

SBL Specimen Exam 1 Suggested Solution

In the Strategic Professional Examinations, it is not always possible to publish suggested answers which comprehensively cover all the valid points which candidates might make. Credit will be given to candidates for points not included in the suggested answers, but which, nevertheless, are relevant to the requirements. In addition, in the integrated case study examination candidates may re-introduce points made in other questions or parts of questions as long as these are made in the specific context of the requirements of the question being answered.

The suggested answers presented below inevitably give much more detail than would be expected from most candidates under examination conditions and include most of the obvious points evidenced from both the pre-seen information and the additional information provided in the case study exam information. These answers are therefore intended to provide a structure of the approach required from candidates and cover the range and depth of knowledge relating to each task which might be demonstrated by the most well prepared and able candidates. They are also intended to support revision and tuition for future examinations.

Task 1a)

Report

To: The board of Peels Sleep Solutions (PSS)

From: Business analyst

Subject: Evaluation of Zeelande Health contract proposal

Introduction

The following report sets out several key issues which the board of PSS should consider in relation to the proposed contract with Zeelande Health. The proposed contract introduces several opportunities and challenges to PSS which need to be considered.

Opportunities

This contract could raise the profile of PSS across Zeelande, and lead to an increase in sales and market share in the competitive industry of bed mattress manufacturing. This contract could help to reduce the impact on mattress sales due to the closure of physical showrooms and department stores, which are currently the only source of sales for the Badin mattress.

Association with a high-profile, country-wide initiative such as the Zeelande Health refurbishment programme, should improve the reputation of PSS and confirm its commitment to Zeelande and its residents across the country. As PSS owners are all Zeelande residents, they are likely to support the Zeelande Health cause and working with a charity can be seen as socially responsible and a form of giving back to the Zeelande community.

The proposed contract stipulates that Zeelande Health will include mention of PSS in all of the publicity surrounding the refurbishment programme. As advertising is an increasingly expensive cost to this industry this is a significant benefit to PSS. This benefit may be enjoyed by PSS for far longer than the six-month term of the contract.

Some of PSS's competitors have promoted themselves as 'wellbeing' companies. The Zeelande Health contract offers PSS the opportunity to promote itself in a similar way, linking its mattresses to health, recovery, body support, comfort, and a superior night's sleep.

Challenges

PSS manufacturing plants are currently working at 100% capacity. This means that in order to supply Zeelande Health with the contracted mattresses, PSS will need to reduce its supply of the Badin mattress to its retail partners. This could jeopardise relations with the retail partners and ultimately lead to PSS breaching contract terms. Contracts with the retail partners would need to be reviewed to check for possible financial penalty clauses arising for PSS in the event of contract breaches.

PSS sells the Badin mattress to its retail partners at around \$204 (85% of the recommended retail price of \$240) per single mattress. The Zeelande Health contract specifies a price of \$190 per Badin mattress. This is a reduction of 6.9%. The contract with Zeelande Health will reduce PSS's revenue and gross margins. This could also lead to a reduction in operating profit and ROCE. PSS is already falling below the 12% ROCE industry average and the Zeelande Health contract may make this worse. The extent of the changes in operating costs as a result of this contract would need to be investigated in order to understand the overall impact on operating profit and ROCE.

Manufacture of the Badin mattress requires springs. The cost of springs is susceptible to increases per the risk register. As the price of the mattresses in the Zeelande Health contract is fixed, these increased costs cannot be passed on. This would further reduce the gross margin that PSS would achieve under this contract.

In terms of the Zeelande Health contract, delivery of the mattresses would be made across Zeelande and PSS would cover the delivery costs. Analysis into the extent of this cost needs to be undertaken before the contract can be signed.

The contract stipulates that PSS will collect old mattresses and dismantle them for recycling. As PSS cannot charge Zeelande Health for this service in terms of the contract, this is another cost that PSS must analyse before signing the contract.

The audit and risk committee has identified that the patents that relate to the manufacture of the Badin mattress have expired. This means that the specific arrangement of springs that PSS uses in the production of the Badin mattress is no longer protected and can be used by anyone. PSS will need to ensure that Zeelande Health are aware that this aspect of the design of the Badin mattress is no longer patented.

