



General Certificate of Education  
Advanced Level Examination  
January 2013

## Business Studies

## BUSS3

### Unit 3 Strategies for Success

Tuesday 15 January 2013 9.00 am to 10.45 am

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

**Time allowed**

- 1 hour 45 minutes

**Instructions**

- Use black ink or black ball-point pen.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is BUSS3.
- Answer **all** questions.
- Do all rough work in your answer book. Cross through any work you do not want to be marked.

**Information**

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

## Formulae for Financial Ratios

| Financial ratio  | Formula  |
|--|--|
| <b>Current ratio</b>   | current assets : current liabilities   |
| <b>Acid test ratio</b>   | liquid assets : current liabilities<br>Where liquid assets are current assets – inventories (stock).   |
| <b>Return on capital employed % (ROCE)</b>                             | $\frac{\text{operating profit}}{\text{total equity + non-current liabilities}^{**}} \times 100$<br>** Where this equals capital employed.        |
| <b>Asset turnover</b>  | $\frac{\text{revenue}}{\text{net assets}}$   |
| <b>Inventory (stock) turnover</b>                                      | $\frac{\text{cost of sales}}{\text{average inventories (stock) held}}$   |
| <b>Payables (Creditors) days</b><br>(Payables** collection period)     | $\frac{\text{payables}^*}{\text{cost of sales}} \times 365$<br>* Payables = creditors throughout this formula.                                   |
| <b>Receivables (Debtors) days</b><br>(Receivables** collection period) | $\frac{\text{receivables}^*}{\text{revenue}} \times 365$<br>* Receivables = debtors throughout this formula.                                     |
| <b>Gearing</b>   | $\frac{\text{non-current liabilities}}{\text{total equity + non-current liabilities}^{**}} \times 100$<br>** Where this equals capital employed. |
| <b>Dividend per share (in pence)</b>                                   | $\frac{\text{total dividends}}{\text{number of issued ordinary shares}}$   |
| <b>Dividend yield (%)</b>  | $\frac{\text{ordinary share dividend (in pence)}}{\text{current market price (in pence)}} \times 100$  |

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Read the **case study** and answer **all** the questions that follow.

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## Roberts Media plc

### Introduction

*Roberts Media plc* is a publisher of a range of well-established upmarket fashion magazines. It has strong links with luxury fashion houses such as Prada and Armani, whose products are featured prominently in the magazines and who also provide a significant source of advertising revenue. *Roberts Media plc's* customer base is predominantly affluent, 45 to 54 year-old women.

However, the readership of the magazines has fallen in the past two years for the following reasons:

- a general decline in the luxury magazine market during the economic recession
- competition from cheaper rival magazines
- consumers switching to digital media.

As a consequence of falling sales, *Roberts Media plc's* profits fell by 12% in 2011. This resulted in a fall in the share price and the appointment of a new Chief Executive, Harry Gardner, in January 2012. Harry's previous job had been as Marketing Director for a well-known, successful media business that included a national newspaper, magazines and a subscription television channel. The success of this business was based on targeting lower income groups and its publications are focused mainly on sport and celebrity gossip. It is able to undercut its competitors with low prices, enabled by a ruthless approach to achieving high levels of efficiency. As Chief Executive of *Roberts Media plc*, Harry has been set the objective of improving the company's return on capital employed (ROCE) to at least 8% by 2014.

### The proposed strategy

Harry is aware of the recent rapid rise in the number of visitors to the websites of national newspapers. This is due to increased broadband access, combined with the rising popularity of smartphones and tablet computers such as the iPad. An industry report has revealed that monthly visitors to UK news and information websites is forecast to rise to 50 million by 2013. Furthermore, the market value of the UK women's print magazine market is predicted to fall from £450 million in 2013 to £380 million by 2015.

As a result of this, Harry believes that the future of the newspaper and magazine industry will be in digital rather than print format.

Harry's proposal to achieve the objective of increasing the ROCE of *Roberts Media plc* consists of the following elements:

- to convert all of *Roberts Media plc's* magazines from a print to a digital only format
- to change to a more flexible workforce and relocate the head office
- to close the printworks and distribution network.

The new digital magazines would have the following features.

