

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

BUSINESS STUDIES

2873

Business Behaviour

Wednesday **12 JANUARY 2005** Afternoon 1 hour 15 minutes

Additional materials:
Answer Booklet

TIME 1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Answer **all** the questions.
- If you use extra sheets of paper, fasten the 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 60.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

This question paper consists of 7 printed pages and 1 blank page.

Answer **all** questions.

- 1 (a) (i) Calculate the percentage growth in SKI's target market between 1998 and 2003. [2]
(ii) Calculate the percentage change in SKI's market share between 1998 and 2003. [4]
(b) Discuss how SKI might increase its market share. [10]
- 2 Assess possible changes to Graham's leadership style that would benefit SKI. [16]
- 3 Evaluate ways in which SKI's cash flow may be improved. [16]
- 4 Discuss how economies of scale might be achieved through SKI's expansion. [10]

SWALLOWS KITCHENS & INTERIORS Ltd. (SKI)

2005 is likely to be an important year for the newly renamed Swallows Kitchens & Interiors Ltd. (SKI) as it attempts to diversify into a much wider market. For the last 13 years, SKI has been manufacturing and installing bespoke kitchens at the premium end of the market. It is based on the outskirts of Camberley in Surrey, although it sees North Hampshire, West Surrey and Berkshire as its target market. SKI was set up by brother and sister, Graham and Evelyn Swallow (the only two shareholders in the firm). 2002 was a milestone as turnover exceeded £1 million per annum for the first time. Increased competition in the kitchen market and a greater willingness by potential customers to shop around a wider geographical area has led SKI to widen the range of services provided for 2005 by introducing loft conversions, as well as fitted studies and bedrooms. This is a decision that has been nearly two years in the making, being preceded by careful analysis of what competitors offer and what customers demand. Evelyn, who looks after the marketing and finance side of the business, has been asking all customers of SKI over the last 18 months to fill in a questionnaire (see Appendix 1).

Graham and Evelyn's niece Kathryn Elliott, as part of her A-Level Business Studies Project, has collated this data. She also collected and analysed other data about SKI's market and has already made a number of preliminary recommendations (see Appendix 2). Although Graham and Evelyn were happy to help Kathryn with her A-Level studies, they are concerned about some of the issues that were raised. In particular, the thought of having to develop differing marketing strategies for each market appears daunting for such a small company.

SKI has been operating out of a large converted barn for the past nine years. It has a small car park, and an office area where customers can sit and talk about what they want and view different samples, either physically or on the computer. There is also a showroom with four complete kitchen displays. Customers do not have access to the large workshop, also on site. Evelyn spends most of her time in the office area and showroom, welcoming and talking with customers. However, as the business is open to customers six days a week, Tuesday to Sunday, SKI also employs a Sales Associate three half days a week, plus all day Sunday.

As a qualified architect, Graham visits customers' homes to measure up and plan the new kitchens. He uses the latest technology including a CAD programme on his laptop that gives a 3D image of the customer's new kitchen. It also produces the necessary technical drawings and dimensions for the production staff and the costings so that Graham can quote a price. The customer pays a 10% deposit when the contract is signed, 40% when the materials are delivered two to three days before the fitting is carried out and the remaining 50% once the work is completed.

Once the customer signs the contract Graham passes on the job to the joiners in the production department and fixes a date with the customer for completion, usually at least two months in the future. This is to give time for all the cupboards, worktops and other fittings to be made to measure in the firm's workshop. The firm holds a stock of the most popular cupboard and worktop designs. However, as there are over 100 different designs that customers can choose from, many have to be ordered from suppliers only when needed. No stocks of pre-produced components such as ovens, fridges and sinks are kept. These are ordered direct from the manufacturers as needed and sold to the customer at cost price as part of their kitchen.

The actual fitting of the kitchens is a highly skilled job. The work must be carried out exactly to the drawings produced. However, because this work is done in the customer's home the fitters have to work unsupervised for the vast majority of the time. SKI has three teams of full-time salaried fitters (each team contains three members with one of them designated as Senior Fitter). During busy times of the year Graham contracts out some fitting jobs to a friend who runs a home improvements business. 50

Graham has always been concerned about the time taken by the fitters to do the work. Many jobs take at least a day longer than scheduled which has consequences for both the firm and the customers. He feels that because the fitters operate unsupervised they have no motivation to complete jobs to schedule. Recently, he has been trying to make unannounced visits to his fitters while they are working on jobs to try and find evidence of their poor work effort. He is sure that his visits will have the desired effect. Evelyn is less convinced about this course of action. 55 60

"Maybe you are being too optimistic about how long a job should take," said Evelyn over coffee one day.

