bullet point or number each of the five evaluating each in some breadth and depth looking to accrue five marks for each factor.

This approach helps to ensure that you understand the question, recognise the main command word and use the Five Forces Framework to evaluate the competitive environment of an organisation with which you are familiar.

**The following is suggested answer content rather than a model answer and can include but not limited to:**

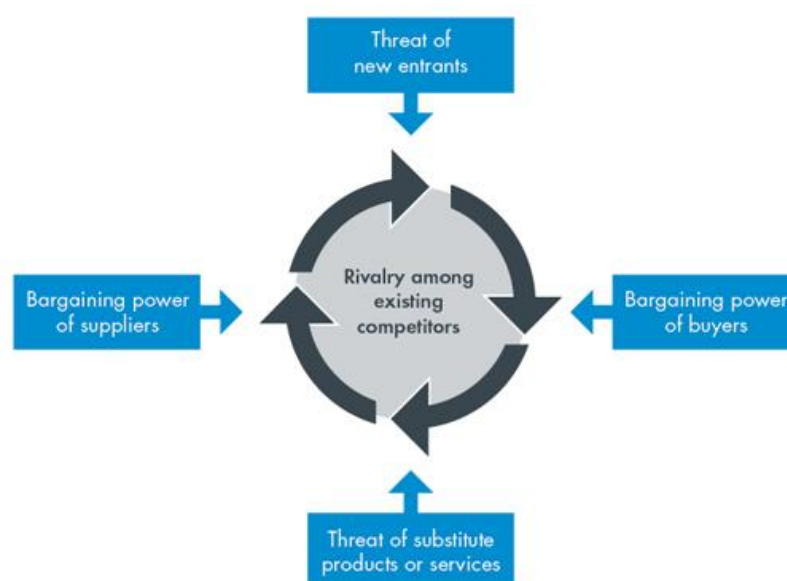
Note that the answers should focus upon analysing an organisation's competitive environment and it is a key requirement of the question that the framework is related to an organisation. The key points that could be expanded upon in answers are as follows;

- The power of buyers;
- The power of suppliers;
- The threat of new entrants;
- The threat of substitute products;
- The organisations competitive rivalry.

Answers could also explore how the intensity of each force is determined by the nature and development stage of the market, the relative numbers of buyers, suppliers and competitors, and the barriers to entry and imitation that exist.

As part of the evaluation answers should note that Strategic analysts often use the five forces framework to understand whether new products or services are potentially profitable. By understanding where power lies, the theory can also be used to identify areas of strength, to improve weaknesses and to avoid mistakes.

**The five forces framework of competitive position analysis:**



In detail, the five forces are:

- 1. Supplier power.** An assessment of how easy it is for suppliers to drive up prices. This is driven by the: number of suppliers of each essential input; uniqueness of their product or service; relative size and strength of the supplier; and cost of switching from one supplier to another.
  - 2. Buyer power.** An assessment of how easy it is for buyers to drive prices down. This is driven by the: number of buyers in the market; importance of each individual buyer to the supplier and cost to the buyer of switching from one supplier to another. If a supplier has just a few powerful buyers, the buyers are often able to dictate terms.
  - 3. Competitive rivalry.** The main driver is the number and capability of competitors in the market. Many competitors, offering undifferentiated products and services, will reduce market attractiveness.
  - 4. Threat of substitution.** Where close substitute products exist in a market, it increases the likelihood of customers switching to alternatives in response to price increases. This reduces both the power of suppliers and the attractiveness of the market.
  - 5. Threat of new entry.** Profitable markets attract new entrants, which erodes profitability. Unless incumbents have strong and durable barriers to entry, for example, patents, economies of scale, capital requirements or government policies, then profitability will decline to a competitive threat .
- There are clear benefits in using the model. The Five forces analysis helps organisations to understand the factors affecting profitability in a specific industry, and can help to inform decisions relating to: whether to enter a specific industry, whether to increase capacity in a specific industry and developing competitive strategies.

Answers should cover the challenges and/or drawbacks and whilst the framework has its benefits there are certain considerations to bear in mind when using it.

