

Performance Measurement

Q1. BLA Ltd is a design consultancy that provides advice to clients regarding property maintenance and improvements. Three types of consultant are employed by BLA Ltd. These are:

- (1) Architectural consultants who provide advice with regard to exterior building improvements.
- (2) Interior design consultants who provide advice regarding interior design, and
- (3) Landscape consultants who provide advice regarding landscaping of properties and garden design improvements.

BLA Ltd does not undertake building work on behalf of its clients and will only recommend contractors that undertake the three types of work when requested to do so by its clients. The following information is relevant:

- (i) Each consultation, other than those detailed in notes (iv) and (v), is charged at a rate of £150 per consultation.
- (ii) The consultants are each paid a fixed annual salary of £45,000. In addition they receive a bonus of 40% of the fee income generated in excess of budget. The bonus is shared equally among the consultants employed by BLA Ltd on 31 October in the year to which the bonus relates.
- (iii) Other operating expenses (excluding the salaries of the consultants) were budgeted at £2,550,000 for the year to 31 October 2003. The actual amount incurred in respect of the year to 31 October 2003 was £2,805,000, which excludes payments to subcontractors per note (vii) below.
- (iv) In an attempt to gain new business, consultants may undertake consultations on a 'no-fee' basis. Such consultations are regarded as Business Development Activity by the management of BLA Ltd.
- (v) Consultants will sometimes undertake remedial consultations with clients who experience problems at the time when work commences on each client's site. Remedial consultations are also provided on a non-chargeable, i.e. 'no fee' basis.
- (vi) In November 2002, BLA Ltd purchased 'state of the art' business software for use by its consultants in simulating design improvements. The software was used throughout the year by consultants who specialise in landscape and garden design. It is now planned to introduce the use of the software by the other categories of consultant within BLA Ltd.
- (vii) BLA Ltd has a policy of maintaining staff at a level of 45 consultants on an ongoing basis, irrespective of fluctuations in the level of demand. Also, BLA Ltd has retained links with retired consultants and will occasionally subcontract work to them at a cost of £150 per consultation, if current full-time consultants within a particular category are fully utilised. During the year ended 31 October 2003 subcontractors only undertook nonchargeable client consultations.

BLA Ltd: Sundry statistics for year ended 31 October 2003

	Budget	Actual
<u>Number of consultants by category:</u>		
Exterior design	18	15
Interior design	18	18
Landscape & garden design	9	12
<u>Total client enquiries:</u>		
New business	67,500	84,000
Repeat business	32,400	28,000
<u>Number of chargeable client consultations:</u>		
New business	24,300	22,400
Repeat business	16,200	19,600
<u>Mix of chargeable client consultation</u>		
Exterior design	16,200	13,830
Interior design	16,200	17,226
Landscape & garden design	8,100	10,944
<u>Number of non-chargeable client consultations undertaken by BLA consultants:</u>		
Number of business development consultations	1,035	1,200
Number of remedial consultations	45	405
<u>Number of non-chargeable client consultations undertaken by subcontractors:</u>		120
Other statistics:		
Number of complaints	324	630

Required:

Fitzgerald and Moon have suggested that business performance should be measured in a number of ways. Assess the performance of BLA with respect to the following dimensions

- i. Financial performance
- ii. Competitiveness
- iii. Service quality
- iv. Flexibility
- v. Resource utilization
- vi. Innovation

Q2. Ties Only is a new business, selling high quality imported men's ties via the internet. The managers, who also own the company, are young and inexperienced but they are prepared to take risks. They are confident that importing quality ties and selling via a website will be successful and that the business will grow quickly. This is despite the well recognised fact that selling clothing is a very competitive business.

They were prepared for a loss-making start and decided to pay themselves modest salaries (included in administration expenses in table 1 below) and pay no dividends for the foreseeable future.

The owners are so convinced that growth will quickly follow that they have invested enough money in website server development to ensure that the server can handle the very high levels of predicted growth. All website development costs were written off as incurred in the internal management accounts that are shown below in table 1.

Significant expenditure on marketing was incurred in the first two quarters to launch both the website and new products. It is not expected that marketing expenditure will continue to be as high in the future.