Graham disagreed. "I've been designing kitchens for 13 years, I should know how long they take to put in. It's these fitters. They think that as nobody is watching them they can work as slowly as they want. Too many coffee breaks – that's their problem. I'm sure if I surprise them enough times I'll catch them slacking." 65

"Well, I heard some of the joiners and fitters talking in the workshop the other day and I got the distinct impression that they feel they're not trusted and were talking about looking for other jobs," commented Evelyn. 70

Evelyn is currently concerned about SKI's cash flow situation. Although the firm has remained profitable for the last ten years, it has regularly needed an overdraft to cover a negative cash balance. The overdraft is unsecured. At the last meeting with the bank manager, Evelyn was alarmed to be told that the bank wanted guarantees that SKI is investigating ways in which the business could reduce its regular overdraft needs. Without this overdraft Evelyn is worried about the consequences for the future of SKI, especially given the planned expansion at the start of 2005 (see Table 1). 75

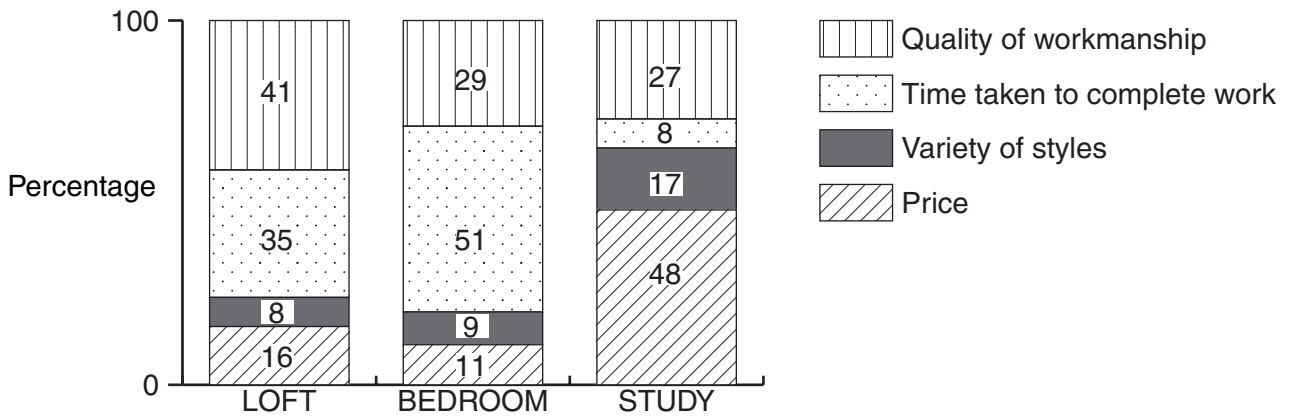
Graham was less than happy when he heard this from Evelyn. "I don't see what right the bank has to interfere in the running of my company. I thought the whole point of banks was to provide companies like mine with loans and overdrafts. They certainly make enough profit out of me!" 80

"The bank manager kept talking about 'operational efficiency'," replied Evelyn. "He seemed to think that as we are now a well established business that we should be benefiting from our increased size and experience." 85

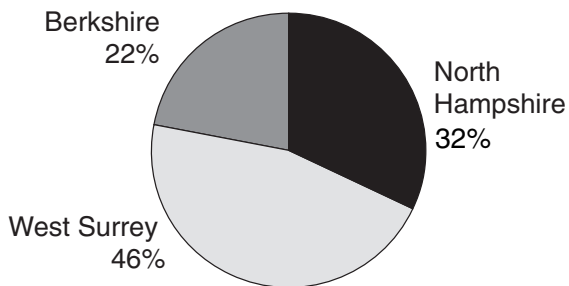
Graham was now beginning to lose his temper. "Why should we be improving this operational efficiency thing just because we are growing in size? I haven't got time for this sort of interference from outsiders. There are more pressing matters, idle fitters and establishing the non-kitchen part of the business to name but two."

Appendix 1 Summary of Questionnaire Results

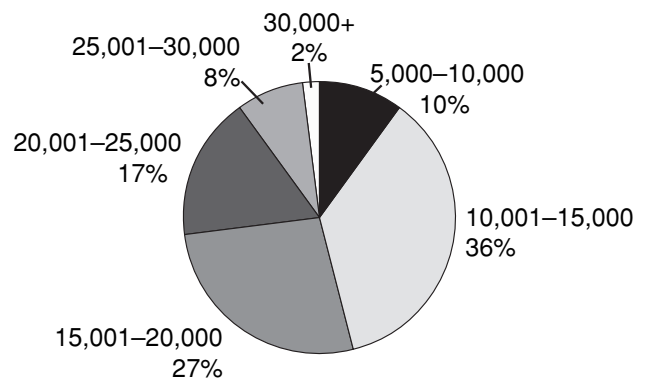
What is the most important factor when choosing the following:



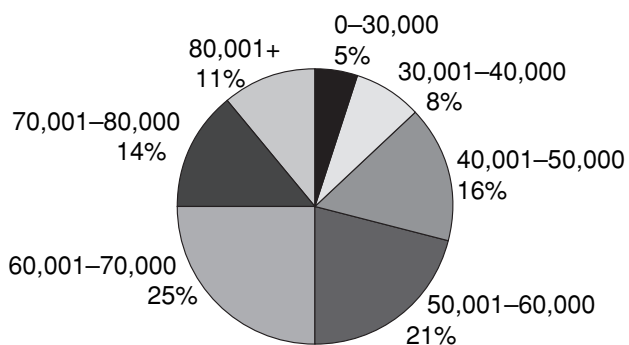
Customer location



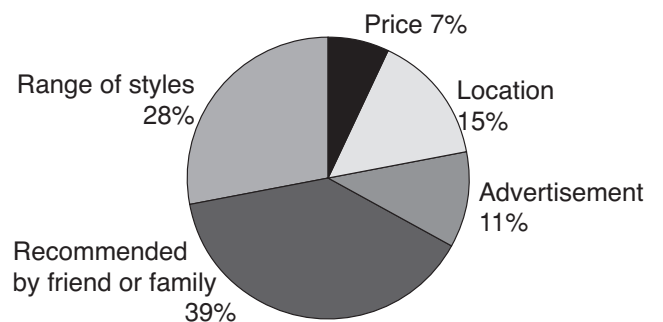
Total price of kitchen (£)



Customers' household income (£)



Main reason for selecting SKI



Appendix 2 Selected information from Kathryn Elliott's Project

<u>Annual Turnover for SKI</u>		<u>Estimated size of Target Market</u>	
1995	£ 541,090	1995	£ 8,500,000
1996	£ 634,896	1996	£ 9,000,000
1997	£ 669,780	1997	£ 9,500,000
1998	£ 704,665	1998	£ 10,000,000
1999	£ 774,433	1999	£ 11,000,000
2000	£ 851,179	2000	£ 12,000,000
2001	£ 920,948	2001	£ 13,500,000
2002	£ 1,002,202	2002	£ 15,500,000
2003	£ 1,099,671	2003	£ 18,500,000

Preliminary recommendations

- The company needs to investigate ways of reducing the sensitivity of business to trends in the housing market.
- Ways to lessen the seasonal fluctuations in demand are also needed.
- The new markets, namely studies, bedrooms and loft conversions, cannot be treated in the same way as the kitchen market. Different promotional and pricing policies will need to be considered.
- The fitters will need additional training.
- If the new markets are successful more fitters will be needed.
- Sub-contracting more of the work may create greater flexibility, so improving profitability and reducing some of the seasonal problems.
- The challenge of expansion requires the complete support of the workforce. Leadership styles need to be examined.
- Continued growth may create a need for a more specialised 'Works Manager' to allow Graham to concentrate on gaining the work via quotes in the first place.
- SKI may need to be prepared for more fierce competition. If market share grows and diversification happens, competitors will become more aware of SKI as a threat.

Table 1 SKI's Cash Flow 2004–05

	Actual figures (£'000)												Forecast figures (£'000)												
	May 04	Jun 04	Jul 04	Aug 04	Sep 04	Oct 04	Nov 04	Dec 04	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05					
Opening bank balance	-34	-13.4	-7.4	11.7	3.7	-1.8	-2.1	14.1	-23.9	-87.4	-104.2	-114.2													
Receipts																									
Sales	118	114	110	83	88	95	97	60	70	100	120	130													
Payments																									
Materials (1)	50	49	47	45	47	49	36	35	50	60	65	70													
Wages & salaries	37.5	36.5	38	41.2	40.8	40.6	38.2	35	35	35	38	40													
Office expenses	2.4	2.3	1.9	1.8	2	1.6	1.9	2	2	2	2	2													
Utilities & business rates	3	3	2.5	2	2.5	2.5	3	4	4	5	4.5	4													
Interest on overdraft	3.5	1.2	0.5	0	0	0.1	0.2	5	5.5	12.8	18.5	21.8													
Promotional costs	1	1	1	1	1.2	1.5	1.5	2	2	2	2	2													
New display material for kitchens & studies		15						15																	
New van									35																
Total payments	97.4	108	90.9	91	93.5	95.3	80.8	98	133.5	116.8	130	139.8													
Net cash flow for month	20.6	6	19.1	-8	-5.5	-0.3	16.2	-38	-63.5	-16.8	-10	-9.8													
Closing bank balance	-13.4	-7.4	11.7	3.7	-1.8	-2.1	14.1	-23.9	-87.4	-104.2	-114.2	-124													

(1) All wood and sinks are paid on 30 days trade credit. Electrical products are cash on delivery.

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (OCR) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

OCR is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.