OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

BUSINESS STUDIES

2873/CS

Business Behaviour

CASE STUDY

SPECIMEN FOR JUNE 2003

May be opened and given to candidates upon receipt.

INSTRUCTIONS TO CANDIDATES

This copy may **not** be taken into the examination room.

The business described in this case study is entirely fictitious.

7811/3811/SP/EN/02

This case study consists of 6 printed pages and 2 blank pages.

Education Is Fun Ltd (EIFL)

Adam and Danielle Vernon established EIFL in January 1991. Adam had been made redundant by a major multinational and this affected his outlook. When he set up EIFL he wanted to build an atmosphere of trust and involve all his fellow workers as colleagues in the business. At the same time, he wanted to have managerial and financial control. Adam and Danielle are proud of their achievements in EIFL. They have never taken a dividend and always ploughed back all the available profit.

EIFL sells educational toys and equipment for children aged up to five years. There are at present two groups of consumer. The first consists of children who spend the day with a parent, child minder or nanny. The second consists of children at nursery or school, which can be state or independent. There are many different types of nursery or school, with various age-ranges, often depending on the area. The customers who make purchasing decisions are parents, heads of nurseries or schools, and purchasing managers in local education authorities. The distribution of sales revenue between types of customer is shown in Table 1.

EIFL manufactures about half its sales volume in its factory near Basingstoke. Three other firms make the rest for EIFL. This way Adam feels that they can keep a check on their own performance by setting external benchmarks and that spreading the production reduces risk. Danielle, on the other hand, feels that EIFL loses economies of scale. Both Adam and Danielle are concerned about the decline in quality of their in-house production. Rejects are rising as are returns from customers. They have just lost an account with a small local education authority. ‘The trouble is we are all so busy at the moment, neither Adam nor I have enough time to monitor things properly,’ Danielle said to herself.

EIFL has always sold largely through mail order. Personal customers order by answering advertisements placed in newspapers, family magazines and the like. The cost of these advertisements has been kept down by regular volume placements for a year at a time. This has been effective in the past, although Adam and Danielle are now beginning to question this. EIFL has achieved sales to schools through a catalogue. This is produced and sent each year in May, when headteachers know their school numbers and financial budget for the following academic year (September to August), and therefore can place orders for delivery in summer or early September.

Adam and Danielle are considering plans for marketing for the next three years and are asking themselves a number of questions. What are the right distribution channels? Mail costs are high and the service could be unreliable. Should they set up their own delivery service? Danielle is interested in investigating e-commerce and the possibility of sales through this medium: which of their existing customers would use it and were there any new customers which this would attract? Should they consider approaching some of the major retail outlets to find out if they would stock their products? What effects would introducing an intermediary have? There seemed to be a move towards parents placing their children in nursery schools rather than keeping them at home. What were the implications?

No plans for development could he made without taking into account the financial position. The most recent balance sheet and profit and loss account are shown in Table 2 and Table 3 respectively. These tables continue the trends that had become apparent in recent years. Danielle’s concerns included sales revenue, profits and profitability, stocks, debtors, the overdraft and the interest burden. The overdraft was secured along with the mortgage on the premises, of which EIFL owned the freehold. The premises were probably worth double their book value at current property market prices. However, the interest burden was rising. At the last meeting with the bank manager, he had told Danielle that the bank's regional office had just asked him to investigate EIFL's credit position. Alarmed by this Danielle had decided to budget more carefully and had drawn up Table 4.

All these financial concerns were distracting the Vernons from issues concerning the organisational structure. No organisation chart existed for EIFL and, if there were one, it would look very flat. Despite Adam's desire to involve the workforce, many of them felt alienated. There are thirty-six employees as shown in Table 5.

Right from the start, EIFL practised job enrichment by default: all the non-office staff were expected to know how to do each other's job without any job demarcation. As this had been a time of high unemployment locally and nationally, this had been accepted. Now that the company had grown, the workforce was unhappy with the general state of affairs. Jenny, who had been with the company since the start, moaned to several of her colleagues during the coffee break one day, 'The trouble is that Adam and Danielle practise the opposite of what they preach. The problem we have is that they are each the production, marketing, human resources and accounting departments all rolled into one. They delegate nothing and communicate nothing, not even to each other at times. They rush about from job to job, leaving tasks half-complete. Sometimes they give different jobs to the same person within 10 minutes of each other. It's a classic case of the right hand not knowing what the left hand is doing.'

The general dissatisfaction was such that the entire workforce met out of hours privately to discuss the situation. Particular points of concern were the absence of written contracts, no proper structure to the business, no training or promotion schemes and the general lack of involvement and consultation. There was a firm determination to tell Adam and Danielle of their concerns. On learning of these concerns, the Vernons were shocked that the workforce felt this way and began to consider how to respond.

Table 1

Sales Revenue by Customer

	Forecast 2003	Actual 2002	Actual 2001	Actual 2000
Individuals	*33%*	38%	51%	63%
Independent nurseries and schools	*42%*	39%	29%	25%
State nurseries and schools	*25%*	23%	20%	12%
	100%	100%	100%	100%

Table 2 Balance Sheet

Balance Sheet of EIFL

at 31st December 2002

	£	£	£
Fixed Assets			
Premises		750,000	
Plant & equipment		500,000	
Current Assets			
Stock	599,000		
Debtors	562,500		
Cash	18,100	1,179,600	
			2,429,600
Current Liabilities			
Creditors	375,000		
Overdraft	560,000		
Tax due	47,200		
			(982,200)
			1,447,400
Share Capital	75,000		
Revenue Reserves	897,400		
Revaluation Reserve	100,000		
Mortgage	375,000		1,447,400

Table 3 Profit and Loss Account

Profit and Loss Account for EIFL for the year ending 31st December 2002

	£	
Sales		2,463,000
Opening Stock	425,000	
Purchases	1,039,000	
	1,464,000	
Closing Stock	(599,000)	
Cost of Sales		(865,000)
Gross Profit		1,598,000
Total Expenses		(1,480,000)
Net Profit		118,000
Tax	47,200	
Net Profit after Tax	70,800	

Table 4

Cash Flow Statement: January–March Actual, April–May Forecast

	Year 2003 to date				
PAYMENTS	Jan	Feb	Mar	Apr	May
Purchases	87,000	92,000	98,000	85,000	96,000
Production expenses	22,000	33,000	42,000	42,000	41,000
Wages and salaries	59,000	62,000	72,000	72,600	77,500
Office expenses	4,500	4,500	4,500	4,500	4,500
Utilities and business rates etc	2,200	2,101	1,896	1,963	2,003
Interest on mortgage	3,125	3,125	3,125	3,125	3,125
Overdraft interest	4,667	4,578	4,699	4,979	5,068
Marketing and distribution costs	5,000	5,200	5,412	6,523	6,637
TOTAL PAYMENTS	187,492	206,504	231,632	220,690	235,833
TOTAL RECEIPTS	180,000	192,000	198,000	210,000	225,000
NET CASH FLOW FOR MONTH	(7,492)	(14,504)	(33,632)	(10,690)	(10,833)
OPENING BALANCE	(541,900)	(549,392)	(563,896)	(597,528)	(608,218)
CUMULATIVE NET CASH FLOW	(549,392)	(563,896)	(597,528)	(608,218)	(619,051)

Table 5 Workforce

	Full time	Part time	Total
Production	10	7	17
Packing	4	6	10
Warehouse	3	3	6
Office	1	2	3
Total	18	18	36

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