Customers can buy a variety of styles, patterns and colours of ties at different prices.

The business's trading results for the first two quarters of trade are shown below in table 1

Table 1

		Quarter 1		Quarter 2	
	\$	\$		\$	\$
Sales		420,000		680,000	
less Cost of Sales		<u>(201,600)</u>		<u>(340,680)</u>	
Gross Profit		218,400		339,320	
less expenses					
Website development	120,000		90,000		
Administration	100,500		150,640		
Distribution	20,763		33,320		
Launch marketing	60,000		40,800		
Other variable expenses	<u>50,000</u>		<u>80,000</u>		
Total expenses		<u>(351,263)</u>		<u>(394,760)</u>	
Loss for quarter		<u>(132,863)</u>		<u>(55,440)</u>	

Required:

(a) Assess the financial performance of the business during its first two quarters using only the data in table 1 above.

(12 marks)

(b) Briefly consider whether the losses made by the business in the first two quarters are a true reflection of the current and likely future performance of the business.

(4 marks)

The owners are well aware of the importance of non-financial indicators of success and therefore have identified a small number of measures to focus on. These are measured monthly and then combined to produce a quarterly management report.

The data for the first two quarters management reports is shown below:

Table 2

	Quarter 1	Quarter 2
Website hits*	690,789	863,492
Number of ties sold	27,631	38,857
On time delivery	95%	89%
Sales returns	12%	18%
System downtime	2%	4%

* A website hit is automatically counted each time a visitor to the website opens the home page of Ties Only.

The industry average conversion rate for website hits to number of ties sold is 3.2%. The industry average sales return rate for internet-based clothing sales is 13%.

Required:

Comment on each of the non-financial data in table 2 above taking into account, where appropriate, the industry averages provided, providing your assessment of the performance of the business. (9 marks)

Q3. Oliver is the owner and manager of Oliver's Salon which is a quality hairdresser that experiences high levels of competition. The salon traditionally provided a range of hair services to female clients only, including cuts, colouring and straightening. A year ago, at the start of his 2009 financial year, Oliver decided to expand his operations to include the hairdressing needs of male clients. Male hairdressing prices are lower, the work simpler (mainly hair cuts only) and so the time taken per male client is much less.

The prices for the female clients were not increased during the whole of 2008 and 2009 and the mix of services provided for female clients in the two years was the same.

The latest financial results are as follows:

	2008		2009
	\$	\$	\$
Sales		200,000	238,500
Less cost of sales:			
Hairdressing staff costs	65,000		91,000
Hair products – female	29,000		27,000
Hair products – male			8,000
		<u>94,000</u>	<u>126,000</u>
Gross profit		106,000	112,500
Less expenses:			
Rent	10,000		10,000
Administration salaries	9,000		9,500
Electricity	7,000		8,000
Advertising	<u>2,000</u>		<u>5,000</u>
Total expenses		<u>28,000</u>	<u>32,500</u>
Profit		<u>78,000</u>	<u>80,000</u>

Oliver is disappointed with his financial results. He thinks the salon is much busier than a year ago and was expecting more profit. He has noted the following extra information:

1. Some female clients complained about the change in atmosphere following the introduction of male services, which created tension in the salon.
2. Two new staff were recruited at the start of 2009. The first was a junior hairdresser to support the specialist hairdressers for the female clients. She was appointed on a salary of \$9,000 per annum. The second new staff member was a specialist hairdresser for the male clients. There were no increases in pay for existing staff at the start of 2009 after a big rise at the start of 2008 which was designed to cover two years' worth of increases.

Oliver introduced some non-financial measures of success two years ago.

	2008	2009
Number of complaints	12	46
Number of male client visits	0	3,425
Number of female client visits	8,000	6,800
Number of specialist hairdressers for female clients	4	5
Number of specialist hairdressers for male clients	0	1

Required:

- (a) Calculate the average price for hair services per male and female client for each of the years 2008 and 2009. (3 marks)
- (b) Assess the *financial* performance of the Salon using the data above. (11 marks)
- (c) Analyse and comment on the non-financial performance of Oliver's business, under the headings of *quality* and *resource utilisation*. (6 marks)

Q4. Thatcher International Park (TIP) is a theme park and has for many years been a successful business, which has traded profitably. About three years ago the directors decided to capitalise on their success and reduced the expenditure made on new thrill rides, reduced routine maintenance where possible (deciding instead to repair equipment when it broke down) and made a commitment to regularly increase admission prices. Once an admission price is paid customers can use any of the facilities and rides for free.

