General Certificate of Education
Advanced Level Examination
June 2011

Business Studies BUSS3

Unit 3 Strategies for Success

Friday 10 June 2011 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**
Current ratio	current assets : current liabilities
Acid test ratio	liquid assets : current liabilities Where liquid assets are current assets – inventories (stock).
Return on capital employed % (ROCE)	$\frac{\text{operating profit}}{\text{total equity + non-current liabilities**}} \times 100$ ** Where this equals capital employed.
Asset turnover	$\frac{\text{revenue}}{\text{net assets}}$
Inventory (stock) turnover	$\frac{\text{cost of sales}}{\text{average inventories (stock) held}}$
Payables (Creditors) days **(Payables'* collection period)**	$\frac{\text{payables*}}{\text{cost of sales}} \times 365$ * Payables = creditors throughout this formula.
Receivables (Debtors) days **(Receivables'* collection period)**	$\frac{\text{receivables*}}{\text{revenue}} \times 365$ * Receivables = debtors throughout this formula.
Gearing	$\frac{\text{non-current liabilities}}{\text{total equity + non-current liabilities**}} \times 100$ ** Where this equals capital employed.
Dividend per share (in pence)	$\frac{\text{total dividends}}{\text{number of issued ordinary shares}}$
Dividend yield (%)	$\frac{\text{ordinary share dividend (in pence)}}{\text{current market price (in pence)}} \times 100$

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

Sound and Vision plc

Sound and Vision plc is a national retailer of CDs, DVDs and books. It operates 300 music stores and 200 bookshops throughout the UK. It has a reputation for being one of the leading specialist retailers in the UK and prides itself on its wide product range and knowledgeable staff. However, in recent years, *Sound and Vision plc*'s profitability has fallen. In January 2011, the company appointed a new Chief Executive, Amina Chiedozie. Previously, Amina had been employed as the Chief Operations Officer for a leading electrical goods retailer.

Market research

Upon her appointment, Amina had commissioned a market research agency to investigate trends in *Sound and Vision plc*'s current market and the public's opinions of the company. Its findings were:

- the market for buying pre-recorded music (CDs) and film (DVDs) was predicted to decline in terms of both volume and value
- the demand for books was expected to be stable, but the competition from both online retailers and supermarkets would increase
- downloads would continue to be the most popular source of music, especially for the key 15 to 24 year old market
- *Sound and Vision plc* maintained a good reputation for its high levels of customer service and the specialist knowledge of its employees, particularly amongst the more affluent 25 to 34 year old market
- customers liked the wide product range and the individuality of each store.

Based upon these findings, plus her experience from her previous employment, Amina proposed the following strategy for consideration at the next board meeting.

The proposed strategy

Amina believes that *Sound and Vision plc* needs to adopt a policy of strategic innovation. This would consist of:

Firstly, a new store format for the music stores with the following features:

- less floor space for CDs and DVDs and greater emphasis on selling technological products such as MP3 players, computer game consoles and mobile phones
- 'gaming zones' would be created within each store offering opportunities for customers to play computer games, watch DVDs and listen to music on MP3 players. These products would be aimed specifically at the 15 to 24 year old market
- recruitment of younger staff in the stores to emphasise the focus on the 15 to 24 year old target market.

Secondly, an online store would be established which would:

- sell music and film downloads as well as CDs, DVDs, books and mobile phones
- have a much wider range of products than that offered in the stores and would also be significantly cheaper
- also offer downloadable books as more customers switch to devices such as the Sony Reader and the Apple iPad.

Turn over ▶

Sound and Vision plc would form a partnership with a leading mobile phone network provider in order to establish the online store. The partnership would enable *Sound and Vision plc* to use the network provider's technical knowledge and expertise as well as offering the opportunity for joint promotions. In return, the network provider would receive a share of the profits and be given floor space within the music stores to sell its products.

A comprehensive marketing plan would be required to create awareness of the new strategy and to regain market share from the supermarkets and online retailers. Amina believes that a significant marketing budget would be necessary in order to achieve these objectives.

The estimated cost of this strategy, including the marketing budget, would be £100 million. The proposed strategy would be expected to achieve a budgeted net present value of at least £25 million and payback within three years. Amina proposed that £50 million could be raised by selling 150 of *Sound and Vision plc*'s bookshops. The remaining 50 shops would be those located in major towns and cities.

Currently, *Sound and Vision plc* has a decentralised structure, with the music stores and bookshops operating as separate profit centres. Each manager is allowed to stock items according to the tastes of their local market, and bonuses are awarded based upon the profitability of their store. Amina intends to change to a centralised structure.

