

General Certificate of Education
June 2007
Advanced Subsidiary Examination



BUSINESS STUDIES
Unit 2 and Unit 3

BUS2/3/PM

Case Study

To be distributed to candidates no sooner than Thursday 1 March 2007

NOTICE TO CANDIDATES

You will be given **one** copy of this Case Study for use during your preparation for the examination, which you may annotate as you wish, but which you will **not** be allowed to take into the examination.

You will be provided with a clean copy of the Case Study, along with the question paper, for use in the examination.

You are advised to carry out your own research using this Case Study. It is the business concepts and ideas raised by the Case Study which should be researched.

Your teacher is encouraged to give assistance and advice as required.

Jeremy's media empire

Section A – The beginning

It all started as a piece of coursework for Jeremy's A level business studies course. Jeremy was editor of his college magazine and wrote articles for the local newspaper. He wanted to create a magazine for teenagers. His primary market research within the college suggested that this was an opportunity that could succeed. Jeremy discovered some secondary research on magazines, showing the types of article preferred by different age groups (see **Table 1**). This confirmed Jeremy's view that the magazine should focus on articles concerning music, fashion, sport, celebrities, entertainment, puzzles and computer games.

Table 1: Popularity of magazine article categories, by age groups

Key: Level of popularity: H = High; M = Medium; L = Low

Category of article	Age groups				
	15–19	20–29	30–39	40–49	50+
Celebrities	H	H	L	M	M
Computer games	H	M	L	L	L
Entertainment	M	L	M	M	H
Fashion	H	H	M	M	L
Music	H	H	M	L	L
Puzzles	H	L	L	L	H
Short stories	L	L	M	H	H
Sport	H	M	H	M	L

Source: Research by *Omnibus Market Research plc*, July 2001

Although girls tended to read one half of the magazine and boys the other half, Jeremy was reassured by his contacts at the newspaper that this was fine. As long as the individual features were attractive to the gender targeted, the magazine did not need to have one underlying theme.

Jeremy did not have the resources to print a magazine and so he decided to use his computing skills to establish an internet magazine. Initially, there were three people on the team: Jeremy and his girlfriend Kate wrote the articles, while their friend Sam provided cartoon strips and the occasional amusing articles.

The magazine was aimed at students at the college and was so popular that fellow students asked whether they could place advertisements in it. In an attempt to limit the space taken by advertisements, Jeremy started to charge for advertising space. Almost by accident, the magazine was turning into a useful money earner for Jeremy, who operated as a sole trader.

Section B – National interest

The Editor of the local newspaper asked Jeremy to write an article about his internet magazine and, subsequently, the article was reprinted in other regional newspapers. Jeremy started receiving feedback from all over the country. The real turning point occurred when a number of fan sites appeared praising the virtues of this new magazine. Jeremy received a letter from Polar plc, a soft drinks company, asking whether it could invest in the magazine.

Polar plc was particularly keen on improving the technical aspects of the magazine, so that a subscription-based national internet magazine could be launched. Polar plc also wanted to introduce a printed version. In October 2002, Jeremy and Polar plc signed an agreement whereby Polar plc agreed to provide financial backing in return for a majority shareholding in a new private limited company to be called *Smile Magazines Ltd*.