These steps increased profits considerably, enabling good dividends to be paid to the owners and bonuses to the directors. The last two years of financial results are shown below.

	2008	2009
	\$	\$
Sales	5,250,000	5,320,000
Less expenses:		
Wages	2,500,000	2,200,000
Maintenance – routine	80,000	70,000
Repairs	260,000	320,000
Directors salaries	150,000	160,000
Directors bonuses	15,000	18,000
Other costs (including depreciation)	1,200,000	1,180,000
Net profit	1,045,000	1,372,000
Book value of assets at start of year	13,000,000	12,000,000
Dividend paid	500,000	650,000
Number of visitors	150,000	140,000

Required:

(a) Assess the financial performance of TIP using the information given above. (14 marks)

During the early part of 2008 TIP employed a newly qualified management accountant. He quickly became concerned about the potential performance of TIP and to investigate his concerns he started to gather data to measure some non-financial measures of success. The data he has gathered is shown below:

Table 1

	2008	2009
Hours lost due to breakdown of rides (see note 1)	9,000 hours	32,000 hours
Average waiting time per ride	20 minutes	30 minutes

Note 1: TIP has 50 rides of different types. It is open 360 days of the year for 10 hours each day

Required:

(b) Assess the *quality* of the service that TIP provides to its customers using Table 1 and any other relevant data and indicate the *risks* it is likely to face if it continues with its current policies. (6 marks)

Q6. Jump has a network of sports clubs which is managed by local managers reporting to the main board. The local managers have a lot of autonomy and are able to vary employment contracts with staff and offer discounts for membership fees and personal training sessions. They also control their own maintenance budget but do not have control over large amounts of capital expenditure.

A local manager's performance and bonus is assessed relative to three targets. For every one of these three targets that is reached in an individual quarter, \$400 is added to the manager's bonus, which is paid at the end of the year. The maximum bonus per year is therefore based on 12 targets (three targets in each of the four quarters of the year).

Accordingly the maximum bonus that could be earned is $12 \times \$400 = \$4,800$, which represents 40% of the basic salary of a local manager. Jump has a 31 March year end.

The performance data for one of the sports clubs for the last four quarters is as follows

	Qtr to 30 June 2009	Qtr to 30 September 2009	Qtr to 31 December 2009	Qtr to 31 March 2010
Number of members	3,000	3,200	3,300	3,400
Member visits	20,000	24,000	26,000	24,000
Personal training sessions booked	310	325	310	339
Staff days	450	480	470	480
Staff lateness days	20	28	28	20
Days in quarter	90	90	90	90

Agreed targets are:

1. Staff must be on time over 95% of the time (no penalty is made when staff are absent from work)
2. On average 60% of members must use the clubs' facilities regularly by visiting at least 12 times per quarter
3. On average 10% of members must book a personal training session each quarter

Required:**(a) Calculate the amount of bonus that the manager should expect to be paid for the latest financial year.**(6 marks)**(b) Discuss to what extent the targets set are controllable by the local manager (you are required to make a case for both sides of the argument).** (9 marks)

Q7. The Accountancy Teaching Co (AT Co) is a company specialising in the provision of accountancy tuition courses in the private sector. It makes up its accounts to 30 November each year. In the year ending 30 November 2009, it held 60% of market share. However, over the last twelve months, the accountancy tuition market in general has faced a 20% decline in demand for accountancy training leading to smaller class sizes on courses. In 2009 and before, AT Co suffered from an ongoing problem with staff retention, which had a knock-on effect on the quality of service provided to students. Following the completion of developments that have been ongoing for some time, in 2010 the company was able to offer a far-improved service to students. The developments included:

- A new dedicated 24 hour student helpline
- An interactive website providing instant support to students
- A new training programme for staff
- An electronic student enrolment system
- An electronic marking system for the marking of students' progress tests. The costs of marking electronically were expected to be \$4 million less in 2010 than marking on paper. Marking expenditure is always included in cost of sales

