



**APC**  
Accounting Practise Center

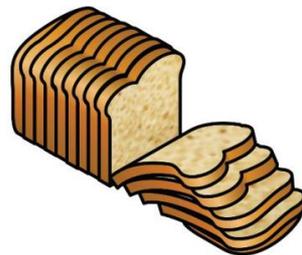
# **CIMA/CGMA**

# **Operational Case**

# **Study**

## **Free Starter Kit**

**Halfpenny**



**May/August 2025**

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# Introduction to the OCS exam



## SYLLABUS CONTENT

### Session 1: Exam

- Preseen and unseen; Marking

### Session 2: Exam Techniques

- Writing style; Planning your answer

## Topic 1: Exam

### Preseen and unseen

The preseen material case is called 'Halfpenny' company, all the exam questions (4 questions into 6 variants) would be based on this case information. You are required by the CIMA examining team to understand the Halfpenny business, and relevant real life industry experience.

You will be given different exhibit information on the exam day, and you **MUST** answer the questions required by the examining team, on the exam day, rather than conclude the Halfpenny case information on the exam day.

### Exam

The exam is 150 marks, and you must achieve 80 marks.

The exam is 3 hours, and it is split into 4 questions. Each question may contain multiple tasks such as writing email and report, but most questions will only include one task and several requirements.

May and August cases are based on 'Halfpenny', whilst Nov and Feb cases are based on another one.

### Your exam result

When you get your case study exam result you will see:

1. An overall grade (Pass/Fail).
2. A scaled score between 0–150 (80 or above represents a pass).
3. Feedback on your performance by each core activity (formerly sectional or competency feedback).

### Syllabus

For May 2025 exam onwards - Blueprints 2025-2026

### Marking

There is no rigid rules of marking the case study exam, the marking is based on 'merit', ie if the answer is reasonable, and it answers the requirement, you will get marks.

## Topic 2: Exam Techniques

### Exam tips

- About 8-12 paragraphs per question.
- The style of your answer should be: Point + Because.
- Each paragraph = 2 sentences (avoid single sentence).
- Equally divide total paragraphs for each requirement.

### Planning your answer

This is absolutely vital in the exam and make sure that when you read the question requirements in the preseen, you will directly copy the requirement in the unseen answer box. Do not use the scratchpad provided by CIMA, but rather directly plan your answer in the answer box.

Do not show the number for each of your paragraphs.

Make sure that you will also plan the deadline to answer each part of the requirement.

# Preseen Application

## Part 1



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### Your role and Company background

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<b>Company Type</b>	Industrial bread producer (packaged loaves & rolls)
<b>Founded</b>	1891 (Keeland); shifted to wholesale model in 1952
<b>Location</b>	Based in central Keeland, Europe
<b>Ownership</b>	Family-owned; currently run by Trey Halfpenny (MD) and Rosa Grimble (Sales & Marketing Director)
<b>Production Facility</b>	Single site (opened in 1985); centralised production for all products
<b>Distribution Centre</b>	Co-located with factory; opened in 1999
<b>Current Products</b>	Sliced packaged bread loaves and packaged bread rolls
<b>Recent Change</b>	Product range expansion under review due to slowing growth
<b>New Role</b>	Harry Chang appointed as Product Development Director
<b>Production Model</b>	Likely linear flow, suited to high-volume, low-variation production
<b>Strategic Risk</b>	Low product diversity, outdated factory layout, over-reliance on core SKUs/Stock Keeping Unit.

## When Bread Logistics Failed

In 2020, Allied Bakeries—owner of the prominent Kingsmill brand—closed its Orpington bakery, once a major production site in its national network. The decision was not prompted by reputational damage or a collapse in demand, but by something more systemic and preventable: the gradual erosion of operational competitiveness.



The Orpington site had become burdened with high fixed costs. Its machinery, building infrastructure, and workforce model were aging and lacked the flexibility of more modern competitors. Unlike Warburtons or newer entrants that had invested in modular production lines, predictive maintenance tools, and data-driven process controls, Orpington remained largely analog. Maintenance costs were high, responsiveness to variability in demand was low, and downtime issues accumulated over time—all quietly compressing margins.

