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The ExP Group

ACCA APM | ExPress Notes

Advanced Performance Managment

SBL SBR AFM APM ATX AAA

BT MA FA LW PM TX FR AA FM

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Hello

Thank you for downloading a copy of these ExPress notes and I hope you find them useful for your studies.

We provide these ExPress notes free of charge to individual students as part of our CSR initiatives. The notes are designed to help students assimilate and understand the most important areas for the exam as quickly as possible.

A word of warning though in that they have not been designed to cover everything in the syllabus so you should only use these notes for either an overview of the key areas before you start your main studies or as part of your final revision in the run up to your exams.

Importantly though, we want you to be successful in your exams so good luck with your studies and please do let us know how you get on.

All the best,

Steve

About The ExP Group

We were born with one passion, with one aim, with one desire. To use technology the way it should be used. To use technology to open up education, and in particular financial education, to whoever needs it regardless of their income, wealth, race, sex, religion or location.

We wanted to use technology to empower individuals to develop themselves through financial expertise, organisations to improve their performance through enhanced human capital and ultimately communities and families to benefit as a result.

We're on target and since our birth we have had the privilege of working with and learning from inspirational individuals and organisations from all 4 corners of the world in countries as varied as the UK in the north, Singapore in the east, South Africa in the south and the Cayman Islands in the west.

We're only part way through our journey but we're doing better than we expected. The best is yet to come though,

Education+Technology=Ethical Empowerment.

Thank you for being part of our story.

01 Strategic Planning and Control

The Big Picture

This Paper is concerned with management accounting issues at a strategic level. It is built on issues and methods contained in Paper PM (formerly F5).

The main idea is that management accounting has experienced an upgrade in importance and status, given that its approach can be applied at "whole company" level with a time frame that extends well beyond the next financial/accounting/budgeting period.

It is therefore vital that all levels of management are well acquainted with these issues and that the senior management accountant is present at the strategy-planning process from the outset.

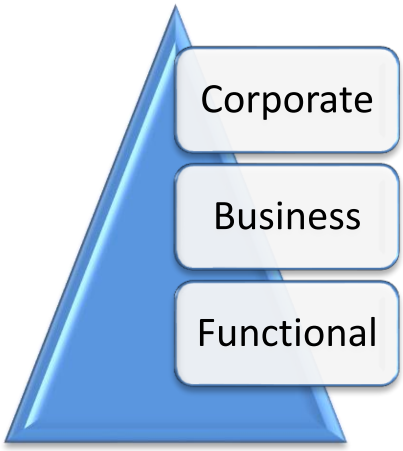
The management accounting discipline is therefore inseparable from the corporate planning processes at a company.

Here is a review of key concepts of the strategy-planning process:

Strategy: Various definitions exist but a straightforward view is "Strategy is a plan of action designed to achieve a particular goal".

Strategic planning: An organisation's process for ascertaining the strategy it should adopt, taking into account what they want to do, how they are going to do it and what resources they will need. Strategic planning covers where the organisation is planning on going, impacts on the whole organisation and involves the long-term view. Note the distinction in what is meant by "long term" (for example the "long term" is different when comparing the airline industry with the fashion industry.)

Strategy is made at different levels of the organization (recall Anthony's hierarchy):



Corporate strategy: covers the "big view" of the organisation. It answers the question "What business or businesses should we be in?

Business strategy: the strategy of a single business organisation or the strategies of strategic business units (SBUs)

Functional (or operational) strategy: the functional strategies involving items such as marketing, IT and HRM that support the business strategy.

It is useful throughout this paper to keep in mind the financial implications of strategic choices:

- Efficiency ratios (e.g. asset turnover, debtor days and creditor days);
- Gearing ratios (e.g. debt equity ratio);
- Liquidity ratios (e.g. current ratio and quick ratio);
- Profitability ratios (e.g. gross margin, operating margin and ROCE);
- Interest ratios (e.g. interest coverage).

Other analytical techniques covered in earlier papers (PM) are relevant to this paper.