	2009		2010	
	\$'000	\$'000	\$'000	\$'000
Turnover		72,025		66,028
Cost of sales		(52,078)		(42,056)
Gross profit		19,947		23,972
Indirect expenses:				
Marketing	3,291		4,678	
Property	6,702		6,690	
Staff training	1,287		3,396	
Interactive website running costs	–		3,270	
Student helpline running costs	–		2,872	
Enrolment costs	5,032		960	
Total indirect expenses		(16,312)		(21,866)
Net operating profit		3,635		2,106

On 1 December 2009, management asked all 'freelance lecturers' to reduce their fees by at least 10% with immediate effect ('freelance lecturers' are not employees of the company but are used to teach students when there are not enough of AT Co's own lecturers to meet tuition needs). All employees were also told that they would not receive a pay rise for at least one year. Total lecture staff costs (including freelance lecturers) were \$41.663 million in 2009 and were included in cost of sales, as is always the case. Freelance lecturer costs represented 35% of these total lecture staff costs. In 2010 freelance lecture costs were \$12.394 million. No reduction was made to course prices in the year and the mix of trainees studying for the different qualifications remained the same. The same type and number of courses were run in both 2009 and 2010 and the percentage of these courses that was run by freelance lecturers as opposed to employed staff also remained the same. Due to the nature of the business, non-financial performance indicators are also used to assess performance, as detailed below.

	2009	2010
Percentage of students transferring to AT Co from another training provider	8%	20%
Number of late enrolments due to staff error	297	106
Percentage of students passing exams first time	48%	66%
Labour turnover	32%	10%
Number of student complaints	315	84
Average no. of employees	1,080	1,081

Required:

Assess the performance of the business in 2010 using both financial performance indicators calculated from the above information AND the non-financial performance indicators provided.

NOTE: Clearly state any assumptions and show all workings clearly. Your answer should be structured around the following main headings: turnover; cost of sales; gross profit; indirect expenses; net operating profit. However, in discussing each of these areas you should also refer to the non-financial performance indicators, where relevant. **(20 marks)**

Q8. Web Co is an online retailer of fashion goods and uses a range of performance indicators to measure the performance of the business. The company's management have been increasingly concerned about the lack of sales growth over the last year and, in an attempt to resolve this, made the following changes right at the start of quarter 2:

Advertising: Web Co placed an advert on the webpage of a well-known online fashion magazine at a cost of \$200,000. This had a direct link from the magazine's website to Web Co's online store.

Search engine: Web Co also engaged the services of a website consultant to ensure that, when certain key words are input by potential customers onto key search engines, such as Google and Yahoo, Web Co's website is listed on the first page of results. This makes it more likely that a customer will visit a company's website. The consultant's fee was \$20,000.

Website availability: During quarter 1, there were a few problems with Web Co's website, meaning that it was not available to customers some of the time. Web Co was concerned that this was losing them sales and the IT department therefore made some changes to the website in an attempt to correct the problem.

The following incentives were also offered to customers:

Incentive 1: A free 'Fast Track' delivery service, guaranteeing delivery within two working days, for all continuing customers who subscribe to Web Co's online subscription newsletter. Subscribers are thought by Web Co to become customers who place further orders.

Incentive 2: A \$10 discount to all customers spending \$100 or more at any one time.

The results for the last two quarters are shown below, quarter 2 being the most recent one. The results for quarter 1 reflect the period before the changes and incentives detailed above took place and are similar to the results of other quarters in the preceding year.

	Quarter 1	Quarter 2
Total sales revenue	\$2,200,000	\$2,750,000
Net profit margin	25%	16.7%
Total number of orders from customers	40,636	49,600
Total number of visits to website	101,589	141,714
Conversion rate – visitor to purchaser	40%	35%
The percentage of total visitors accessing website through magazine link	0	19.9%
Website availability	95%	95%
Number of customers spending more than \$100 per visit	4,650	6,390
Number of subscribers to online newsletter	4,600	11,900

Required:

Assess the performance of the business in Quarter 2 in relation to the changes and incentives that the company introduced at the beginning of this quarter. State clearly where any further information might be necessary, concluding as to whether the changes and incentives have been effective. (20 marks)

Q9. Squarize is a large company which, for many years, operated solely as a pay-tv broadcaster. However, five years ago, it started product bundling, offering broadband and telephone services to its pay-tv customers. Customers taking up the offer were then known in the business as 'bundle customers' and they had to take up both the broadband and telephone services together with the pay-tv service. Other customers were still able to subscribe to pay-tv alone but not to broadband and telephone services without the pay-tv service.