The audit and risk committee has highlighted that guarantee claims are increasing. Although this is currently due to another type of mattress, the possibility that PSS

would be exposed to a higher level of guarantee claims in relation to the Zeelande Health contract must be considered. The guarantee is for ten years but the average life span for this type of mattress is only eight years and it can be argued that the life span of a mattress used in a hospital would be substantially shorter than the eight year average. PSS runs the risk of having to replace a high number of mattresses to Zeelande Health free of charge.

The Zeelande Health contract is not always consistent with PSS values. It will be difficult for PSS to balance high standards of quality and product testing against the reduced margins that this contract offers. The contract is also not for an innovative new product, but rather for the Badin mattress that is already manufactured. The introduction of this contract will affect PSS's retail partners (due to manufacturing already being at 100% capacity) who are currently PSS's only customers for the Badin mattress, meaning a reduction in customer service to the retail partners.

The contract could also negatively impact PSS's sustainability value. Delivery of the mattresses across Zeelande along with the collection of the old mattresses for recycling could mean that it is more difficult for PSS to remain carbon neutral.

Conclusion

Although this is an interesting proposal which offers PSS the opportunity to increase its profile and potential market share, PSS needs to carefully consider the potential challenges which it also creates. It is recommended that extensive work on establishing the potential additional costs involved in undertaking the contract are considered before any further negotiation takes place.

Task 1b)

Slides

EMAS - actions PSS would need to take to comply with EMAS

- **Formalise policies**
- **Objective and target setting**
- **Employee training**

Notes

PSS is already committed to sustainability and the protection and preservation of Zeelande's natural resources. PSS is a carbon neutral business that recycles its waste and uses solar energy to power its manufacturing plants. Registering with EMAS will require PSS to formalise these policies and PSS will be subject to more public scrutiny in these areas.

EMAS requires PSS to measure and evaluate its environmental performance against defined objectives and targets. PSS would need to evidence continuous improvement against these objectives and targets. Therefore, PSS would need to set objectives and targets that are realistic but would also need to evidence improvements in relation to the use of renewable energy (solar power), recycling and negating any CO₂ emissions.

EMAS requires strong employee involvement and PSS would need to undertake significant staff training to ensure that all employees were aware of EMAS and the importance of complying with the legislation.

EMAS - key areas for PSS to cover in its environmental policy

- **Transport**
- **Suppliers**
- **Mattress disposal service and returned mattresses**
- **Packaging**
- **Solar power**
- **Health and safety**

Notes

Specific areas that would need to be considered as part of PSS's environmental policy are:

- **Transport** - PSS delivers mattresses to both the retail partners' warehouses and to customers through the DTC sales. PSS would also need to consider the transport impact of the Zeelande Health contract if that was entered into. Any EMAS environmental policy would need to address the impact of CO₂ emissions due to these deliveries and how PSS would remain carbon neutral.
- **Suppliers** - although PSS recycles its own waste, EMAS requires the consideration of waste management by key suppliers. PSS would therefore need to discuss waste management with Asher Springs, Quellings Foam and

Zeelande Farms. Only biodegradable chemicals should be used in the production of foam. The PSS environmental policy would need to include reference to suppliers and the raw materials that they provide PSS with.

- Mattress disposal service and returned mattresses – these would need to be carefully monitored to ensure that the mattresses are all correctly dismantled and all recycling was being undertaken correctly and to the correct standard. This would need to be included in the PSS environmental policy to ensure that these recycling processes are highlighted and subject to constant monitoring.
- Packaging – all packaging needs to be reused and recycled. This includes the boxes used for the 'bed-in-a-box' DTC sales as well as the packaging of mattresses that are delivered to the retail partners' warehouses, both aspects would need to be included in an environmental policy to ensure no waste.
- Solar power – the generation and use of the solar power that powers the manufacturing plants would need to be closely monitored, measured and evidenced and this would need to be included in the environmental policy of PSS.
- Health and safety – the EMAS also covers the environment in which employees operate and therefore health and safety in the four manufacturing plants will need to be monitored and referenced in the environmental policy.

Task 2a)

Briefing paper

FAO: Chief executive

From: Business analyst

Briefing paper: Staff Survey

In the recent staff survey, employees raised concerns about a possible health and safety issue and suggested ways to improve PSS's performance.