But one of the more subtle, yet decisive, weaknesses lay in logistics strategy. Orpington's model was still heavily dependent on direct-to-store deliveries, an approach that had once been a strength—offering freshness and close retailer relationships—but had become logistically intensive and commercially obsolete. In this model, bread was distributed daily from the factory directly to hundreds of individual retail outlets, bypassing regional distribution centres. This created a logistical labyrinth: more vehicles on the road, more delivery routes to manage, higher fuel costs, and limited economies of scale in transportation.

Moreover, the fragmented nature of direct-to-store deliveries meant that inventory optimization was nearly impossible. It led to frequent mismatches between what stores needed and what was delivered. Overstock resulted in waste; understock risked lost sales. And given bread's perishability, these inefficiencies translated directly into financial leakage. Competitors, by contrast, had shifted to a hub-and-spoke logistics architecture, delivering in bulk to centralized distribution depots where inventory could be pooled, sorted, and dynamically allocated. This allowed them to consolidate transport, reduce last-mile costs, and gain better control over stock rotation—especially crucial for short shelf-life goods.

In Orpington's case, the cost burden of clinging to the direct-to-store model became unsustainable. When layered onto already-high fixed production costs and a narrow product portfolio heavily reliant on low-margin white and wholemeal loaves, the economics of the site no longer made sense. There were attempts at internal restructuring, but entrenched labor agreements and the physical limitations of the site rendered transformation impractical. The facility was eventually shut down.

## How Interstate Bakeries Failed to Evolve (Failed Product Portfolio)

Interstate Bakeries Corporation (IBC), once the largest wholesale bakery in the United States, is best known as the former owner of Wonder Bread and Hostess snack cakes. For decades, it was a dominant force in packaged bread and industrial baking, similar to companies like Halfpenny. But despite its scale and brand recognition, IBC collapsed—twice—due in large part to a failure in product portfolio strategy.



Former headquarters on Armour Boulevard in Kansas City (later the operations center).

During the early 2000s, consumer trends began shifting quickly. People were buying more whole grain, low-carb, and healthier bread options. Interest in artisan and organic products was growing. But IBC did not keep up. Its core offering—processed white bread—remained mostly unchanged. Wonder Bread was still widely distributed, but it was increasingly seen as outdated and nutritionally weak. While competitors responded with new product lines that aligned with health trends, IBC continued to promote the same white and soft wheat loaves it had sold for decades.

When IBC did attempt to innovate, it was slow and reactive. Its whole grain and health-oriented products were introduced late, lacked clear differentiation, and often underperformed. Internally, there was hesitation to shift away from long-standing bestsellers, and the company underestimated how quickly consumer loyalty was moving elsewhere. There were also missed opportunities to repackage or reposition its legacy brands for new demographics.

Financial pressure mounted. By 2004, IBC filed for bankruptcy protection, citing high labor costs, debt, and weak sales. It emerged from bankruptcy five years later as Hostess Brands, but the underlying issues remained. The company still lacked a clear product innovation strategy and remained overly dependent on traditional items like white bread and snack cakes. In 2012, it filed for bankruptcy again. This time, the company was liquidated. Its brands were sold off to different buyers, and its original structure was dismantled.

**Preseen:**

by 1952, the company no longer had its own stores and was entirely focused on the production of bread, which was sold to grocery stores in central Keeland.

## Consumer brand-building without physical retail presence.

In the industrial bread sector, where the average packaged loaf sits quietly on the shelf, often indistinguishable from its neighbors, Warburtons made a deliberate choice: to act like a consumer brand in a category that treated itself like a commodity. And they did it without owning a single store, without cafés, and without ever meeting the consumer face to face.