All contracts to customers of Squarize are for a minimum three-month period. The pay-tv box is sold to the customer at the beginning of the contract; however, the broadband and telephone equipment is only rented to them.

In the first few years after product bundling was introduced, the company saw a steady increase in profits. Then, Squarize saw its revenues and operating profits fall. Consequently, staff bonuses were not paid, and staff became dissatisfied. Several reasons were identified for the deterioration of results:

1. In the economy as a whole, discretionary spending had been severely hit by rising unemployment and inflation. In a bid to save cash, many pay-tv customers were cancelling their contracts after the minimum three-month period as they were then able to still keep the pay-tv box. The box comes with a number of free channels, which the customer can still continue to receive free of charge, even after the cancellation of their contract.
2. The company's customer service call centre, which is situated in another country, had been the cause of lots of complaints from customers about poor service, and, in particular, the number of calls it sometimes took to resolve an issue.
3. Some bundle customers found that the broadband service that they had subscribed to did not work. As a result, they were immediately cancelling their contracts for all services within the 14 day cancellation period permitted under the contracts.

In a response to the above problems and in an attempt to increase revenues and profits, Squarize made the following changes to the business:

1. It made a strategic decision to withdraw the pay-tv–broadband–telephone package from the market and, instead, offer each service as a standalone product.
 2. It guaranteed not to increase prices for a 12-month period for each of its three services.
 3. It transferred its call centre back to its home country and increased the level of staff training given for call centre workers.
 4. It investigated and resolved the problem with customers' broadband service.
- It is now one year since the changes were made and the finance director wants to use a balanced scorecard to assess the extent to which the changes have been successful in improving the performance of the business.

Required:

- (a) For each perspective of the balanced scorecard, identify two goals (objectives) together with a corresponding performance measure for each goal which could be used by the company to assess whether the changes have been successful. Justify the use of each of the performance measures that you choose. (16 marks)**
- (b) Discuss how the company could reduce the problem of customers terminating their pay-tv service after only three months. (4 marks)**

Q10. Jamair was founded in September 2007 and is one of a growing number of low-cost airlines in the country of Shania. Jamair's strategy is to operate as a low-cost, high efficiency airline, and it does this by:

- Operating mostly in secondary cities to reduce landing costs.
- Using only one type of aircraft in order to reduce maintenance and operational costs. These planes are leased rather than bought outright.
- Having only one category of seat class.
- Having no pre-allocated seats or in-flight entertainment.
- Focusing on e-commerce with customers both booking tickets and checking in for flights online.

The airline was given an 'on time arrival' ranking of seventh best by the country's aviation authority, who rank all 50 of the country's airlines based on the number of flights which arrive on time at their destinations. 48 Jamair flights were cancelled in 2013 compared to 35 in 2012. This increase was due to an increase in the staff absentee rate at Jamair from 3 days per staff member per year to 4-5 days.

The average 'ground turnaround time' for airlines in Shania is 50 minutes, meaning that, on average, planes are on the ground for cleaning, refuelling, etc for 50 minutes before departing again. Customer satisfaction surveys have shown that 85% of customers are happy with the standard of cleanliness on Jamair's planes.

The number of passengers carried by the airline has grown from 300,000 passengers on a total of 3,428 flights in 2007 to 920,000 passengers on 7,650 flights in 2013. The overall growth of the airline has been helped by the limited route licensing policy of the Shanian government, which has given Jamair almost monopoly status on some of its routes. However, the government is now set to change this policy with almost immediate effect, and it has become more important than ever to monitor performance effectively.