Key Knowledge – SWOT analysis

Strengths (internal) e.g. resources and capabilities	**W**eaknesses (internal) e.g. lack of certain resources or capabilities
Opportunities (external) e.g. arrival of new technology	**T**hreats e.g. arrival of substitute product

Key Knowledge – Benchmarking

Definition

Systematic analysis of own performance against that of another organisation, with a view of improving own performance by learning from others' experience

Typology

- External:
    - Competitive: against a "best in class" competitor
    - Functional: against "best in class" functions
- Internal (against a "best in class" similar business unit within the organisation)

Steps

- Researching and identifying best-in-class performance (as recognised by the market and the authorities in the field)
- Selection, measurement and analysis of *key outputs* against best-in-class
- Identification of *key-causes* for the ascertained performance gaps and of the key-actions necessary to reduce such gaps.

Usefulness

- Targets set by benchmarking are seen as realistic and achievable, as they were already achieved by others
- It provides early warning of competitive disadvantages
- It stimulates cross-functional interaction and learning

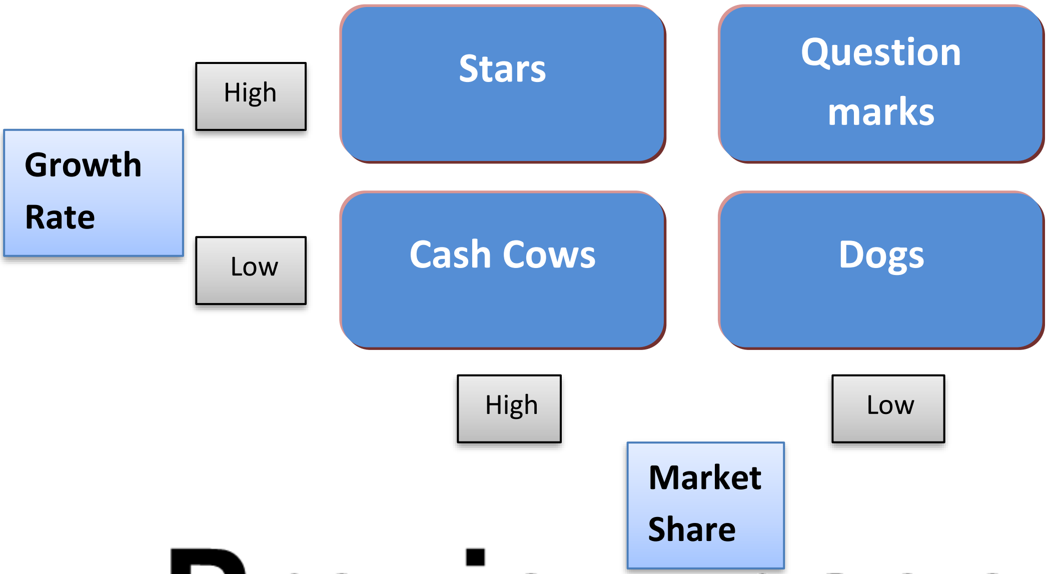
Limitations

- Identifying activities to meaningfully benchmark
- Identifying best-in-class performance and (for external benchmarking) obtain relevant information regarding that organisation

Key Knowledge – Boston Consulting Group (BCG) Matrix

This matrix helps organisations analyse their product lines or business units. It helps identifies priorities and where resources should be allocated.

Items are allocated to the various quadrants according to how attractive the market is (measured as the growth rate) and how strong a position they hold within the market (their market share)



A balanced portfolio would have:

1. Stars to ensure the future.

2. Question marks to convert to Stars.

3. Cash Cows to provide funding to develop the Stars and Question marks.

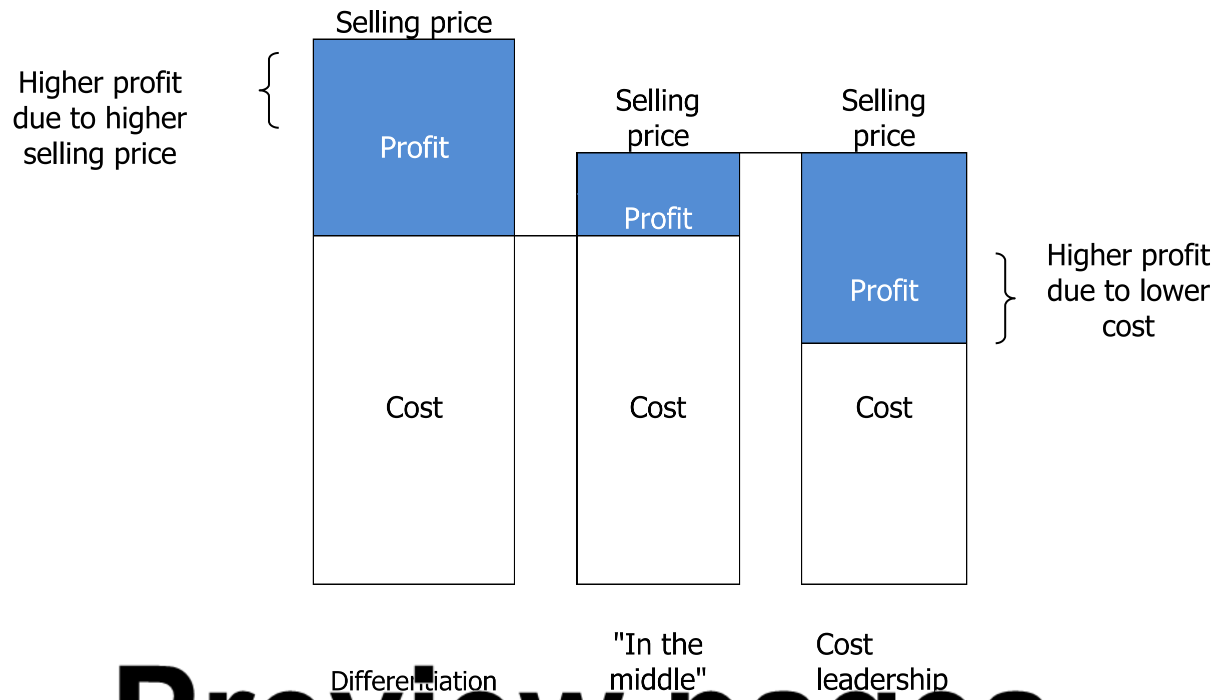
In APM, the model is used to determine the style of management that would be appropriate. For the starts and question marks, an entrepreneurial style of management that is always experimenting with product offerings in an attempt to gain market share would be appropriate. In cash cows and dogs, a more stable style of management, focussing on controlling costs might be appropriate.

Key Knowledge – Structural analysis of industries (Porter)

Porter's Generic Strategy

Porter identified 3 generic strategies that are commonly used by businesses to create and maintain competitive advantage:

- Differentiation
- Cost leadership
- Focus



1. Differentiation

This involves a product or service that is considered to be 'different' or unique within its industry. Due to these unique characteristics, the organisation can charge a premium. The uniqueness of the item could be based on a variety of things such as the design, technical features, support service, branding, etc.

Examples of companies that have used the differentiation strategy include:

- Apple computers, iphones and ipod.
- Land Rover off-road cars.

2. Cost leadership

This is where an organisation can produce goods or services at a lower cost than the industry average. Importantly, note that this does not mean lower quality.

Low cost production can be obtained by way of economies of scale, preferential access to raw materials or labour, access to extensive distribution channels, etc. The "cost leadership product" is often a basic good or service, which is made available to a large customer base.

Examples of companies that have used cost leadership strategies include:

- Dell computers
- Wall mart stores

3. Focus

This is where an organisation concentrates on a small number of niche markets.

Differentiation focus – an example would be a specialist holiday or tour operator (e.g. specialising in Skiing holidays).

Cost focus – an example would be a small chain of retailers that create their own label range of products.

See also Porter's five forces model in the section on environmental analysis.

Key Knowledge – Alternative budgeting models

Alternative budgeting models

The strengths and weaknesses of the various models in existence should be considered:

Fixed

- A fixed budget is not adjusted to the actual volume of output (activity level)

Flexible vs Flexed

The distinction is sometimes overlooked:

- Flexible: designed to change according to actual volumes of output; usually done before the start of the budgetary period as a sort of scenario planning;
- Flexed: This is done "after the fact" and is based on the actual level of activity achieved.

Rolling

A rolling budget is one that is revised on an on-going basis by comparing actual results with the original budget when one period has expired, while simultaneously adding a new period to the budget period.

Example

An annual budget which is kept rolling on a quarterly basis, for example, may start with an (original) January – December forecast. At the end of March, the entire budget is revised on the basis of the first quarter, and a new set of forecasts relating to April (current year) – March (next year) are prepared, i.e. always with a 12-month range into the future.

Zero-based (ZBB)

- Each year, budget owners must justify the entire budget (build it from zero)
- At odds with incremental budgeting (where only changes need justification, hence encouraging the "spend it or lose it" mentality)