

**ADVANCED GCE
BUSINESS STUDIES**

Business Strategy

FRIDAY 1 FEBRUARY 2008

2880

Morning

Time: 2 hours

Additional materials (enclosed): Answer Booklet (16 page)

Additional materials (required):
Calculators may be used



INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Answer **all** the questions.
- Write your answers on the separate Answer Booklet provided.
- If you use extra sheets of paper, fasten these sheets to the Answer Booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **80**.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.
- This is a synoptic paper. When answering each question you must use the knowledge and skills gained throughout the whole A-level course.

This document consists of **10** printed pages and **2** blank pages.

Answer **all** the questions.

- 1 To what extent can ABC's SWOT analysis aid the setting of realistic objectives? [18]
- 2 Discuss how the strategic direction of ABC might be affected by the opening of a supermarket in town M. [19]
- 3 David estimates that there is a 25% chance of success in the Internet market, yielding net revenues of £12,000, whereas failure would yield net revenues of (£2000).
Which, if any, market do you think ABC should enter in 2008? Justify your view. [19]
- 4 Evaluate whether ABC should change from a centralised to a decentralised business. [20]

Anglian Book Company, ABC

The Anglian Book Company, ABC, owns six high street book shops, each in a market town. These are in Cambridgeshire, Norfolk and Lincolnshire, see Table 1. Founded four generations ago, it is still owned and controlled by the Rouch family. In that time ABC has seen many changes in its trading environment, both on its regional level as well as at the national level. Each and every change caused the Rouch family to engage in a fundamental assessment of what ABC is: what markets it should serve, who its customers are, what those customers want, what makes ABC different. Until the last few years this reassessment tended to happen somewhat informally, typically at family gatherings during the Christmas period. However, when David Rouch became Managing Director in 2002, he instigated an annual, weekend, strategy meeting in early March. This meeting is attended by each shop manager. As Managing Director, David does not run a specific shop, but acts as holiday relief as required. As each shop manager is also a family member, shareholders are inevitably also represented at this meeting. It is David's habit to place his SWOT analysis as the first item on the agenda, something which often requires the entire first morning, see Fig. 1.

Another item David has placed on the agenda for the March 2008 meeting (see Appendix 1) is 'The Halloween market'. Until now, the Rouch family's Christian values have meant that this is a market they have not served. Moreover, these values have ruled out becoming a lottery agency and also restrict the choice of magazine titles which ABC stocks. However, with Halloween becoming increasingly influenced by American culture, the size of the UK retail market for Halloween themed products has risen from about £12m in 2000 to over £120m last year. David recently read in his daily paper that, after Christmas and Easter, Halloween is the third busiest time of the year for UK retailers. Indeed, the week leading up to Halloween is now the second busiest shopping week of the year, having overtaken Valentine's Day some years ago. Given the plethora of books, stationery and cards for all occasions which ABC currently stocks, the absence of product focused on the Halloween market is now something of an oddity in David's view. In short, he thinks the market is now too large to ignore. Further, amongst some sections of ABC's market there is growing frustration with the absence of Halloween product. In David's mind, any legitimate means of generating additional customer flow into ABC's shops, and so creating the opportunity to sell impulse purchases, has to be a good thing. Hence, six years ago a franchise from a major national chocolate manufacturer and retailer was introduced in all six ABC shops. This innovation led to a significant boost in sales, except in shops W and B.

As for any business, what to sell is an important consideration for ABC. Until now, ABC has operated a centralised purchasing and merchandising policy. Hence, each of ABC's six shops has the same layout and design. Similarly, each shop carries the same products selling for a common price. David feels this approach gives ABC a strong brand presence on the busy high streets. He is, though, aware that some managers, notably his sister, Samantha, want to be able to decide their own individual product ranges. Samantha argues that, whilst a centralised approach makes sense for most products, it stifles local initiative and responsiveness at the periphery; what might be popular in one shop is not always popular elsewhere. Consequently, she often finds that she has inappropriately large stocks of some book titles, tying up scarce working capital and shelf space. Her frustration is compounded by not being able to discount such surplus stock without reference to David, who, in turn, will not agree until such time as he has consulted the other five shop managers. Samantha would like David to devolve more responsibility to shop level and so has asked that decentralisation be an agenda item.