- The content would focus on health and beauty, fashion and celebrity gossip.
- Selective online content would be free but full access would be available only on a subscription basis.
- Subscribers would enjoy additional features such as video clips, podcasts and discussion forums.

Turn over ►

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Harry commissioned primary research (**Appendix A**). Based on this, Harry decided that the subscription price per magazine would be set at £5 per month. Access for smartphones and tablet computers would be via an app. In order to obtain this app, subscribers would have to complete a questionnaire providing details of their occupation, income and lifestyle, which would be stored on the company's customer database. Sources of revenue for each magazine would be from subscriptions and advertising.

The task of developing a marketing plan for the digital magazines is proving to be problematic. Harry wants to set a target of two million subscribers by 2015 – a target that Lisa, the Marketing Director, feels is overly ambitious. The marketing department had previously won awards for the way it promoted the print magazines, but was concerned that the new technology would require a very different approach. Lisa argues that a significant marketing budget would be the most important component of the marketing plan, as it is essential for there to be more detailed market research, retraining of sales staff and an extensive promotional campaign to announce the launch of the digital magazines. However, Harry disagrees about the importance of the marketing budget and is reluctant to provide additional funds. Lisa has informed Harry that many of *Roberts Media plc*'s rivals were also launching their own digital magazines within the next six months and had already started their marketing campaigns.

As part of his proposal, Harry also wants to make radical changes to the way the business is run. He intends to change to a more flexible workforce. This will consist of a smaller number of 'core' workers combined with 'peripheral' workers employed on a part-time or temporary basis. Harry also proposes to relocate the head office to a smaller, cheaper location in Manchester and to encourage more employees to work from home.

Operationally, the proposed change to the digital format means that the company will no longer need its printworks and distribution network. The closure of the printworks, as well as the change to a more flexible workforce, will result in many employees being made redundant. Traditionally, the business has consulted with the trade union on issues such as this through a well-established Works Council. Generally, this has resulted in effective employer/employee relations, but the trade union has been prepared to take industrial action when it felt it was necessary. Harry considers that the previous management offered too many concessions. He intends to inform the trade union of his decisions rather than consult with it.

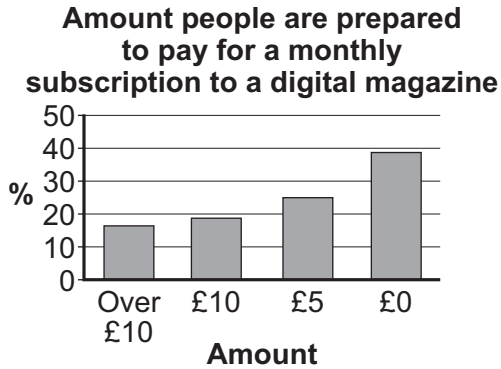
Harry believes that, if his proposal goes ahead, the digital magazines must be launched in less than 24 weeks' time, in order to coincide with London fashion week. A significant number of fashion houses have placed contracts for advertising throughout the first year of publication, as long as the company meets this deadline.

Harry is keen to reach a quick decision about his proposal and has organised a meeting with the Directors of *Roberts Media plc* next week to discuss this.

## STATISTICAL APPENDICES

### Appendix A: Marketing data

Primary research findings (Source: Sample of 300 women)



### Forecast number of subscribers to digital women's magazines 2013–2015

| Year                  | 2013      | 2014      | 2015       |
|-----------------------|-----------|-----------|------------|
| Number of subscribers | 3 million | 5 million | 10 million |

### Appendix B: Roberts Media plc – Financial Information

Selected ratios for years ending 2011 and 2012

|               | 2011  | 2012  |
|---------------|-------|-------|
| ROCE          | 10%   | 2%    |
| Gearing       | 25%   | 20%   |
| Current ratio | 1.5:1 | 0.5:1 |

### Forecast financial data for the print and digital options 2013

Extracts from the income statement for each option

|              | Print (£m) | Digital (£m) |
|--------------|------------|--------------|
| Gross profit | 200        | 175          |
| Expenses     | 128        | 31           |