Required:

- (a) Describe each of the four perspectives of the balanced scorecard. (6 marks)**
- (b) For each perspective of the balanced scorecard, identify one goal together with a corresponding performance measure which could be used by Jamair to measure the company's performance. The goals and measures should be specifically relevant to Jamair. For each pair of goals and measures, explain why you have chosen them. (9 marks)**
(15 marks)

Q11. Kolmog Hotels is a large, listed chain of branded hotels in Ostland. Its stated mission is: **'to become the No. 1 hotel chain in Ostland, building the strength of the Kolmog brand by consistently delighting customers, investing in employees, delivering innovative products/services and continuously improving performance'**. The subsidiary aims of the company are to maximise shareholder value, create a culture of pride in the brand and strengthen the brand loyalty of all stakeholders.

The hotels in the Kolmog chain include a diverse range of buildings and locations serving different customer groups (large conference venues, city centre business hotels and country house hotels for holidays). For reporting purposes, the company has divided itself into the four geographical regions of Ostland as can be seen in a recent example of the strategic performance report for the company used by the board for their annual review (see appendix 1). At the operational level, each hotel manager is given an individual budget for their hotel, prepared in the finance department, and is judged by performance against budgeted profit.

Kolmog is planning a strategic change to its current business model. The board has decided to sell many of the hotels in the chain and then rent them back. This is consistent with many other hotel companies who are focusing on the management of their hotels rather than managing a large, property portfolio of hotels.

In order to assist this strategic change, the chief executive officer (CEO) is considering introducing the balanced scorecard (BSC) across Kolmog. He has tasked you, as a management accountant in the head office, with reviewing the preliminary work done on the development of the scorecard in order to ensure that it is consistent with the goal of meeting the strategic objectives of the company by tying operational and strategic performance measurement into a coherent framework.

The CEO is worried that the BSC might be perceived within the organisation as a management accounting technique that has been derived from the manufacturing sector. In order to assess its use at Kolmog, he has asked you to explain the characteristics that differentiate service businesses from manufacturing ones.

Senior executives at the head office of Kolmog have drawn up a preliminary list of perspectives and metrics as an outline of the balanced scorecard in table 1:

Table 1

Key strategic perspective Metric

Strategic financial performance	– financial performance benchmarked to Kolmog's main competitors (share price and return on capital employed)
Customer satisfaction	– customer satisfaction survey scores
Hotel performance against budget	– variance analysis for each hotel
Employee satisfaction	– staff turnover

Required:

Evaluate the outline balanced scorecard (Table 1) at Kolmog, suggesting suitable improvements;

Q12. Bus Co is a large bus operator, operating long-distance bus services across the country. There are two other national operators in the country. Bus Co's mission is to 'be the market leader in long-distance transport providing a greener, cleaner service for passengers nationwide'. Last month, an independent survey of 40,000 passengers was carried out, the results of which are shown in the table below:

Table: Bus passenger satisfaction % by national operator

Operator	Overall satisfaction	Value for money	Punctuality	Journey time
Bus	*	67	80	82
Prime	*	58	76	83
Express	*	67	76	89

* denotes that the percentage has not yet been calculated.

The 'overall satisfaction' percentages, which have not yet been inserted into the table, are calculated using a weighted average which reflects the importance customers place on each of the other three criteria above. The weightings used are as follows:

Value for money	40%
Punctuality	32%
Journey time	28%

The managing director (MD) of Bus Co has said: 'Independent research has shown that our customers are the most satisfied of any national bus operator. We are now leading the way on what matters most to customers – value for money and punctuality.'

Required:

(a) Calculate the 'overall satisfaction' percentage for each operator. (2 marks)

(b) Taking into account all the data in the table and your calculations from part (a), discuss whether the managing director's statement is true. (4 marks)

(c) When measuring performance using a 'value for money' approach, the criteria of economy, efficiency and effectiveness can be used.

Required:

Briefly define 'efficiency' and 'effectiveness' and suggest one performance measure for EACH, which would help Bus Co assess the efficiency and effectiveness of the service it provides. (4 marks)

(10 marks)

The One Stop Car Co (OSC Co) offers a range of services for car owners at its 55 service centres across the country. The car maintenance business is extremely competitive in all regions across the country. Each service centre operates autonomously and managers are able to choose how to package up the services they offer. OSC Co's aim is to 'make the task of car maintenance a pleasure and not a chore'.