Many of these come from the fact that it was developed in an environment that was quite different to the one organisations find themselves operating in today and answers should mention this when reviewing in relation to an organisation of their choice. Some of the key considerations are:

- Pace of change is now more rapid.
- Market structures were seen as relatively static.
- The model provides only a snapshot of your environment.
- It can be difficult to define the industry
- The model does not consider non-market forces
- The model is most applicable for analysis of simple market structures
- The model is based on the idea of competition.

Organisations have to respond to more than just market forces. They need to be aware of, understand the implications of, and respond to government legislation, corporate ethics, and their social responsibilities. The internal culture and ethos of an organisation will also carry significance when forming a strategy. The model is also unable to incorporate the implications of strategic alliances or the sharing of skills and resources as a more effective way to respond to opportunities.

Despite these factors, the five forces framework model has a role to play in helping management to evaluate and assess their current market environment. It provides an excellent foundation for the further research and intelligence gathering needed to formulate an organisation's future strategy.

**Other valid answers will be accepted.**

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### Q3 – Alan Ball Ltd

Alan Ball Ltd (ABL) is a large global management and development consultancy. The ABL Group was formed in 1970 when two consultancy businesses merged.

A consultancy contains experts who provide advisory services in a variety of fields. The quality of its people is vital for success.

The business has grown both organically, by recruiting more staff in different fields, and by merger and acquisition, that is, taking over existing businesses in markets important to ABL's development strategy. For example, in 2007 ABL bought an educational consultancy in Brazil and an environmental firm in France. To ensure further growth, ABL has also formed a strategic alliance with a construction consulting company in Canada to help strengthen its core market sectors and to grow in that country.

Today ABL's business spans 50 countries and employs more than 15,000 staff. Its experts work on thousands of projects across the world in many areas. These include procurement, transport, finance, buildings, the environment, health, education and communications. Every project requires a different set of skills from ABL's experts. Its projects address the challenges of environmental issues, such as flood protection or management of waste. It plans, manages and delivers projects to help its customers find more sustainable solutions.

ABL is now looking at a new project in Japan to build what will be the world's largest statue, over twice the size of the Statue of Liberty. They have little actual project construction experience at this level and will need to investigate how such a project can be funded before they commit themselves. At any one time ABL works on hundreds of complex projects around the world.

#### Question 3

Evaluate the strategic options that ABL have used to achieve growth.

[25 marks]

LO: 3

AC: 3.1

#### Planning your answer

##### Command Words

It is important in any constructive response question to understand the Command word used in the question as they tell you exactly what the assessor wants you to do. In this question the assessor will want you to clearly '**Evaluate** the strategic options that ABL have used to achieve growth.'

The main Command word in this question is **Evaluate** "Calculate or judge the value of something; include your personal opinion in your evaluation. Often includes an assessment of strengths and weakness."

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## Answering the question

A good approach to answering this question would be to have a short introduction perhaps highlighting that to be successful and survive in business over the long term, growth along with profitability is critical and that in order to grow, companies like ABL need to develop and achieve sustainable competitive advantages.

And then, following on from the introduction, perhaps have a short sub-heading along the lines of: Strategic options that ABL have used to achieve growth include:

We can then go on to evaluate around five options in some breadth and depth that ABL has used looking to accrue five marks for each option.

This approach helps to ensure that you understand the question, recognise the main command word and evaluate the strategic options that ABL have used to achieve growth.

### The following is suggested answer content rather than a model answer and can include:

Answers should address an evaluation of the strategic options from the scenario, these include but are not limited to:

- ABL have grown organically by recruiting more staff in different fields
- They have grown by Mergers and Acquisitions
- They have formed Strategic Alliances
- They have an International growth strategy - 50 countries including Canada and Japan
- Diversification strategy - Project Construction

Models and tools that can be referenced can include (again but not limited to ) e.g.

- **Ansoff Matrix.** How the organisation may seek to achieve competitive advantage. The examples above can relate to Ansoff's model to include Market Penetration, Product Development, Market Development and Diversification.
- **Porter's Generic Strategies.** How to achieve the desired outcome e.g. from the case, organic or inorganic approaches to growth, mergers, acquisitions, and strategic alliances.
- **The Parenting Matrix.** Corporate 'parenting' and the extent to which business unit strategies are enhanced or otherwise at corporate level.
- **Suitability, Feasibility, Acceptability.** (SFA Method) Answers should then look at methodology for evaluating strategy. Evaluate options: can the strategy option be implemented? Will it work in practice? Can the required resources and capabilities be obtained and integrated?