Over the years ABC's shareholders have come to accept that their company will never win awards for its financial performance. Providing it trades profitably, offers a good service to its communities and adheres to ethical business practices then they are happy to leave David to manage the company. Having taken the deliberate decision many years ago to own its high street sites, ABC has few long term commitments. Indeed, reflecting the shareholders relatively low risk profile, David is discouraged from any borrowing. However, this conservatism also reflects on the shareholders' willingness to allow David to innovate. Consequently, although

keen to broaden ABC's product range, he is unsure in which direction it should go. For over two years James Robertson (David's cousin) has been arguing that ABC should sell mobile phones in addition to the 'Top-Ups' ABC already sells. To support his view, he has already circulated a briefing paper, see Fig. 2, based on his own research. He estimates that changing the internal appearance, and stock purchase, would cost approximately £30,000 for each shop. 55

Worries about securing the finance for selling mobile phones, and aware that in four of the six towns ABC sells in, there are already specialist mobile phone shops, David's inclination is to support an alternative proposal from Grant Hault, manager for shop ED. Grant wants to exploit ABC's existing website to enable customers to buy online rather than just browse products and shop information. He argues that the capital outlay would be minimal, yet the sales potential is massive. Grant dismissed David's concerns about the danger of not generating any additional sales with "...most of our customers are too old to know how to use a computer, this will enable us to tap into an entirely new market". Feeling Grant's view was a just a little too stereotypical, David felt uncomfortable and so sought to take a more objective view of the decision. After several rough attempts he has created an incomplete decision tree of the situation, Fig. 3 (the values on the end of each branch represent the net cash flows). He hopes further research will enable him to quantify the missing values for Internet selling. Aware of the relationship between risk and reward, he has already decided that whatever happens, ABC will approach both the Halloween and mobile phone markets cautiously. Hence, David is inclined to test the market in just one shop, with the outcome subsequently being used to decide whether to apply it to all shops. 60
65
70

Whatever happens, David knows that ABC's 2007 loss, the major cause of which was the opening of a branch of the country's largest supermarket chain in the town W, cannot be ignored. With the company only just breaking-even in the previous two years, David worries that the days of the small independent chain may well be numbered, given the relentless advance of national multiples and supermarkets. Despite all the supportive words in the media about valuing choice and tradition, with worries about the creation of the identi-kit high street, the reality is that most households appear not to care enough. Fondly remembering the days when he studied economics at school, and his then passionate belief in the concept of consumer sovereignty, David now feels ABC could really do with a little bit of insulation from the icy blast of supermarket competition. 75
80

Table 1

2007 financial year

	B	ED	K-L	M	S	W	Total
Shop Manager	Brian	Grant	Karen	Ian	James	Samantha	
Sales							
Books & news	£79,950	£61,150	£99,960	£60,500	£78,810	£19,990	£400,360
Stationery	£51,500	£38,000	£62,490	£37,550	£48,960	£12,510	£251,010
Cards	£38,650	£31,050	£49,850	£29,650	£41,040	£9,960	£200,200
Other	£29,850	£21,550	£37,550	£21,550	£29,930	£7,420	£147,850
	£199,950	£151,750	£249,850	£149,250	£198,740	£49,880	£999,420
Cost of sales	£69,983	£57,665	£89,946	£49,253	£69,559	£16,460	£352,866
Labour (FTE)	4	3	6	3	4	4	24
Labour cost	£58,000	£46,500	£81,000	£46,500	£58,000	£58,000	£348,000
Overheads	£63,800	£53,475	£68,850	£51,150	£66,700	£69,600	£373,575
Profit	£8,167	−£5,890	£10,054	£2,347	£4,481	−£94,180	−£75,021