Health and safety concern

Employees raised a health and safety concern in relation to the chemicals that they may have been exposed to due to the use of the cheaper, lower quality foam supplied by Quellings Foam. This cheaper foam is used in the production of the Charu mattress. These concerns were raised across all four manufacturing plants.

Assessment of the issue:

This is potentially a serious issue that is harmful to employees and customers. PSS will need to carefully manage communications and undertake a full investigation to determine whether the cheaper foam is dangerous and the extent of the issue. This poses a significant threat to PSS's reputation. It may mean that there is a cost-cutting culture within PSS which is introducing high levels of risk and encouraging unethical practices. There are also possible communication issues within PSS if the financial director believed that the foam was on special offer rather than a change in purchasing policy.

Actions that need to be taken:

- The quality control teams at all four manufacturing plants should test the cheaper foam received from Quellings Foam to ascertain if there is a health risk. The test results will determine whether the foam can continue to be used or not.
- Assuming the foam can continue to be used, in future the foam should be tested as part of the routine quality checks that the teams undertake.
- Policies and procedures in relation to testing and quality checks of raw materials need to be reviewed, updated, and communicated to ensure that all staff are aware of the high standard expected of raw materials.
- Policies and procedures in relation to whistleblowing should be reviewed, updated and communicated to ensure that all staff are aware of how to raise concerns in a timely manner.
- Any foam that does present a health risk should be destroyed.

- The finance department should undertake an investigation into the reason for the cheaper price for this foam. Policies on obtaining discounts from suppliers and the process for approving these need to be reviewed and tightened.
- Meetings should be held with all staff from the quality control, layering, assembly, and completion teams that have been exposed to this foam. If the foam does present health risks, all staff should be offered medical attention.
- If the foam does present health risks, any mattresses that contains the harmful foam should be traced to retail partners and DTC consumers. Full refunds or replacements should be offered. Medical costs should be covered.
- If the foam does present health risks, PSS will need to issue a press statement as soon as possible.
- PSS should notify ZMF explaining the issue, its impact and how it intends to deal with it.
- PSS will need to consider the impact that any negative publicity will have on the Zeelande Health contract – even though that contract is for a different type of mattress, questions may be raised about the quality of all of PSS's raw materials. It will also affect EMAS compliance.

Mattress reviews

Staff suggested that they write positive reviews of PSS mattresses for the mattress review websites to improve PSS's ratings.

Assessment of the issue:

Employees posing as customers to write fake positive reviews on mattress review websites is unethical and if the public became aware that this was happening, the reputation of PSS would be damaged.

Actions that need to be taken:

- An email should be sent to all staff to explain that this is unethical behaviour and should not be undertaken.
- Staff should be given training on acting ethically.
- The importance of ethics as part of PSS values and PSS's membership of ZMF should be emphasised in all PSS communications.
- Employee focus groups should be set up to give staff an opportunity to suggest improvements in PSS products which will improve ratings and increase sales.

Innovative products

Staff commented that PSS mattresses are not as innovative as some of the products that are available from its competitors.

Assessment of the issue:

Although innovation is one of PSS's values, the four mattresses that PSS currently produces do not seem to be as innovative as other products that are available on the market. If staff are aware of this, customers will be too, and this lack of innovation may be costing PSS sales.

Actions that need to be taken:

- PSS should review its overall strategy in terms of product offerings and future plans.
- Staff forums should be held to share ideas on more innovative mattress offerings. This is in line with PSS values.
- Data on features that consumers want should be analysed from the DTC sales and this data should be incorporated into future strategies and product designs.
- Budget should be set aside for formal research into creating more innovative mattresses.
- The design and production of more innovative mattresses could be included as a central part of a talent management programme.

Summary

The health and safety concern and the suggestions for improvement all require immediate steps to be taken by PSS in order to ensure that it complies with regulations and its own values.

Task 2b)

Email

To: Human resources director
From: Business analyst
Subject: Talent management at PSS

Talent management is concerned with attracting, identifying, developing, and retaining staff members that are considered to be particularly important to the future success of PSS. If implemented correctly, a talent management programme could help support PSS's values.

However, there are also negative implications of introducing a talent management programme at PSS, which are considered below.

Supporting PSS's values

Bed mattress manufacturing is a competitive industry that has seen substantial innovation over the last few years. PSS is not currently manufacturing truly innovative products, and this has been noted by employees that raised the issue in the staff survey. Therefore, if PSS is to remain innovative, in line with its values, it may benefit from identifying talented staff and providing them with the opportunity to suggest ways that PSS could become more innovative.

