

ADVANCED GCE
BUSINESS STUDIES
Strategic Management

F297

Candidates answer on the answer booklet.

OCR supplied materials:

- 16 page answer booklet (sent with general stationery)
- Insert (F297/I)

Other materials required:

- A calculator may be used

Monday 31 January 2011
Afternoon

Duration: 2 hours

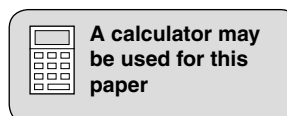


INSTRUCTIONS TO CANDIDATES

- The insert will be found in the centre of this document.
- Write your name, centre number and candidate number in the spaces provided on the answer booklet. Please write clearly and in capital letters.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- An insert is provided for question **1(a)**. Fasten the insert to the answer booklet.
- If you use extra sheets of paper, fasten these sheets to the answer booklet.

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 **90**.
- The quality of your written communication will be taken into account when marking your answer to the question labelled with an asterisk (*).
- 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 **12** pages. Any blank pages are indicated.



Answer **all** the questions.

- 1 (a) The table on the insert shows the actual number of overdue orders between March 2009 and November 2010. It also shows an incomplete trend for overdue orders calculated using Time Series Analysis, with a three period moving average. The graph shows the incomplete trend.

Using Time Series Analysis, forecast the level of overdue orders in February 2011 using the figures on the insert and the graph. You are advised to show your workings. [13]

Please ensure that your insert is securely attached to the rest of your answer booklet.

- (b) Recommend and justify a strategy which could ensure that ADaPT's level of overdue orders continues to fall. [18]
- 2 Discuss how reduced government spending might affect the strategic direction of ADaPT. [18]
- 3 Should ADaPT continue to supply Morcott Motor Factors (MMF)? Justify your view. [18]
- 4* Abigail believes ADaPT is "an underperforming business" (line 75). Recommend a strategic approach to ADaPT's shareholders as to how its performance might be improved. [23]

Aardvark Design and Printing Technologies Ltd (ADaPT).

In 1990 Hamish Watson found himself needing to return to Hinckley in order to be close to his ailing parents. A Fine Art graduate, Hamish had worked for a variety of graphic design businesses, gradually adding commercial acumen to his creative abilities. After several years working for others, his return to the Midlands provided the impetus for starting his own design business. With financial backing from a mixture of family and friends, in 1991 Aardvark Design came into being. Within a short period of time it became clear that customers wanted a “one stop” service – from design through to realisation. In essence, designers take the client’s brief, work it into a top class visual solution which can then be printed in-house to create the final product. Combining design and print represented a rational strategic move and as a result it was also decided to change the business’ legal identity. Consequently, in late 1993, Aardvark Design and Printing Technologies Ltd (ADaPT) was incorporated as a private limited company. Items produced by ADaPT range from calendars, flyers, technical instruction manuals, tourist information booklets and, more recently, to books. If asked to say what his objectives are Hamish would be likely to say “To run a good business, a place where people enjoy coming every day, and making enough profit to keep everyone happy.”

Even though Managing Director, Hamish spends most of his days either working in the design studio or meeting customers. Since 2009 the day-to-day administration and non-design management of ADaPT has been delegated to David Wilkinson, the Administrative Manager. This division of labour allows Hamish to concentrate on what he loves to do, rather than being concerned with the minutiae of running the business. Administration is something which Hamish finds unexciting and, if he were being honest, rather tedious. His view is that he can earn more for the business as a designer and the value he adds more than pays for someone else to do the administration. In addition to Hamish, there are four other designers in the design studio (see Appendix 1). The designers’ work is of two main types. The first is for new customers. These new commissions can frequently require creativity, being both bespoke and challenging. Such work, when completed to the customer’s brief, can give the designer a real sense of achievement. The second type of work is an update of a previous order, typically changing prices or the layout on a customer’s promotional material of the sort inserted into many local newspapers. Hamish describes this as a ‘bread and butter’ task because it tends to be rather routine.

Hamish believes that his business has a close knit, family culture. He is on first name terms with everyone, and insists that they, in turn, call him ‘Hamish’. Although it irks Sam Russell, Sales and Marketing Director, Hamish likes to keep overt symbols of hierarchy to a minimum, believing that this will help to create an ethos of team-working and collective responsibility. Hence, for example, the car park has no designated parking spaces and no one has a company car. In fact, the only vehicle which ADaPT owns is a Citroen Berlingo van which is used to deliver orders and collect small supplies. All ADaPT staff are salaried, with a quarterly bonus (paid as a percentage of salary) if output targets are met. Staff work a 37 hour week, finishing at lunch time on a Friday, if the volume of work permits. Toward the end of a quarter it is not unusual for the production staff to work late on a Friday, and possibly Saturday morning, so as to achieve the bonus.