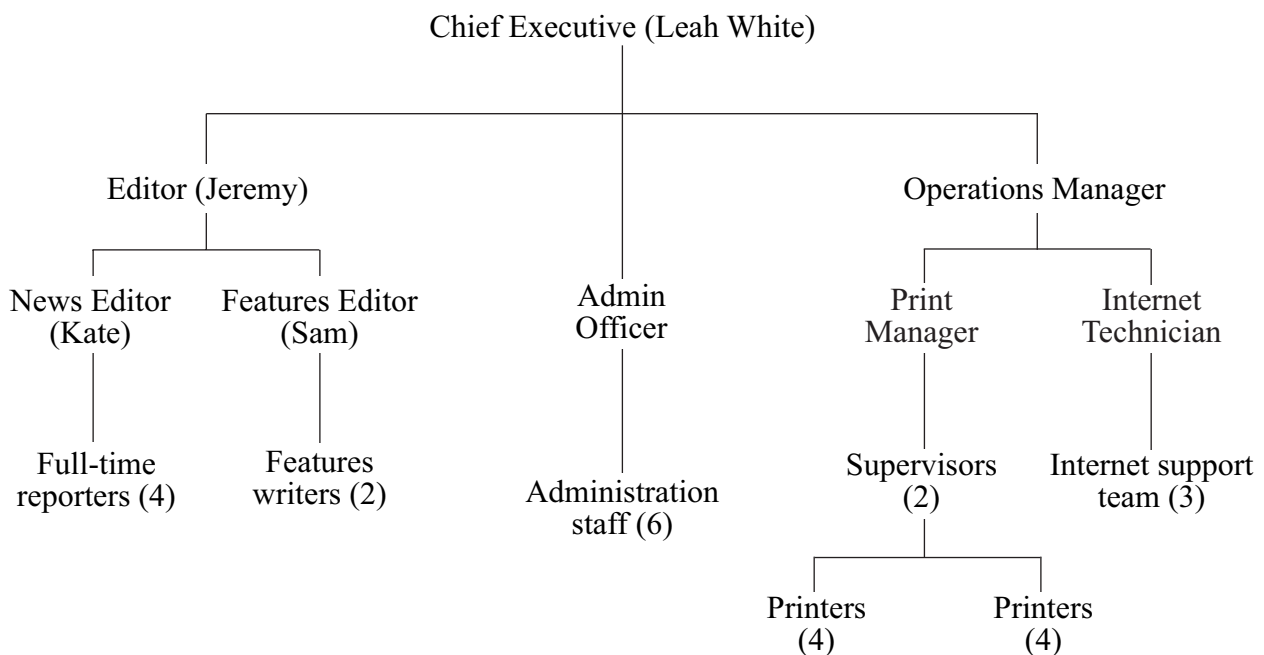
Table 2: The division of shareholdings within *Smile Magazines Ltd*.

Name of shareholder	Percentage shareholding
Polar plc	52 %
Jeremy	20 %
Kate	14 %
Sam	14 %

It was agreed that Jeremy would act as Editor for both the weekly subscription-based internet version of the magazine and the weekly printed version which would be launched in January 2003. More significantly, the agreement allowed Polar plc to appoint a Chief Executive, Leah White, who would oversee the business activities of *Smile Magazines Ltd*. Although Leah was not allocated any shares in the business, the agreement set out her financial rewards. These consisted of a high salary plus a very generous bonus based on profits.

Within two years, the magazines had become so successful that the firm was employing 33 full-time staff and using a number of freelance reporters and writers. The organisational structure of the business is shown in **Figure 1**.

Figure 1: Organisational structure of *Smile Magazines Ltd*, 31 December 2004



Section C – Expansion

After two more years, the business was well established and recorded high levels of profit for the financial year ending 31 December 2006, with all four shareholders receiving large dividends.

Jeremy had never liked the fact that Leah had been appointed as Chief Executive. Whilst Jeremy encouraged delegation and consultation, Leah's leadership style was more authoritarian. Jeremy objected to her large bonus, believing that it was the success of the journalism that provided the profits for the company. In response, Leah argued that it was the efficiency of the operations that created the high profit levels (see **Table 3**).

Table 3: Average cost per printed magazine – *Smile Magazines Ltd*.

Year	Average cost per magazine
2004	50 pence
2005	40 pence
2006	32 pence

Sam's cartoons were receiving wide acclaim and he argued that he should hold the copyright for the cartoons. This discussion was resolved amicably when it was decided that Sam would retain ownership of copyright, in line with the policy applied to the journalists who provided the articles for the magazines.