Extracts from the balance sheet for each option

|                         | Print (£m) | Digital (£m) |
|-------------------------|------------|--------------|
| Total equity            | 2880       | 2880         |
| Non-current liabilities | 720        | 320          |

Source: figures provided by Harry Gardner

Turn over for Appendices C and D and Questions

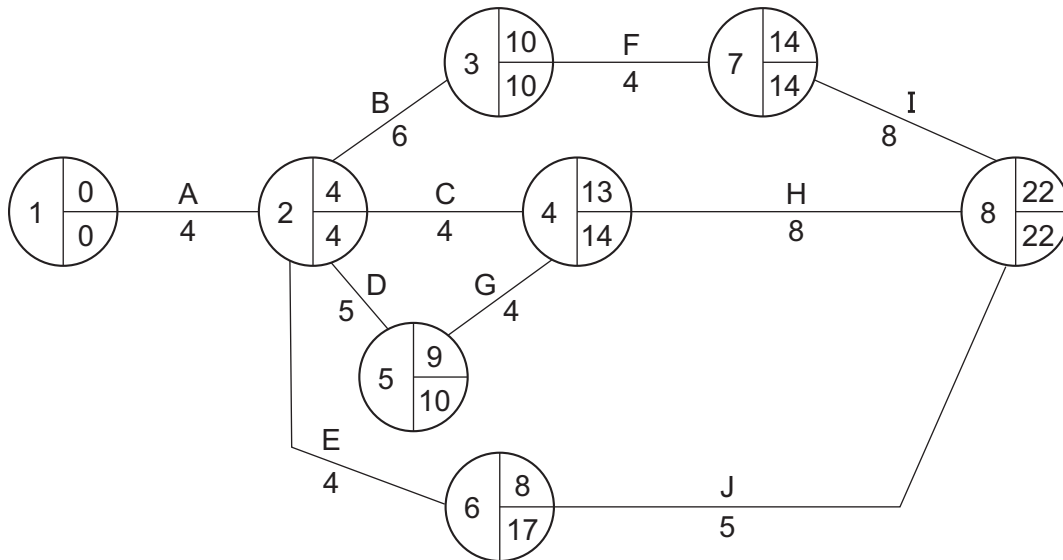
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### Appendix C: Current human resource data for Roberts Media plc

|   | Roberts Media plc | Industry average |
|---|-------------------|------------------|
| Temporary staff as a proportion of total staff        | 5%                | 50%              |
| Employees that belong to a trade union                | 75%               | 50%              |
| Average staff salary per annum                        | £30 000           | £25 000          |
| Number of days lost per year due to industrial action | 10                | 5                |
| Average age of staff                                  | 50 years          | 40 years         |
| Average length of service                             | 25 years          | 10 years         |

### Appendix D: Network diagram for the launch of the digital magazines

Duration for each activity is in weeks.



|        |                           |
|--------|---------------------------|
| Task A | Obtain new offices        |
| Task B | Design website            |
| Task C | Staff redeployment        |
| Task D | Obtain equipment          |
| Task E | Design marketing campaign |

|        |                              |
|--------|------------------------------|
| Task F | Design app                   |
| Task G | Equipment installed          |
| Task H | Staff training               |
| Task I | Test website and app         |
| Task J | Implement marketing campaign |

**Question 1**

- 0 1** Using the data in **Appendix D**, analyse the possible consequences for *Roberts Media plc* if activity 'G' (equipment installed) and activity 'E' (design marketing campaign) are both delayed by four weeks. (10 marks)

**Question 2**

- 0 2** Lisa, the Marketing Director, argues that a significant marketing budget would be the most important component of the new marketing plan. To what extent do you agree with this view? (18 marks)

**Question 3**

- 0 3** Harry Gardner wants to make radical changes to the way the business is run. Do you think it will be possible to maintain effective employer/employee relations during these proposed changes? Justify your view. (18 marks)

**Question 4**

- 0 4** Using all the information available to you, complete the following tasks.
- Analyse the key arguments **for** and **against** Harry Gardner's proposal.
  - Make a justified recommendation on whether you think that the Directors of *Roberts Media plc* should accept Harry Gardner's proposal. (34 marks)

**END OF QUESTIONS**

**There are no questions printed on this page**