During the mid 1990s ADaPT grew steadily. However, in the last ten years sales growth has been far more pleasing. Much of the more recent sales growth has reflected the fortunes of Hinckley in particular, and the Midlands in general. Pursuing a deliberate policy of decentralisation, the UK government has moved a number of support departments away from London to, for example, Coventry. Leicester and Leicestershire have also benefited from considerable government spending in the tertiary sector, most notably health and education (see Table 1).

Table 1 – UK GDP and government spending

	UK GDP £bn	Total government spending, £bn	Government spending on health, £bn
1997	815.9	318.3	40.6
1998	865.7	324.9	42.5
1999	911.9	328.1	45.8
2000	958.9	339.3	48.3
2001	1003.3	361.8	52.7
2002	1055.8	385.3	58.4
2003	1118.2	415.2	66.2
2004	1184.3	451.4	74.9
2005	1234.0	487.8	82.9
2006	1303.9	502.2	89.7
2007	1343.8	543.3	94.5
2008	1419.6	575.4	102.0
2009	1439.0	631.3	110.5
2010 *	1411.0	654.7	119.0
2011 *	1461.0	690.3	122.7

* Estimated

For ADaPT these two streams of spending can combine when, for example, it is contracted to produce delegate packs for medical conferences at Leicester University. ADaPT's flexibility in being able to produce high quality, low volume work with relatively short lead times gives it a competitive advantage, particularly at a time when more and more printing work is being sourced from China.

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During the last weekly management meeting, amongst the plethora of papers Abigail Padley, Financial Controller, habitually produces, there was a breakdown of revenues by customer for the last ten years (see Table 2).

Table 2 – ADaPT revenue and costs data, 2001 to 2010

Customer			2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Code	Type		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Private sector	R	Retail	263	271	281	288	274	282	299	315	333	351
	M	Manufacturing	121	117	101	98	95	95	87	85	87	89
	TL	Tourism and leisure	14	15	16	18	19	21	23	25	27	30
	Ed	Education	20	18	22	25	32	42	44	45	45	47
	O	Other	189	174	186	192	201	204	212	219	230	242
		Total		607	595	606	621	621	644	665	689	722
Public sector	H	Health	0	0	8	16	39	54	76	107	150	210
	Ped	Education	0	0	0	18	27	40	61	91	136	147
	Gov	Local government	7	8	10	12	14	17	20	24	29	35
		Total		7	8	18	46	80	111	157	222	315
	Total		614	603	624	667	701	755	822	911	1037	1151
	Labour		208	206	213	228	255	286	312	343	412	458
	Materials		209	205	212	227	238	257	279	310	353	391
	Gross Profit		197	192	199	212	208	212	231	258	272	302
	Overheads		184	181	187	200	196	211	214	228	259	288
	Net Profit		13	11	12	12	12	1	17	30	13	14

* Forecast

Hamish was not too sure what the implications of this were, but he was aware that with a little flair and creativity he could have made the data visually appealing and, therefore, the meeting more fun! Similarly, although Hamish was careful not to show it, his heart sank a little when David produced his monthly production key performance indicators (KPI's) (see Table 3).

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Table 3 – ADaPT’s Monthly KPIs

		Output (Percentage of capacity)	Waste (Percentage of capacity)	Overdue orders	Returns
Mar	2009	87	5.6	18	4
Apr	2009	88	5.6	17	2
May	2009	90	5.7	14	1
Jun	2009	88	6.0	17	3
Jul	2009	89	6.0	15	2
Aug	2009	91	6.1	13	0
Sep	2009	89	6.4	15	3
Oct	2009	90	6.5	14	1
Nov	2009	92	6.5	11	0
Dec	2009	90	6.8	14	2
Jan	2010	91	6.9	12	2
Feb	2010	93	6.9	10	2
Mar	2010	91	6.9	13	1
Apr	2010	92	7.3	11	0
May	2010	94	7.4	8	1
Jun	2010	92	7.3	11	2
Jul	2010	93	7.3	10	1
Aug	2010	95	7.8	7	0
Sep	2010	93	7.7	10	3
Oct	2010	94	7.8	8	1
Nov	2010	96	7.8	6	1

David was pleased that the latest monthly figures again showed a rise in output, but he was concerned that ADaPT was close to maximum capacity. Before anyone had a chance to digest this, Sam chipped in with a complaint about overdue orders and the level of customer returns. “I bust a gut to gain and retain customers. I’m fed up that Tom (Robinson, Printing Foreman) seems unable to get things right at his end. If we can’t deliver on time, then customers will go elsewhere. Although these KPI’s indicate that overdue orders seem to be falling, waste as a percentage of capacity is still rising.” David mused that “it would be useful if somebody could attempt to predict how these figures might change in the future.”