Jeremy and Kate's jobs had changed, taking them away from direct involvement in the actual writing of items for the magazines. They kept in touch through membership of a number of matrix management projects, notably projects on new product development and new target markets. Furthermore, each kaizen group within *Smile Magazines Ltd* was chaired by either Jeremy, Kate or Leah.

Since 2004, the organisational structure had changed very little. However, the growth of the internet magazine meant that there were now 10 internet support team members reporting directly to the Internet Technician. The Printing Department had undergone some rationalisation and delayering. Two printers and the two supervisors had been made redundant. The remaining six printers now reported directly to the Print Manager. This meant that the Operations Division had relatively few levels of hierarchy, but wider spans of control. Any difficulties were overcome through extensive use of delegation, although the need for quick decisions sometimes limited the opportunities for close consultation and led to decisions being taken in an authoritarian manner.

On-the-job training was encouraged so that the business and its staff could develop their skills. Furthermore, each employee was required to spend a minimum of 10 days per year on off-the-job training, mostly at Polar plc's training centre. Employees were encouraged to develop a range of skills so that they could cover for absent colleagues and undertake tasks as and when the need arose.

In the Printing Department, in order to overcome the co-ordination problems arising from the wider spans of control, the printers adopted a form of cell production and were given total responsibility for the completion of a particular section of each edition. A further benefit of job enrichment and enlargement was noticed in the kaizen groups that met regularly. Most members of staff had tremendous insight into the whole range of activities within the organisation.

The majority of workers were younger than 30 years of age. This decision was agreed between Leah and Jeremy in order to recruit a workforce that understood its target market. Whilst Jeremy continued working on the teenage magazines, Leah was leading the matrix group that was investigating opportunities for the introduction of two new magazines, one appealing to 20–29 year-old customers and the other targeted at those in their 30s.

Leah's plan was eventually to move writers into the production of the magazine that was most closely related to their own ages. Research had revealed that the 20–29 age group was the most brand loyal but that those aged 30–39 bought more magazines per head and were prepared to pay higher prices for magazines.

Section D – The Magazine Market

The internet magazine market was competitive, with many small firms. However, the UK printed magazine market was dominated by two very large firms who shared over 50% of the market. Even with Polar plc's financial backing, it was going to be difficult for *Smile Magazines Ltd* to match the economies of scale gained by such competitors. Another issue was the large number of printed magazine titles. There had been a huge increase in the number of printed magazines in the final years of the 20th century. Although this had been followed by a declining readership in the early years of the 21st century, caused partly by customers reading internet alternatives, the number of printed magazines in the market remained high.

Section E – Problems arising

From 2004 onwards, tensions between staff were caused by the relative success of the internet magazine in comparison to the printed version, as the printers felt that their jobs might be lost. The company adopted a policy of internal recruitment, wherever possible, and so the tensions were eased somewhat by a policy of retraining staff to work on the internet magazine from amongst those being cut back from the printed magazine.

A more serious issue for Jeremy was the frequency with which members of the internet support team were being recruited by competitors taking advantage of the superb training by his organisation. "We just cannot match the wages offered by some of our competitors," moaned Jeremy, as another key worker handed in her resignation. "We seem to be training staff to work for our competitors."

The problems facing the business encouraged Jeremy and Leah to look closely at the overall aims of the business. Previously, the organisation had just focused on growth, but they decided to change the emphasis of the business. Jeremy was keen on introducing aims linked to improving the welfare and independence of the workforce whilst also rewarding the main shareholders. Leah wanted aims that emphasised social responsibility by way of community projects. Leah also wanted a primary aim to be the achievement of ethical behaviour, for example, through the use of paper from renewable forests. Both Jeremy's and Leah's suggested aims were agreed.