Their approach was calculated. Warburtons understood that visibility on a supermarket shelf is not a guarantee of attention—let alone preference. Retailers control the placement, but the battle for recognition happens in the consumer’s mind long before they reach the bread aisle. This is where most industrial bakers fail: they produce efficiently but disappear at the point of decision. Warburtons refused to accept that fate. They decided to compete on more than just freshness or price. They competed for emotional share of mind.

The company made bold marketing investments that would have looked excessive—even misplaced—on a P&L focused on sliced bread. But they weren’t misplaced; they were essential. Warburtons rolled out full-scale national advertising campaigns, often featuring high-profile celebrity partnerships—George Clooney, Peter Kay, and Sylvester Stallone among them. The point wasn’t just humour or novelty; it was strategic reframing. They positioned bread not as an afterthought, but as a daily ritual worth choosing, and their brand as a household name deserving loyalty. These were not product ads—they were identity ads. For a product sold in plastic, they were selling a perception: quality, warmth, reliability, family.



What made this strategy more impressive is that it operated without direct control over the sales environment. Warburtons didn’t own the stores, the shelves, or the checkout. Yet they built consumer affinity so strong that customers began asking for Warburtons by name, effectively creating pull pressure on retailers to stock and promote the brand. This reversed the power dynamic: Warburtons became not just another supplier, but an asset to the retailer’s bakery aisle.

To reinforce that loyalty, they also standardized brand presentation across formats—from everyday white loaves to gluten-free seeded products—ensuring visual cohesion and trust across segments. Consumers didn't need to taste each item to believe in its quality; the branding did that work.

In short, Warburtons built a consumer-facing brand without a consumer-facing platform, and in doing so, achieved what many industrial bakeries never attempt: they made themselves indispensable in a space dominated by private label pricing pressure. The marketing didn't just create recognition; it generated influence. It gave the company leverage in trade negotiations, resilience against retailer switching, and a brand moat in a market where most players compete only on cost and logistics.

In conclusion: perception can be more valuable than shelf space itself.

### **Preseen:**

*In 1952, Joseph invested in what was, at the time, state-of-the art machinery to slice and package loaves in Halfpenny-branded waxed paper.*

## **A Brand That Refused to Slice (functionally retired NOW)**

There was a time when **Mother's Pride** was one of the biggest names in British bread. In the mid-20th century, it sat proudly next to Kingsmill and Warburtons, holding its own as a trusted, familiar loaf across millions of homes. But by the early 2000s, the brand had almost completely vanished from major supermarket shelves. What happened wasn't just about changing tastes—it was about a company that refused to evolve, even as the rest of the industry sprinted ahead.



The key issue? Mother's Pride stuck stubbornly to an outdated product format. While competitors began slicing, sealing, and rebranding their loaves for modern consumers, Mother's Pride kept selling old-school, unsliced, loosely packaged white bread, like it was still 1965. For decades, this had worked. But by the 1990s, people wanted something else—bread that stayed fresh longer, came in clean, sealed packaging, and offered variety: thin slices for sandwiches, thick slices for toast, seeded options, gluten-free versions, and so on.

But Mother's Pride? It was like the relative who refuses to buy a smartphone—loyal to the past, allergic to change. The packaging looked dated, the product range was limited, and the bread wasn't even sliced. This might have passed in a corner bakery, but not in supermarkets where efficiency and shelf appeal rule. Buyers didn't want to deal with a product that couldn't keep up with the demands of modern retail: clear labeling, barcoding, health claims, freshness sealing, and consistent sizing. Mother's Pride couldn't—or wouldn't—meet those standards.

Behind closed doors, this was a known issue. Insiders at Associated British Foods, the company that owned the brand, reportedly debated whether to revive it with a modern look and product overhaul. But nothing meaningful

happened. The brand slowly lost its place—literally. Supermarkets dropped it to make space for faster-moving, better-presented loaves. Warburtons and Kingsmill came in with sharp, modern packaging, uniform slicing, longer shelf life, and actual brand stories. They were speaking the language of the modern shopper. Mother's Pride, in contrast, looked like a forgotten relic.