Its national website states the following:

- Range of service packs available, including express service and full valet
- 'We work whilst you wait' service, with average wait times of only two hours
- Watch our friendly, experienced mechanics producing high quality work
- Freshly made tea and coffee and free internet in our comfortable lounges
- Monthly free prize draw for all customers completing an online feedback form

Customers initially access the national website, but depending on their location, they are automatically redirected to the website of their nearest service centre so that they can view the offers available at that centre. All bookings are made through the OSC website.

Results for one of the service centres, the Midlands Service Centre (MSC), for the year which has just ended are given below. The column headed 'OSC' shows the average figures for all of OSC Co's 55 service centres:

	Notes	MSC	OSC Average
Sales revenue (\$)		760,500	890,365
Gross profit (\$)		304,200	328,146
Number of mechanics: senior	1	7	7.8
Number of mechanics: junior	2	5	5.2
Number of new service packs developed	3	3	2
Number of website hits		14,000	18,260
Total number of jobs booked and completed		9,506	11,870
Number of jobs from repeat customers only		1,500	1,660
Total time spent completing jobs (hours)		23,100	24,800
Percentage of customer feedback forms showing score of 9 or 10	4	80%	70%

Notes:

- (1) Mechanics are classified as 'senior' if they have been qualified for more than five years.
- (2) 'Junior' mechanics includes both trainee mechanics who are unqualified and mechanics who have been qualified for less than five years.
- (3) The MSC introduced three new service packs during the year:
 - free valets for orders over \$100
 - a safety check costing only \$20, instead of the usual \$40, for all customers booking a full service
 - a \$10 air conditioning efficiency check, which usually costs \$20, for all customers booking an oil change.

These three new service packs produced revenues of \$66,000, \$58,000 and \$54,000 respectively. Two comparable new service packs developed by other centres produced revenues of \$44,000 and \$42,000.

- (4) The online feedback form asks customers to rate the centre from 1 to 10, with 10 being the best.

The CEO of OSC Co has recently attended a business seminar and heard about Fitzgerald and Moon's building block model of performance management. The CEO is interested in how the dimensions block could be applied at OSC Co. The dimensions of performance identified in the model are: competitiveness, financial performance, quality of service, flexibility, resource utilisation and innovation.

Required:

- (a) For each of the dimensions of the building block model, calculate one performance indicator for MSC and one for the OSC average using the data available. Briefly justify your choice of performance indicator and discuss MSC's performance relative to the other OSC service centres. (16 marks)
- (b) Explain how the standards and rewards blocks support the dimensions block in Fitzgerald and Moon's building block model. (4 marks)

(20 marks)

Best Night Co operates a chain of 30 hotels across the country of Essland. It prides itself on the comfort of the rooms in its hotels and the quality of service it offers to guests.

The majority of Best Night Co's hotels are located in major cities and have previously been successful in attracting business customers. In recent years, however, the number of business customers has started to decline as a result of tough economic conditions in Essland.

Best Night Co's policy is to set standard prices for the rooms in each of its hotels, with that price reflecting the hotel's location and taking account of competitors' prices. However, hotel managers have the authority to offer discounts to regular customers, and to reduce prices when occupancy rates in their hotel are expected to be low. The average standard price per night, across all the hotels, was \$140 in 20X7, compared to \$135 in 20X6.

In addition to room bookings, the hotels also generate revenue from the additional services available to customers, such as restaurants and bars.

Summary from Best Night Co's management accounts:

	Year ended 30 June 20X7 \$'000	Year ended 30 June 20X6 \$'000
Revenue – rooms at standard price per night	111,890	104,976
Room discounts or rate reductions given	(16,783)	(11,540)
Other revenue: food, drink	24,270	23,185
Total revenue	119,377	116,621
Operating costs	(95,462)	(92,379)
Operating profit	23,915	24,242

Other performance information:

	Year ended 30 June 20X7	Year ended 30 June 20X6
Capital employed (Note 1)	\$39.5m	\$39.1m
Average occupancy rates (Note 2)	74%	72%
Average customer satisfaction score (Note 3)	4.2	4.5

Note 1: Capital employed is calculated using the depreciated cost of non-current assets at all Best Night Co's hotels.