Table 2

Estimated Balance Sheet, as at end of financial year, 2007

	ABC
	£000s
Fixed assets	
Premises	2,100
Equipment	720
	<hr/>
	2,820
Current assets	
Stock	91
Debtors	7
Cash	14
	<hr/>
	112
Current liabilities	
Trade creditors	54
Net Current assets	58
Net assets	<hr/>
	2,878
Share capital	500
Profit and loss account	2,378
Equity shareholders' funds	<hr/>
	2,878

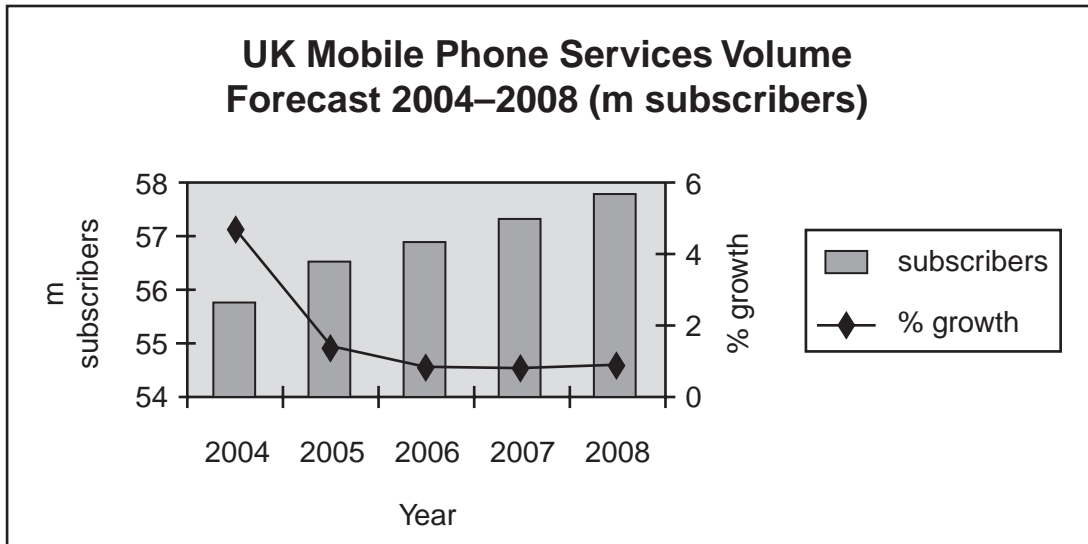
ABC – SWOT Analysis

Strengths	Weaknesses
Respected regional brand Sites, location Motivated and flexible staff, both FT and PT Family culture Supportive shareholders Low financial gearing Liquidity Informative website Local delivery service	Lack of spare capital Traditional, unexciting image? Nothing we sell can't be bought elsewhere Loss making stores Age profile of staff; many may soon take retirement
Opportunities	Threats
Reading groups Media profile of reading Book market is growing Increasing specialisation in the magazine market	Highly competitive market for news and books Supermarkets; discounting best sellers Internet shopping; e-tailers' product range Decreasing margins Technology; e.g. news via mobiles

Fig. 1

UK Phone market

- In 2004, the UK mobile phone market had a value of £1.1 bn, a rise of 11% on 2003.
- Sales volume totalled over 18 million units in 2004.
- In 2006 there were about 57m mobile phone subscribers in the UK.
- It is thought that 84% of the UK population now has a mobile.
- Much of the market growth is driven by the youth market, for whom the new technology holds the promise of a more exciting and interactive social life.



UK Book market

- In 2005, the two leading retail chains together had about 22% of the UK book market according to the Competition Commission.
- In 2005 supermarkets had 8% of the market, while Internet book sales accounted for 12%.
- The total value of the book market in 2004 (including all institutional sales) was worth £3.6 bn.
- Discounting remains commonplace on selected bestsellers or across the range. Discounting has contributed to faster volume than value growth overall.