### **Preseen:**

*The early 1980s was a period of rapid growth for the company, principally due to the boom in supermarkets.*

## **How Supermarkets Crushed Kerry Foods' Chilled Meats Business**

In 2019, Kerry Foods, one of Ireland's biggest food companies, made a surprising move. After years of supplying the UK market with chilled deli meats—like sliced ham, cooked meats, pâtés, and sandwich fillings—it announced that it was shutting down the entire division. This wasn't a small part of the company; these were household brands like Denny and Richmond, with a long history in UK supermarkets. So why did Kerry pull out?

Over the years, UK retailers had tightened their grip on suppliers, especially those **dealing in low-margin, perishable goods**. For Kerry, this meant they were constantly under pressure to offer discounts and promotions, which the supermarkets demanded nearly all year round. And Kerry had to fund these discounts themselves—cutting into their own margins.



Things got worse when supermarkets began stretching out payment terms. What used to be a 45-day wait for payment became 75 or even 90 days. For a business like chilled meats—*where stock moves fast, and costs are high*—this caused a serious cash flow problem. Kerry was producing and delivering large volumes of goods, but waiting months to get paid, all while taking on the full financial burden of running promotions.

At the same time, **input costs were rising sharply**. Meat prices and energy costs went up, but supermarkets refused to accept price increases. Kerry had no choice but to absorb the cost inflation, which meant their profit margins kept getting thinner. They were trapped between rising costs on one side and immovable retail pricing on the other.

Inside the company, finance teams had been sounding the alarm for over a year. The chilled meats division, they warned, was becoming structurally unprofitable—even before any crisis or disruption hit. No matter how much volume they pushed through, the numbers didn't stack up. It wasn't just a temporary dip—it was a broken model.

Eventually, the leadership at Kerry made the hard decision: exit the category altogether. It was a shock to the industry. Kerry was no small supplier; it had scale, brands, and a reputation.

**But it came to a simple conclusion: you can't stay in a business where the customer sets your price, controls your promotions, delays your payment, and won't share cost pressures. The supermarkets held all the cards.**

Rather than fighting a losing battle, Kerry chose to **reallocate capital into higher-margin, more controllable businesses, like ingredients and functional nutrition, where they had stronger pricing power and more direct customer relationships.**

## Industry information about 'ingredients and functional nutrition'

### Profitability Comparison:

Industry Segment	Average Gross Margin	Key Characteristics
Industrial Bread (e.g. Halfpenny)	20-30%	Highly commoditized, price-sensitive, high spoilage
Chilled Meats (e.g. Kerry legacy)	15-25%	High production costs, low margins, short shelf life
Food Ingredients / Nutritional B2B (e.g. Kerry now)	40-55%	High technical barriers, customized, low substitutability

### Why Do B2B Markets Like Nutritional Ingredients and Food Components Generate Higher Profit Margins Than Traditional Consumer Products?

#### **High Specialization → Strong Pricing Power:**

Food ingredients are not generic commodities. They are often highly specialized, functional components with technical or nutritional value, such as:

- Plant-based proteins used in dairy alternatives
- Natural stabilizers that enhance texture or extend shelf life
- Vitamin blends formulated for sports nutrition

These products are typically developed for specific applications and customized to individual customer needs. Unlike sliced bread or deli meat, they are not interchangeable and are not easily benchmarked by end consumers. As a result, suppliers can defend their pricing, face less price competition, and build in higher margins.

#### **Customers are Branded Manufacturers → More Stable Commercial Relationships**

In the B2B ingredients sector, the primary customers are:

- Global food manufacturers (e.g. Nestlé, Danone, Coca-Cola)
- Health and wellness brands (e.g. protein bars, supplements)
- Clinical or medical nutrition companies

These clients tend to make purchasing decisions based on functionality, consistency, regulatory compliance, and long-term reliability — not just price. Contracts are more structured and typically span longer timeframes. Order volumes are more predictable, and commercial negotiations are more rational and less adversarial.