Staff that are being developed by a talent management programme and work at an operational level should be better able to identify areas of improvement and innovation within the manufacturing process itself which may save time, money and improve the quality of PSS products.

A talent management programme could help to encourage staff at PSS to challenge assumptions underpinning PSS's operations. Such challenges may result in fundamental, longer-term, changes to operations and products which better address customer needs and would help PSS achieve its values.

A talent management programme would not only help in improving operations and products, but it will also enable talented employees to develop in the long term into more senior positions and managerial roles. This will help with staff retention and reduce the risk of talented employees leaving PSS as they believe that better prospects are available at competitor firms.

Developing staff for internal promotion can also ensure that the ethos and culture of PSS remains unaffected. PSS values place a strong reliance on ethics and sustainability and the importance of these could be emphasised further through a talent management programme.

Challenges

Whilst a talent management programme may be motivating for PSS staff; it will also make them even more attractive to competitors. Therefore, PSS may need to increase salaries and offer other incentives alongside a talent management programme to avoid losing staff that PSS has spent time and money investing in. This is important as it already seems to be the case that competitor firms are paying higher salaries. The loss of key staff members could harm future business plans and damage PSS's competitive position.

PSS would need to consider succession planning for staff. A talent management programme which does not offer the prospect of a more senior role in PSS could be demotivating to staff rather than leading to improved performance. The current induction and on-the-job training offered to staff is focused on their current roles and there does not appear to be any formal development of staff. This is not consistent with a talent management programme and would require a change in training mindset.

As a talent management programme can be expensive in terms of time, resources, and financial costs, PSS will need to ensure that the benefits from introducing a talent management programme outweigh these costs. This means that PSS will need to set clear objectives for the talent management programme at the outset and will need to monitor the success of the programme at regular intervals.

It is important that PSS staff are motivated to engage in the talent management programme. If staff are not engaged in the programme it will not deliver its objectives and will not succeed. PSS needs to ensure that staff have time to invest in the talent management programme as the plants are currently working at 100% capacity and the operations director has suggested that staff are already very busy. If the talent management programme places additional time burdens and increased workloads on staff, this may be viewed as a disincentive.

A successful talent management programme will require management to listen to suggestions that are being made as it will only be successful if it is led and supported at board level.

Conclusion

There could be benefits to PSS if a talent management programme is implemented, but PSS needs to set clear objectives for the programme and clearly communicate progression opportunities to staff. Due to the cost of implementing the programme and the current heavy workloads of staff, it may be better if PSS improves internal communication and offers regular staff forums rather than a formal talent management programme.

Task 3a)

FAO: Finance director

From: Business analyst

Briefing notes: a) Data analysis benefits and threats of big data

Gathering large amounts of varied information from customers and potential customers through the PSS website is known as big data. The analysis and use of this data offer potential benefits to PSS, but big data does also introduce threats.

Benefits of data analysis

1. Driving innovation

If PSS analyses the data that it gathers through its website in relation to customer orders, customer and website visitor activity, preferences and feedback, it can identify patterns and trends that will give better insight into customer behaviour on a continual basis. Analysing this data will reduce the time taken to decide on the direction that PSS should follow in relation to its strategy and future plans. If PSS had meaningful information that was analysed continually, it could know much earlier what consumers look for in a mattress and this could then be used to evolve PSS's marketing and influence future PSS products.

2. Building loyalty

The bed mattress industry usually has low levels of brand loyalty but if PSS could analyse a wide range of customer and website visitor data continuously and tailor products and services based on the data collected, customer loyalty may be improved.

The data collected could be used more effectively. Website visitors could be offered the option of signing up for marketing e-mails about new products and promotions. This could be a beneficial and cost-effective marketing strategy especially when advertising costs are high.

3. Competitive advantage

It may be possible for PSS to gain competitive advantage and an increased market share of the mattress sector if the analysis of data helps to identify trends and preferences that have not been identified by rivals.

Threats of big data

1. Security

Holding large quantities of data opens PSS up to the threat of virus and hackers. As PSS holds personal information from customers it must ensure that this data is held securely which, in turn, is likely to increase costs. The audit and risk committee has said that it is unclear what controls are currently in place. This needs to be investigated and a stronger, more transparent control system needs to be implemented as soon as possible.