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Seemingly not wanting to be outdone, Abigail piped up with, “That’s all well and good, but customers who don’t pay us on time are no good to us”, whereupon she handed out a list of ADaPT’s aged debtors (see Table 4) and an un-audited balance sheet (see Appendix 2).

Table 4 – ADaPT’s aged debtors by customer code, as at 1 November 2010

0–30 days overdue		31–60 days overdue		61–90 days overdue		More than 90 days overdue	
R	£28,080	R	£21,060	R	£7,020		
R (MMF)	£14,040	R (MMF)	£10,553	R (MMF)	£6,880	R (MMF)	£510
TL	£3,323	TL	£104	TL	£80		
Ed	£1,567	Ed	£522				
Gov	£1,458						
	£48,468		£32,239		£13,980		£510

Aware that his concentration had slipped, Hamish heard Abigail continue berating Sam for accepting any, and all, business without first discussing it with her. “I told you last month that Morcott Motor Factors (MMF) is on stop, but yet you’ve accepted their spring catalogue order. It’s crazy! What meagre profit we make on this contract could well be eaten up by the bank charges caused by our additional borrowing. They’re using us as a source of finance; we’re printers, not a bank! No wonder we’re an underperforming business”. Both Sam and Abigail looked at Hamish. He thought they expected him to wave a magic wand and make everything right.

Before Hamish could respond, David said, “But MMF is one of our longest established customers. Surely, loyalty counts?”

Hamish was worried by rumours he had heard that MMF is close to collapse and anything which jeopardises MMF’s income could tip it over the brink. “If we don’t produce their spring catalogue then that may be the end of them. If the liquidators are called in we’d be very lucky to get much cash back, whereas if we can help them trade through this rough patch, then they’ll survive. We know they’ll pay, we just need to offer them a bit of slack. If we’re seen to have caused MMF’s failure, then our hard won reputation will count for nothing.”

Clearly this argument resonated with Sam who added, “If we let MMF down we’ll be cast as the bad guys. I’d bet several existing customers would jump for fear that they’d be next.”

Worried that more ‘heat than light’ was being generated, Hamish tried to call the MMF issue closed. However, before he could do so, Abigail produced yet another piece of paper saying, “Look at these figures; they’re from a credit agency”. Knowing he was not great with finance and so reluctant to read them immediately, Hamish said that had been a “useful airing of views”, and what was now needed was an analysis of ADaPT’s exposure to MMF. In particular, he wanted to know what might be the consequences for ADaPT if MMF were to go into liquidation. With uncharacteristic firmness and, without allowing any further discussion, Hamish called the issue closed so that they could discuss progress in the ‘on demand’ book printing market.

Improvements in technology have had a significant impact on ADaPT. This has been in both aspects of the business: design and print. On Abigail’s advice the computers in the Design Studio are also leased on a three year contract. Similarly, many of the printing machines are leased. However, ADaPT has recently purchased a printing machine which has a very short set-up time, and considerable flexibility. This gives it the capability of producing high quality, hardbound books, in small numbers. So far ADaPT has used this to produce niche undergraduate text books. Another market is what Hamish calls ‘vanity’ publishing. This market is typically a local author who wants to see their work published, but who has been unable to persuade any major publishing house to take it on. Even at low volumes, ADaPT is able to offer competitive pricing and yet achieve higher profit margins than on most of its other work. Sam has, on several occasions, pointed out how much work they require from his department and has implied to David that the vanity is as much Hamish’s as anyone else’s.