#### **In contrast, retailers like supermarkets tend to:**

- Demand yearly cost reductions
- Push promotional burdens onto suppliers

- Retain rights to return unsold goods
- Extend payment terms aggressively

This makes B2B ingredient sales more predictable and manageable, from both a margin and working capital standpoint.

### **Asset-Light Operations and Slower Inventory Turnover → Healthier Cash Flow**

Unlike perishable consumer food products such as fresh bread or deli meats, ingredients are typically sold in the form of:

- Stable dry powders
- Concentrated liquids
- Shelf-stable semi-processed inputs

These products are easier to store and transport, and their value doesn't degrade quickly. That means:

- No daily distribution pressure
- No short shelf-life losses
- No exposure to supermarket shrinkage or returns

This results in a more resilient, lower-risk operational model, which improves margin stability and reduces capital intensity. The company can manage cost structures more effectively, and cash flow is far less volatile.

### **Preseen:**

*In 1985, the company relocated its bakery to a new Production Facility. This has been expanded upon over the years but is still the location where all of the company's products are made. This is in central Keeland. The company also has a Distribution Centre, opened in 1999, which is located next to the Production Facility.*

## **3 Problems:**

### **Problem 1: Extreme Single-Site Dependency = High Operational Risk**

In the bakery industry, where daily delivery and freshness are critical, putting all production and distribution into a single site creates a single point of failure. If anything happens to that site—whether a fire, flood, power outage, equipment breakdown, labor dispute, food safety incident, or regulatory shutdown—the entire company's supply chain grinds to a halt.

Even a few days of downtime could trigger shelf space losses that are hard to win back - supermarkets may remove their products from the shelves and replace them with competitors.

### **Problem 2: Logistics Bottleneck Risk**

Having both production and distribution on the same site may seem efficient, but it introduces risk. If the local area (central Keeland) is affected by:

- Traffic congestion
- Weather-related transport delays

### **Problem 3: Outdated Site Risk — Aging Infrastructure and Capacity Constraints**

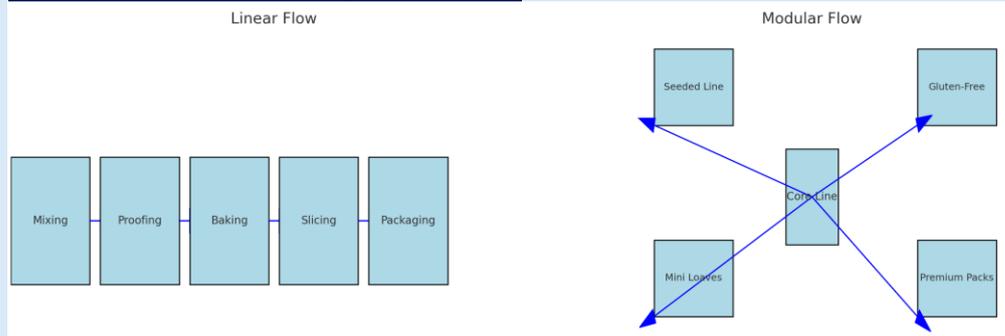
The facility was opened in 1985. That means it's approaching 40 years old. Even with expansions, many UK and EU food facilities built in that era face:

- **Layout inefficiencies** (e.g., linear rather than modular flow)

- **Energy inefficiency** (especially problematic with rising energy costs)
- **Capacity ceilings** (the plant may be at or near maximum output already)

Layout Type	Best For	Limitation
Linear	Mass production of few SKUs	Inflexible, hard to modernize
Modular	Mixed product, agile production	Higher capex but far more adaptable

#### **Example of how the layout works:**



#### **A Modular layout:**

For 4 different product lines:

- Standard white sandwich loaf
- Gluten-free bread
- High-protein seeded bread
- Mini loaves for kids' lunchboxes

1. Shared Base Processes (Core Line) - At the beginning of production, all loaves go through common base steps such as Ingredient storage and scaling, Mixing and dough preparation and Initial proofing (if applicable).