Operationally, Amina intends to streamline the distribution network by establishing a centralised warehouse and distribution centre. This would supply both the online and retail stores.
A just-in-time system would be established, with daily deliveries from suppliers. A centralised purchasing department would also enable *Sound and Vision plc* to benefit from economies of scale.

The decision

Amina believes that *Sound and Vision plc* needs to be more innovative in the way it operates in order to survive in an increasingly competitive market. She now needs to persuade her fellow directors that her proposed strategy is the best way forward for the business.

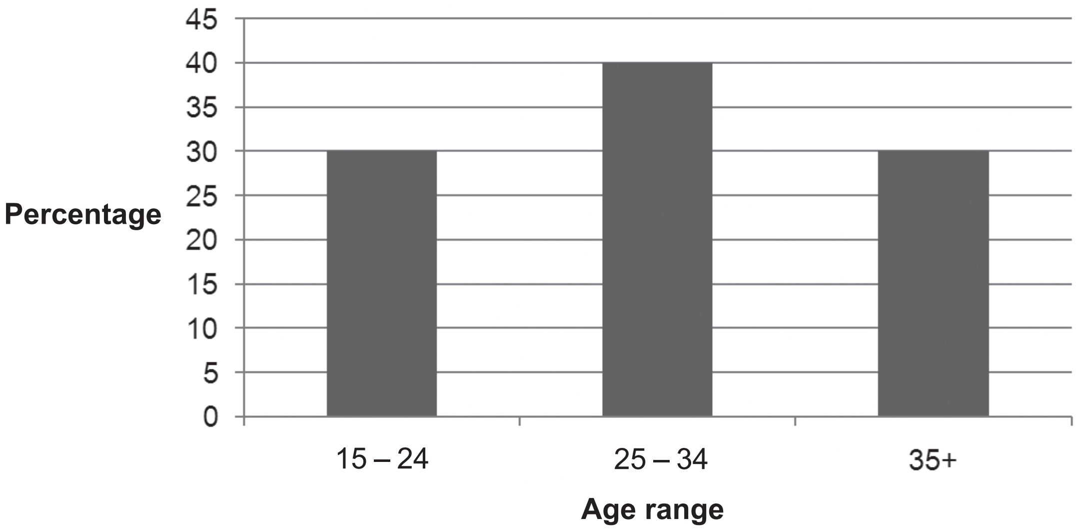
STATISTICAL APPENDICES

Appendix A: Marketing data

Figure 1: Product portfolio analysis for Sound and Vision plc

Market growth	Market share: High	Market share: Low
High		Technology products
Low	Books	CDs and DVDs

Figure 2: Current % breakdown of Sound and Vision plc's customers by age



Turn over for Appendices B, C and D and Questions

Appendix B: Financial data

Figure 3: Investment appraisal data for the new strategy

Initial cost £100m

Year	Cash inflow £m	Cash outflow £m
1	50	10
2	70	30
3	120	40

10% Discount factors: Year 1 0.91
Year 2 0.83
Year 3 0.75

Figure 4: Extracts from Sound and Vision plc's annual accounts

	2009 – 2010	2010 – 2011
Return on capital employed	5%	3%
Asset turnover	2.5	2.0
Gearing	70%	55%
Acid test	1.3:1	0.8:1

Appendix C: Human resource data

	2010 – 2011	Proposed
Levels of hierarchy	5	7
Average span of control	12	6
Temporary staff as a percentage of permanent employees	10	20
Proportion of employees aged between 16 and 24	15%	25%
Average weekly wage	£300	£275

Appendix D: Operations data for 2010 – 2011

	Sound and Vision plc	Industry average
% of revenue spent on research and development	3%	6%
Index of real unit costs	100	94
Number of suppliers	300	250
Average delivery time to stores from suppliers	7 days	5 days
Number of product lines	500	350

Question 1

0 1 Analyse **two** possible reasons why *Sound and Vision plc* currently has a decentralised structure. *(10 marks)*

Question 2

0 2 Amina's proposed strategy is expected to achieve a budgeted net present value (NPV) of at least £25 million and payback within three years. To what extent do you think that this is a realistic objective? Justify your view. You are encouraged to use calculations to support your answer. *(18 marks)*

Question 3

0 3 Amina believes that a significant marketing budget would be necessary for her marketing plan to achieve its objectives. To what extent do you agree with this view? *(18 marks)*

Question 4

0 4 Using all the information available to you, complete the following tasks:

- analyse the arguments **for** Amina's proposed strategy
- analyse the arguments **against** Amina's proposed strategy
- make a justified recommendation on whether Amina's proposed strategy should be adopted.

You are encouraged to use numerical evidence to support your answer.

(34 marks)

END OF QUESTIONS

There are no questions printed on this page