Note 2: Occupancy rates for the year ended 30 June 20X7 were budgeted to be 72%.

Note 3: Customer satisfaction scores are graded on a scale of 1–5 where '5' represents 'Excellent'. On average, in any given town in Essland, the top 10% of hotels earn a score of 4.5 or above and the top 25% of hotels earn a score of 4.2 or above.

Two themes are becoming increasingly frequent in the comments Best Night Co's customers make alongside the scores:

- (1) Repeat customers have said that the standard of service in recent visits has not been as good as in previous visits.
- (2) The rooms need redecorating, and the fixtures and fittings need replacing. For example, the beds need new mattresses to improve the level of comfort they provide.

Best Night Co had planned a two-year refurbishment programme beginning in 20X7 of all the rooms in each hotel. However, this programme has been put on hold, due to the current economic conditions, and in order to reduce expenditure.

Required:

Using the information provided, discuss Best Night Co's financial and non-financial performance for the year ended 30 June 20X7.

Note: There are 5 marks available for calculations and 15 marks available for discussion.

(20 marks)

The People's Bank is a bank based in the country of Nawkrei. It has a total of 65 branches across the country and also offers online banking (access to services via computer) and telephone banking (access to customer service over the telephone) to its customers. Recently, The People's Bank also began offering its customers a range of mobile banking services, which can be accessed from customers' smartphones and tablet computers. Its customer base is made up of both private individuals and business customers. The range of services it offers includes:

- Current accounts
- Savings accounts
- Credit cards
- Business and personal loans
- Mortgages (loans for property purchases)

The People's Bank's vision is to be 'the bank that gives back to its customers' and their purpose is 'to help the people and businesses of Nawkrei to live better lives and achieve their ambitions'. In order to achieve this, the bank's strategies are stated as:

- (1) Putting customers' needs first, which involves anticipating and understanding customers' needs and providing products and services accessible to as many customers as possible. The People's Bank has recently invested heavily in IT security to prevent fraud and also invested to make more services accessible to disabled and impaired customers
- (2) Making business simple, which involves identifying opportunities to simplify activities and communicating clearly and openly
- (3) Making a difference to the communities they serve, which involves primarily helping the disadvantaged and homeowners but also supporting small and medium-sized businesses (SMEs) and acting fairly and responsibly at all times

Extracts from The People's Bank's balanced scorecard are shown below:

Performance measure	20X5 Actual	20X6 Target
Financial perspective		
Return on capital employed (ROCE)	11%	12%
Interest income	\$7.5m	\$7m
Net interest margin (margin achieved on interest income)	2.4%	2.5%
Amount of new lending to SMEs	\$135m	\$150m
Customer perspective		
Number of first-time homebuyers given a mortgage by The People's Bank	86,000	80,000
Number of complaints (per 1,000 customers)	1.5	2
Number of talking cashpoints installed for the visually impaired	120	100
Number of wheelchair ramps installed in branches	55	50
Internal processes		
Number of business processes within The People's Bank re-engineered and simplified	110	100
Number of new services made available through 'mobile banking'	2	5
Incidences of fraud on customers' accounts or credit cards (per 1,000 customers)	3	10
Total carbon dioxide emissions (tonnes)	430,000	400,000
Learning and growth		
Number of colleagues trained to provide advice to SMEs	1,300	1,500
Number of hours (paid for by The People's Bank) used to support community projects	1,020,000	1,000,000
Number of trainee positions taken up by candidates from Nawkrei's most disadvantaged areas	1,990	2,000
Number of community organisations supported (either through funding or by volunteers from The People's Bank)	7,250	7,000

Required:

- (a) Explain why the balanced scorecard approach to performance measurement is more useful to measure performance for The People's Bank than a traditional approach using solely financial performance measures. (4 marks)
- (b) Using all of the information provided, including The People's Bank's vision and values, discuss the performance of The People's Bank in 20X6.

Note: Use each of the four headings of the balanced scorecard to structure your discussion. (16 marks)

(20 marks)