2. Once the dough is prepared, it is split into different product-specific modules: The standard loaf continues on the main baking and slicing line, optimized for high speed and volume; The gluten-free dough is transferred to a dedicated gluten-free baking module, physically separated to avoid cross-contamination. This module uses slower baking cycles and different molds.

3. Each module has its own packaging, labeling, and sealing system, designed for that product's needs: Gluten-free packaging highlights allergens and uses a tamper-evident seal; Mini loaves are wrapped in 4-pack bundles for school lunches.

#### **A linear flow layout:**

A linear flow layout means that production moves in a straight, fixed sequence — often from one end of the facility to the other — with each process step hardwired into place (e.g., mixing → proofing → baking → slicing → packaging). Designed for high-volume, single-product lines. However, it lacks flexibility, ie adding new products or changing batch sizes is difficult.

### **Preseen:**

Halfpenny currently produces a range of sliced packaged bread loaves and packaged bread rolls (the latter added in 1999). Until recently, senior management has focused on these core products, continually striving to improve taste, texture and shelf-life. Recently though, as a result of a slowing down in growth, consideration has been given to extending the product range. To this end, Harry Chang has recently been appointed Product Development Director.

## **Pros and cons of this:**

### **Good side:**

A standard industrial bakery strategy: **win on consistency, efficiency, and freshness**. Therefore, 'Harry Chang has recently been appointed Product Development Director' is a good strategic move.

### **Downside:**

The company is only now reacting to slowing growth by considering product range expansion — meaning the innovation function has likely been underinvested for too long. In fast-evolving food categories like bakery, this is dangerous.

Competitors like Warburtons and private labels have already moved ahead, developing:

- Gluten-free, high-protein, seeded, artisanal, low-carb, fortified and mini-portion breads.
- Lifestyle-focused lines (e.g. keto-friendly, sourdoughs, plant-based)
- Supermarkets are increasingly prioritizing variety and differentiation on shelves.
- **Rolls may be more profitable per unit**, but they're also crowded with private label options.

### **Rolls:**

Bread rolls (like burger buns, sandwich rolls, etc.) often:

- Higher price per kilo compared to standard sliced loaves
- More flexibility in pack sizes (e.g., 4-pack, 6-pack, 12-pack), which can create better perceived value
- Opportunities for seasonal or occasion-based pricing (e.g., BBQ season, school lunch boxes)
- Easy to produce — rolls are less differentiated than specialty breads.
- High rotation — consumers buy them frequently (lunches, BBQs, picnics).
- Better margins for supermarkets — they keep the profit in-house.
- Shelf control — retailers can easily adjust formats, pricing, and promotions.



### **Preseen:**

Halfpenny is still owned by the Halfpenny family and two of Paul's children now run the company: Trey Halfpenny, Managing Director, and Rosa Grimble, Sales & Marketing Director. The latest financial statements for the year ended 31

*December 2024 show revenue of K\$332 million, gross profit of K\$90 million, operating profit of K\$30 million and that the company had 2,208 employees*

## **Financials and Analysis:**

- Gross margin =  $90 / 332 = \sim 27\%$  → Consistent with industrial bakery norms, but nothing exceptional.
- Operating margin =  $30 / 332 = \sim 9\%$  → Healthy for a capital-intensive, low-margin category.
- Revenue per employee =  $K\$332m / 2,208 \approx K\$150k$  per head

### **Analysis:**

1. Labour-heavy processes (manual handling, slow changeovers, low automation)
2. Legacy employment contracts (inherited workforce size and structure from pre-digital era)
3. Limited digital integration (manual data capture, paper-based systems)
4. Possibly underutilisation, ie flat sales spread over a static workforce

# ONE Tipped Question – From Mock Exam



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## ***Tutorial note:***

The OCS examining team expects students to think about issues from the operational point of view, ie not considering the future direction of the business, or even how to manage the project which are from strategic and managerial level knowledge.