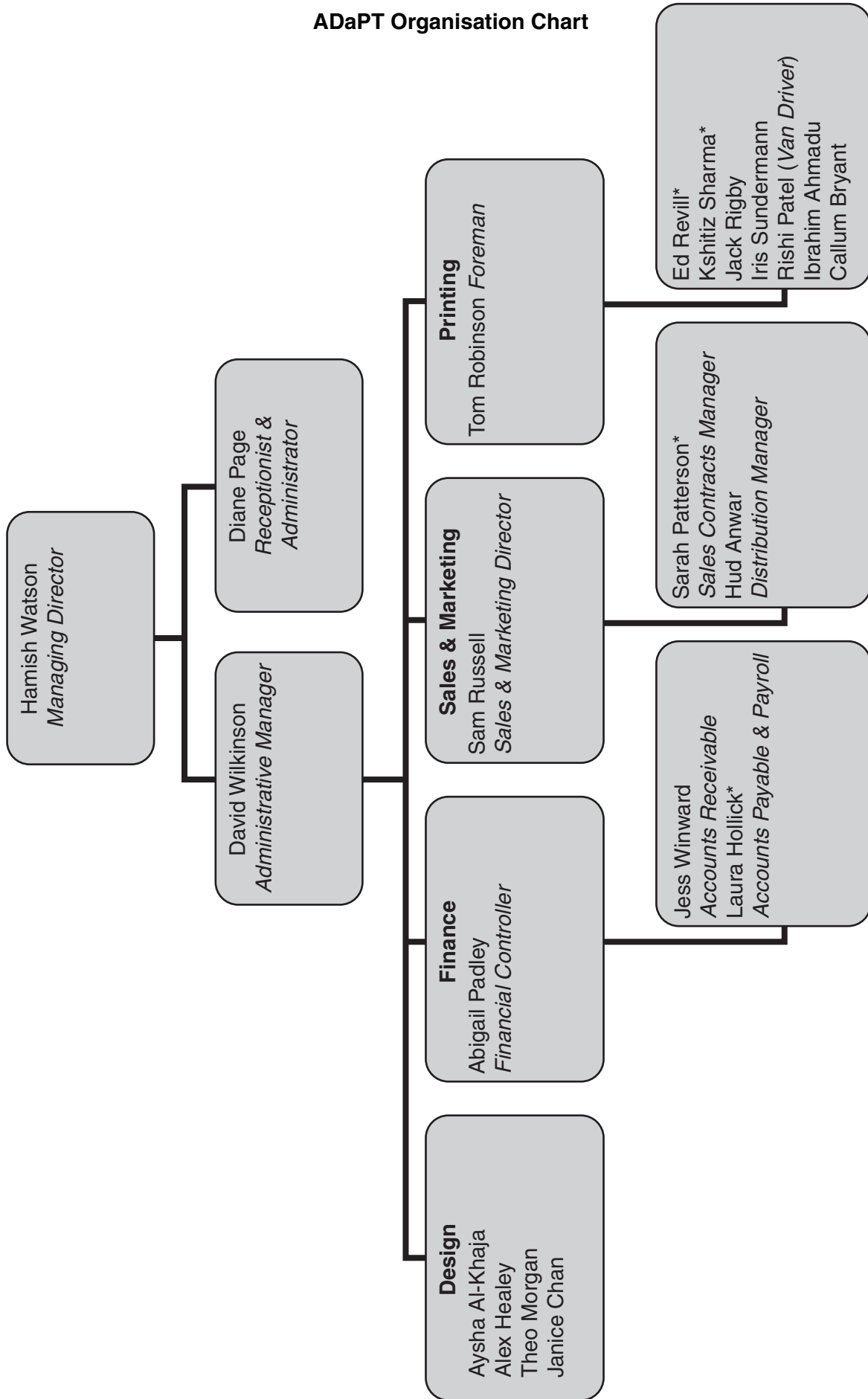
It was at times like these, when his colleagues seemed more concerned at sniping at each other rather than getting on, that Hamish felt the lure of the Design Studio. Regrettably, that normal haven of peace had been sullied by a recent argument between David and one of the designers, Aysha Al-Khaja. Hamish had been away from ADaPT at the time visiting a potential new customer. During his absence David had told Aysha to work on a job for MMF, designing its 'Spring Parts Catalogue'. The brief from MMF was to use 'girlie' pictures akin to 'Page 3'. On seeing some of the images being suggested Aysha had refused, saying they are both demeaning to women and offensive to her religious beliefs. David had robustly countered along the lines of managers manage and designers do. Further, if she wasn't prepared to do as she was instructed, he would treat the matter using ADaPT's disciplinary procedures. It took Hamish quite some time to calm both parties down, and even now there remains an undercurrent of hostility between them.

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Appendix 1

ADaPT Organisation Chart



* Trained First Aider

Appendix 2

Balance Sheet of ADaPT as at 31 October 2010 (unaudited)

	£(000)	£(000)
Fixed assets		
Tangible assets		184
Current assets		
Stock	137	
Debtors	191	
Cash	1	329
Current liabilities		
Trade creditors	68	
Overdraft	12	80
Net Current assets		249
Creditors falling due after more than one year		50
Net assets		<u>383</u>
Share capital (1)		200
Profit and loss account		183
Equity shareholders' funds		<u>383</u>
(1) – Share register		
Hamish Watson	80	
Calum Watson	40	
Mrs Ina Watson	40	
Ms Shona Watson	10	
Dr Joe Spence	10	
Sam Heygill	10	
Harry Dernie	10	
Authorised and issued	200	

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