Good answers will recognise the risks, benefits, advantages and disadvantages of each of the options that ABL have used. e.g. not all M&A's are successful due to poor cultural fit among other factors. Organic growth can be easier due to in-house skills and capability but growth can take longer. Strategic alliances can be used to facilitate growth without necessarily incurring heavy financial investment, risk or exposure.



ABL leaders need to make strategic decisions that create the right direction for their businesses and recognise that these decisions at the top of a business influence decisions by other managers and employees.

**Other valid answers will be accepted**

## **Q4 – William John Services**

William John Services plc is a design company providing specialised software and web-based solutions across a limited but lucrative market sector in the UK. It is planning to diversify part of its operations and is considering two separate projects but only has sufficient funding for one. The details are listed below:

### **Project A**

- Initial cost £475,000 Expected Cash inflows – Year 1 £225,000, Year 2 £135,000, Year 3 £117,500, Year 4 £72,000

### **Project B**

- Initial Cost £635,000 Expected Cash inflows – Year 1 £178,000, Year 2 £226,000, Year 3 £317,000, Year 4 £95,000, Year 5 £42,000

In both cases there is not expected to be any further cash inflows after the projections above, nor are there likely to be any disposal costs incurred. The company Weighted Average Cost of Capital is currently 8% pa which it has decided to adopt as the relevant discount factor.

*Discount Rates at 8% are – Year 1 = 0.926, Year 2 = 0.857, Year 3 = 0.794, Year 4 = 0.735, Year 5 = 0.681*

### **Question 4**

Investment appraisal is a collection of techniques used to identify the attractiveness of an investment or project.

Calculate the net present value (NPV), the Average Rate of Return (ARR) and the Payback Period for each project using data provided. Recommend which project should be chosen on the basis of your calculations.

**[25 marks]**

LO: 4

AC: 4.1

## **Planning your answer**

### **Command Words**

It is important in any constructive response question to understand the Command word used in the question as they tell you exactly what the assessor wants you to do. In this question the assessor will want you to '**Calculate** the net present value (NPV), the Average Rate of Return (ARR) and the Payback Period for each project using data provided and [*clearly*] Recommend which project should be chosen on the basis of your calculations.

The main Command word in this question is **Calculate**. Candidates should use the data provided in the question to work out the answers.

## Answering the question

A good approach to answering this question would be to have a short introduction for each i.e. NPV, ARR and the Payback Period, followed by the calculation and recommendation, for each based on the outcome of each calculation.

This approach helps to ensure that you understand the question, recognise the main command word and recommend which project should be chosen on the basis of your calculations.

### The following is suggested answer content rather than a model answer.

Answers are required to show their understanding of how a significant rise in interest rates would affect investment in capital projects, with specific reference to NPV, ARR and Payback periods.

Answers are required to show knowledge of investment decision making approaches, to calculate net present values and also payback periods, and to identify which product should be chosen from the data supplied.

- **Net Present Value**

Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. It is calculated by taking the difference between the present value of cash inflows and present value of cash outflows over the time period.

Project A outlay is £475,000. Incoming recognising DCF is Year 1 £208,350 Year 2 £115,695 Year 3 £93,295 Year 4 £52,950 totalling £470,290 giving a minus (£4,710.)

Project B Outlay is £635,000. Incoming recognising DCF is Year 1 £164,828 Year 2 £193,682 Year 3 £251,698 Year 4 £69,825 Year 5 £28,602 totalling £708,635 giving a positive £73,635.

Project B should be selected.

- **Payback**

The payback period is the amount of time required for cash inflows generated by a project to offset its initial cash outflow. In this case we are using the Subtraction method as the cash flows are varied over the years.

Project A Payback period not using DCF is just under three years.

Project B Payback period not using DCF is 2 years 9 months to nearest month.

- **ARR Average Rate of Return**

The formula for ARR is = average annual profit / average investment.

Total net profit/no. of years/initial cost x 100

Project A =  $137,375/475,000 \times 100 = 28.92\%$  (over four years)

Project B =  $171,600/635,000 \times 100 = 27.02\%$  (over five years)

Project B =  $204,000/635,000 \times 100 = 32.13\%$  (over four years)

Over four years Project B should be selected.

**Other valid answers will be accepted.**