Therefore, the tipped question below reflects the exact OCS exam style, ie focusing on analysis of the operational data.

But please be aware that there are six variants in an exam, therefore, each exam sitting will cover a wide range of examinable areas. Our OCS course covers all the examinable areas with 'pre-learnt' paragraphs which helped students over the years to pass this paper easily.

## Tipped Question

The Senior Management Team (SMT) has requested a report on the performance of the NutriLoaf Production Facility for its first 3 months of operation. Attached are some of the variance analyses (Table 1) and some of the Key Performance Indicator (KPI) measures for the period (Table 2). I have been told that:

There were initial issues with the way in which some of the automated shaping and slicing machines were set up, resulting in damage to a portion of loaves during production. In November, the line was temporarily shut down to recalibrate the systems. Since then, the machines have been running, but at a slightly lower output rate than planned.

At the end of October, a new food processing plant opened near our production facility, offering significantly higher hourly wages. This led to several direct production staff leaving, and we had to recruit and train replacement employees.

Many ingredients for NutriLoaf, particularly specialty grains and imported seeds, were sourced from new suppliers. There were delays in receiving deliveries, causing production bottlenecks. To catch up, both direct and indirect staff were required to work unscheduled overtime.

There were quality control issues with initial suppliers of artisan loaf packaging and nutritional labelling materials, which caused rework and delays. These suppliers were replaced in November with more reliable ones, whose materials are easier to apply and meet compliance faster.

Currently, production-related KPIs are being reported to managers monthly (see Table 2). It has been suggested that it might be beneficial to introduce a real-time KPI dashboard.

Please prepare a report for the SMT which explains:

What each of the variances shown in Table 1 means and possible reasons for their occurrence, based on the information above and the KPI information in Table 2.

**(Sub-task a = 70%)**

The benefits to the managers of the NutriLoaf Production Facility of introducing a real-time KPI dashboard.

**(Sub-task b = 30%)**

Finance Manager  
Halfpenny

### Exhibit:

#### 1: Variances for the NutriLoaf Production Facility

##### October – December 2023

Variance	K\$	
Ingredient price variance	576,929	Favourable
Ingredient usage variance	446,121	Adverse
Direct labour rate variance	240,000	Adverse
Direct labour idle time variance	125,000	Adverse
Direct labour efficiency variance	138,226	Adverse

Variable overhead expenditure	164,160	Adverse
Variable overhead efficiency	77,961	Adverse

**Notes:**

Ingredients and packaging materials are classified as raw materials.

Idle time is not budgeted for.

SMT decided not to implement activity-based costing (ABC).

Variable overheads are absorbed on the basis of machine hours, particularly in slicing and packaging stages.

**2: KPIs for the NutriLoaf Production Facility**

**October – December 2023**

<b>KPI</b>	<b>Target</b>	<b>October</b>	<b>November</b>	<b>December</b>
% ingredients and packaging materials delivered on time	99.0%	99.4%	97.4%	98.8%
% scrapped loaves due to production issues	0.2%	2.1%	0.9%	0.4%
% idle machine time (e.g. slicing line downtime)	0.5%	0.7%	1.1%	0.4%

## How to approach the above question? – As Ideas rather than Full Answers

### **Variations**

Halfpenny's favourable K\$576,929 raw material price variance stems from switching to lower-cost suppliers in November, following quality issues with prior vendors. However, the adverse K\$446,121 usage variance reflects high waste caused by slicing and shaping faults, confirmed by KPI data showing elevated scrap in October and November. This mismatch shows how a procurement win can be offset by production inefficiencies.

Labour cost issues were driven by external wage competition, forcing Halfpenny to offer higher pay (K\$240,000 adverse rate variance). Meanwhile, idle time (K\$125,000) and efficiency (K\$138,226) variances arose from robot recalibration delays and onboarding new staff. Manual intervention and learning curves slowed productivity, with some recovery only visible by December.