2. Cost

It could cost a significant amount of time and money to interpret data that may be of limited use to PSS. Due to the competitive nature of the mattress industry, it is

unlikely that PSS would be able to pass this cost onto customers. Any time delay in interpreting data will reduce its value and reduce any advantage that PSS has over its rivals.

3. Wrong decisions

It would be easy to make the wrong decisions based on the information that has been gathered. This is a concern for PSS as the DTC website currently only markets the foam mattress types. This means that there may be little information collected which is relevant to the mattresses that contain springs. It is also possible that the consumers that use the DTC website are not representative of all mattress consumers as many prefer to buy mattresses at physical showrooms or department stores. Relying on data collected from selected sectors of the market only may be dangerous and lead to wrong decisions being made.

4. Data overload

PSS management could spend lots of time trying to determine informative patterns and trends in the data which may not exist. Having lots of data does not guarantee that it will be useful.

Task 3b)

Briefing notes: Internal control weaknesses

The audit and risk committee has identified internal control weaknesses which need to be addressed. This briefing paper evaluates those weaknesses and makes several recommendations.

Issue 1: Guarantee claims

The lack of detailed monitoring and review of guarantee claims is a weakness in the management controls. As the increase in claims has not been investigated it is not clear what has caused the increase.

It has not been established whether the mattresses that were the subject of the guarantee claims were manufactured at a particular plant or not. It is unclear whether the mattresses that were subject to guarantee claims were old or not.

More guarantee claims are expected for the Abhu mattress as it has an average life of six years, but the guarantee is for a ten-year period. But this would not explain the substantial increase in guarantee claims. A full investigation is needed to understand the cause of the increase.

If the guarantee claims relate to recently manufactured Abhu mattresses, there is likely to be a problem with either the raw materials used in that mattress that have not been detected by the quality control teams or a problem in the manufacture process which has not been discovered by the completion teams.

Detailed monitoring of guarantee claims is a critical aspect of the control environment and is necessary to ensure that poor quality products do not go unchecked without suitable corrective action. If problems are left unnoticed and unchecked over several

months, these could become a major operational issue for PSS. The lack of management understanding in relation to the importance of detailed monitoring of guarantee claims is a concern as problems with operations may go undetected.

Recommendations:

- The finance team should report guarantee claims on a monthly basis to the board of directors for review.
- These reports should detail the age of the mattress involved, the type of mattress and the reason for the guarantee claim.
- If it appears that there is a manufacturing fault, this should be referred back to the operations director and the relevant manufacturing plant for a full and immediate investigation. The relevant manufacturing process and policies will need a careful review. A manufacturing fault would be harmful to PSS's reputation as sold mattresses may need to be recalled and replaced.
- Actions that have been taken in response to the report should then be reported back to the finance team.
- All actions must be followed up by the finance and operations directors to ensure that issues are actively addressed.

Issue 2: Patents

Patents are an important element of the PSS business and are used to ensure that the PSS mattresses are distinct in a competitive market. The patents also offer protection to PSS for its own spring arrangements, mattress layer compositions, foam combinations and mattress covers. By allowing patents to expire, PSS runs the risk that competitors could copy these elements of PSS design and manufacture. Once a patent has expired there is no legal protection offered to PSS and competitors would be able to make use of the previously patented processes without having to pay PSS a royalty fee. If PSS continues to claim that processes are patented, when the patent has expired, this could have a negative impact on PSS's reputation.

Recommendations:

- Regular checks of patents should be undertaken and allocated to an appropriate member of staff.
- A report on each check should be made to the board of directors.
- A review of all patents that exist should take place and it should be established whether any designs or processes currently being used in the manufacturing plants are covered by patents held by other companies. If this is found to be the case, this should be reported to the board of directors as soon as possible.
- The board of directors should assess the impact of the patents that have expired in relation to the Badin mattress and establish the scale of the problem and formulate a strategy to deal with the issue.
- As these expired patents relate to the Badin mattress, it is important that Zeelande Health is made aware that some of the processes involved in producing this mattress are no longer patented in case Zeelande Health believe

these patents are in place and that has contributed to its decision to enter into a contract with PSS.