Section F – Facing the changes

Tensions between Leah and Jeremy increased further when Leah indicated that she was investigating the feasibility of relocating the printing to Spain. The business's two main competitors had both recently set up printing plants overseas and both had cut prices by 15% as a result. This had seriously damaged sales for the *Smile Magazines Ltd* print magazines, particularly as the competitors were now using new technology to produce higher quality print. Leah had reacted quickly by also cutting prices by 15% to restore sales, but this had been at the expense of profit margins.

In order to improve quality, the Printing Department had moved from a system of quality control to one of quality assurance, in March 2007. The new approach to quality was opposed by the Print Manager, who argued that new machinery was the best way to improve quality. There were a number of teething problems with the new system during the introduction period. These problems followed on from the disruption to production in February caused by the need to train the workers who would operate the new system. By May 2007, however, the new system seemed to be operating more effectively and Leah gathered together some data to examine the impact of the new approach to quality. **Table 4** shows the data collected.

Table 4: Measures of quality performance for the printed magazine at *Smile Magazines Ltd*; January 2007 to May 2007

Quality indicator	Jan 2007	Feb 2007	March 2007	April 2007	May 2007
Wastage rate (%)	2.2 %	3.0 %	5.0 %	4.2 %	2.6 %
% of deliveries on time to retailers	93 %	88 %	92 %	98 %	98 %
Average retailer satisfaction rating (maximum = 10; industry mean = 7)	7.7	7.4	7.7	8.0	8.5
Print quality rating (maximum = 10; industry mean = 8)	5.5	5.5	5.5	5.5	5.5

There had also been difficulties within the local community. Local residents had submitted a petition and organised protests, claiming that their sleep was being disturbed by lorries delivering materials and picking up finished magazines throughout the night. The business had also come into conflict with suppliers. The factory expected just-in-time deliveries 24 hours a day, but a growing number of suppliers argued that their contracts excluded night-time deliveries. In some cases, contracts to supply had not been renewed by *Smile Magazines Ltd* and the company was finding it more and more difficult to find suppliers.

There was, however, some concern relating to quality. In media terms, the quality of the magazines was high and customer feedback indicated improving levels of satisfaction with the articles and features. However, the public view of the internet version of the magazine had changed dramatically. When first introduced in 2002, the technical quality of the internet magazine had been the company's greatest asset. However, it had not kept pace with technological changes and, in 2007, the internet version of the magazine suddenly lost sales to some of its competitors. Customers considered it to be technically inferior to its competitors, lacking some of the special effects and computer wizardry being used by rival internet magazines. Sales of *Smile Magazines Ltd* were beginning to make depressing reading (see **Table 5**).

Table 5: *Smile Magazines Ltd* sales, 2002 – 2007

Year	Average weekly sales of internet magazine (thousands)	Average weekly sales of printed magazine (thousands)	Average weekly sales – Total (thousands)
2002	10	-	10
2003	14	18	32
2004	20	44	64
2005	42	44	86
2006	69	30	99
2007 (1st quarter)	56	27	83

Faced with falling morale in the business, Leah and Jeremy got together to discuss ways of improving motivation in the business (see **Table 6**).

Table 6: Suggestions for improving motivation within *Smile Magazines Ltd*

Jeremy	Leah
Suggestions box. The best ideas would be turned into projects led by the person suggesting them.	Piecework payments made to those who produced the magazines. Profit-sharing for providers of news and articles and for managerial staff.
Job enrichment. Opportunities would be provided to work in other areas of the business and to take on greater levels of responsibility.	Management consultants would be used to decide on the best way for workers to complete a task.
Employee of the month award. The winners would receive a trophy and have their names publicised in the company newsletter.	Precise instructions to workers on how each job must be completed in order to maximise efficiency.