The K\$164,160 adverse variable overhead expenditure reflects extra energy, overtime, and maintenance from running extended shifts to recover output lost during equipment downtime. These costs highlight Halfpenny's lack of operational flexibility and overreliance on reactive cost recovery measures.

The efficiency variance (K\$77,961 adverse) shows robots consuming more time per unit, likely due to recalibration-induced slowdowns. Without real-time control, inefficiencies linger and escalate costs. In a short shelf-life environment, sluggish response to line underperformance risks both profitability and delivery reliability.

### **Value of a Real-Time KPI Dashboard**

A real-time KPI dashboard would let managers monitor wastage, idle time, and slicing errors instantly—enabling intervention before inefficiencies escalate. This would have helped reduce Q4 losses by triggering faster responses to robotic downtime or ingredient delays.

Beyond responsiveness, shared dashboards promote cross-functional alignment. Finance, operations, and procurement would gain joint visibility into supplier performance, cost drivers, and labour productivity. This enhances accountability, enables root cause analysis, and drives ongoing cost control and quality improvement.

# Top 4 Likely Scenarios



## ABC

This could involve the finance team being asked to review profitability data for newly launched niche products, such as rustic or seeded loaves, following concerns from the marketing director that internal reports understate their performance. Halfpenny's existing absorption costing system, which spreads overheads uniformly across batches, fails to reflect the higher handling, allergen segregation, packaging, and labour inputs required for these SKUs. In a case where these products show strong market uptake but weak reported profit margins, candidates may be asked to explain why this disconnect exists and to propose a more accurate costing approach — such as Activity-Based Costing — to allocate overheads based on true cost drivers. A twist could involve assessing a proposed SKU that introduces allergen risks or uses premium ingredients, requiring you to address indirect cost complexity and traceability under the revised system.

## Inventory management AND shut down decision

The exam could present a scenario where Halfpenny's centralised production facility is temporarily shut down due to a localised flood, halting both manufacturing and distribution. Candidates would need to evaluate how this single-site dependency creates a critical vulnerability in fulfilling supermarket orders, potentially breaching supply agreements and resulting in delisting or shelf-space losses. Given the just-in-time flour delivery system, lack of backup silos, and high perishability of baked goods, the working capital impact would be immediate — unsold goods, missed invoices, and rising payables. The examiner may ask for short-term solutions, such as outsourcing to contract bakeries, exploring emergency insurance claims, or stress-testing cash flows for business interruption planning. This scenario would test a candidate's ability to connect operational fragility to financial exposure and quick decision-making under disruption.

## Variance

There might be a case that Halfpenny is considering launching a seeded, gluten-free loaf under a new supermarket contract, but finance is concerned about the cost implications. Given the risks of allergen cross-contamination and regulatory scrutiny, the question would centre on how to account for the additional setup, deep cleaning, staff training, and labelling compliance in the annual budget. Candidates would need to show how these indirect costs distort standard batch assumptions, and why they must be captured through separate cost centres or activity-based planning. The examiner could include a twist: comparing the flexible budgeting requirements for allergen vs. non-allergen lines, or analysing cost trade-offs between running such SKUs more frequently versus isolating them into weekly batches. This scenario bridges P1 budgeting and cost allocation with E1 regulatory requirements — highly examinable.

## Various topics

A scenario may depict the operations director proposing a shift from Halfpenny's inefficient direct-to-store delivery model toward a regional hub-and-spoke system, following rising fuel costs and missed delivery windows. The examiner could provide data showing high fixed labour costs in distribution, alongside fragmented deliveries to small and large retailers. Candidates would be asked to analyse whether consolidating deliveries through regional depots could reduce spoilage, improve route efficiency, and lower per-unit distribution costs — all within the constraints of Halfpenny's own fleet and aging logistics systems. The unseen could also raise investment decisions: should Halfpenny lease warehouse space or outsource the last-mile leg? This invites application of short-term cost-benefit analysis, working capital planning, and consideration of carbon footprint implications for ESG-linked positioning.