Fig. 2

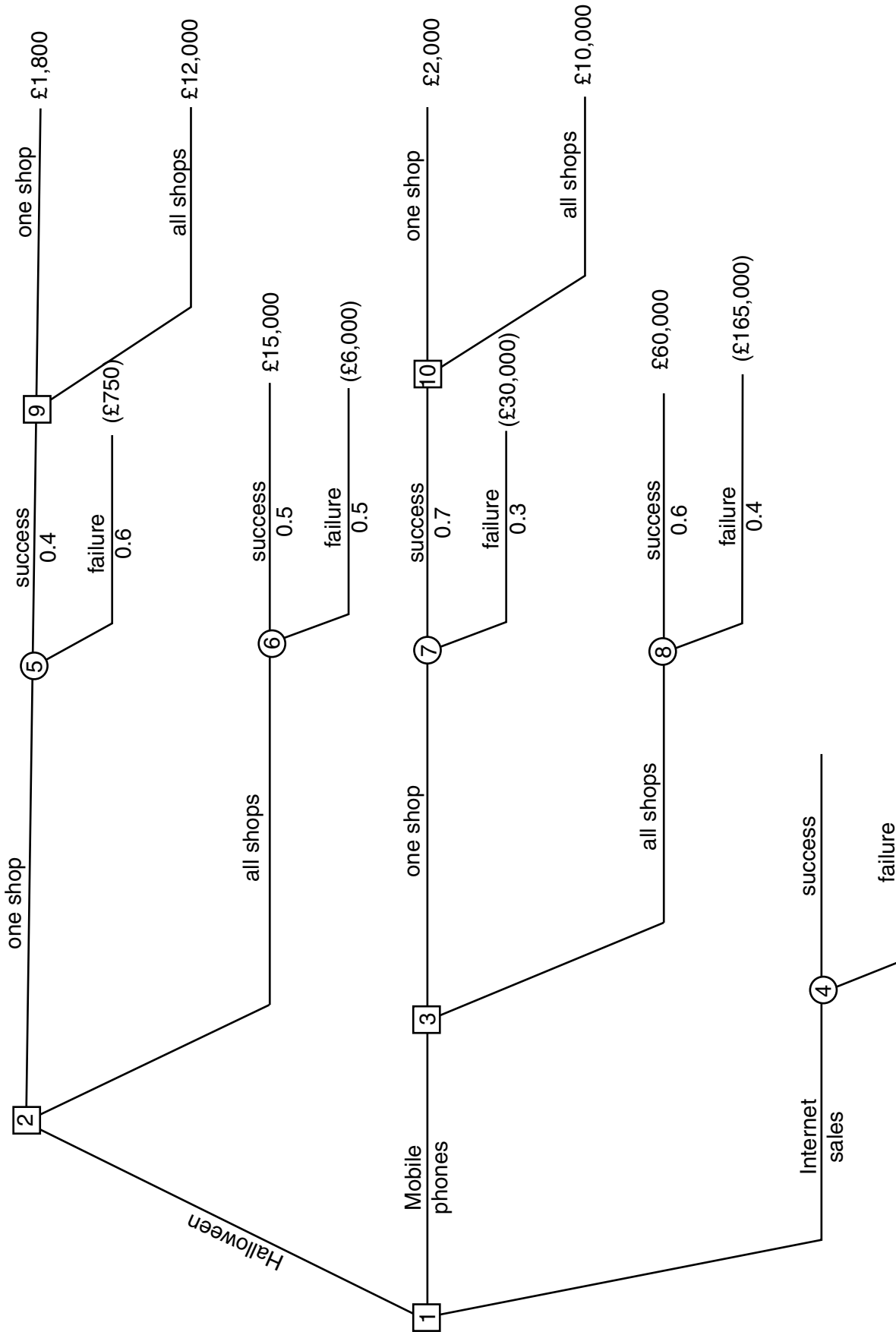


Fig. 3

Appendix 1

ABC Annual Strategy Meeting – March 2008

Agenda

- | | |
|---|----|
| 1. ABC SWOT | DR |
| 2. Decentralisation | SR |
| 3. New ventures | |
| a. Mobile phones | JR |
| b. Internet selling; enabling customers to buy online | GH |
| c. The Halloween market | DR |
| 4. Shop closure(s) | DR |
| 5. AOB | |

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