Section G – Leah changes

The company received a number of benefits from its close links with Polar plc. Polar plc was always aware of proposed changes in UK or European law and would advise Leah on any potential difficulties arising as a result of new laws. The UK government was discussing stricter regulation of recycling and recycled materials and Leah recognised that these proposed new laws would lead to a considerable increase in the costs of production. The Polar plc experts recommended that *Smile Magazines Ltd* should consider Leah's proposal to relocate its Printing Department away from the UK. Polar plc's team had investigated printing in Spain, where legislation on recycling was less strictly enforced, and encouraged Leah to look in this direction.

This advice was reinforced by the announcement by the UK government that the minimum wage would be increased significantly. The minimum wage in Spain was less than half that of the UK and Leah became quite excited about the prospect of creating a brand new factory producing high-quality magazines at very low cost. Given her previous stance on the need for ethical behaviour, Jeremy was surprised that Leah wanted to take advantage of the relatively low wage levels in Spain.

Jeremy, Kate and Sam refused to consider this option, maintaining that the business should remain loyal to its workforce and suppliers. In the early days of its existence, the magazines had survived because workers had agreed to work overtime without additional pay to help the business. Some of the long-established suppliers had also agreed to provide long credit terms to help *Smile Magazines Ltd* get over its early difficulties. Furthermore, 24 of the 33 staff employed in 2004 were still working for the company. The three founders saw this as tremendous loyalty that should be rewarded. Leah was not so sure, "Everybody is getting older together – maybe we need to shake things up, to avoid complacency." Jeremy argued strongly that there were plenty of new ideas coming into the business, aided by their policy of selecting staff in their teens and in their 20s. Leah had expressed concern about this policy. "I know it helps on the creative side, but we need to be careful. We've been accused of breaking the law on age discrimination." Jeremy, Kate and Sam knew that, if it came to a vote, Leah could rely on Polar plc's 52% shareholding to out-vote them, as Polar plc had always supported Leah when disagreements on strategy had arisen.

Section H – A new strategy

Leah and Jeremy continued to investigate the feasibility of introducing additional magazine titles and reaching new target markets. Detailed market research in Eire revealed that Irish consumers had very similar tastes to UK magazine readers. In June 2007, Leah and Jeremy agreed to extend distribution of the printed magazines into Eire.

The introduction of an additional internet and printed magazine aimed at a different age range to their current teenage market had been planned for Autumn 2007. Leah and Jeremy were focusing their attention on consumers in their 20s and 30s, but they gathered data from Polar plc's Market Research Department on a number of alternative age ranges, in order to plan their long-term strategy. The forecast data gathered are shown in **Tables 7 and 8**.

Table 7: UK economic forecasts (selected forecasters)

Year	Real GDP growth %	Unemployment %	Inflation %	Interest rates %	£/€ exchange rate	Real growth in consumer spending %
2007	2.6	4.7	2.0	4.5	€1.40	3.8
2008	3.3	4.2	2.0	4.75	€1.51	3.6
2009	3.4	3.8	2.1	5.0	€1.55	3.5

Table 8: Forecast growth in consumer spending – different age groups

Year	% growth in real consumer spending	% growth in real consumer spending Ages: 15–19	% growth in real consumer spending Ages: 20–29	% growth in real consumer spending Ages: 30–39	% growth in real consumer spending Ages: 40–49	% growth in real consumer spending Ages: 50+
2007	3.8	5.5	1.6	4.6	2.7	2.8
2008	3.6	5.3	1.6	4.3	2.5	3.1
2009	3.5	5.2	1.8	3.9	2.0	3.3
2010	3.2	5.5	1.9	3.7	1.6	3.9
2011	2.8	5.8	2.0	4.7	1.3	4.7
<i>Age group as a % of total UK population</i>		<i>6.2%</i>	<i>12.6%</i>	<i>15.5%</i>	<i>13.4%</i>	<i>33.4%</i>

Jeremy, Kate and Sam were still the driving forces behind the content of the magazines. Leah suggested that the four of them get together to plan the development of *Smile Magazines Ltd* over the next few years.

END OF CASE STUDY

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