

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced GCE

BUSINESS STUDIES

2880

Business Strategy

Thursday

20 JANUARY 2005

Afternoon

2 hours

Additional materials:
Answer Booklet

TIME 2 hours

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 additional 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 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 question paper consists of 10 printed pages and 2 blank pages.

Answer **all** questions.

1 Evaluate which stakeholder group is likely to be most influential in SCL's achievement of its 2005-2006 objectives. [18]

2 David Rees says that, "There is no point worrying about the state of the economy and what goes on outside the Club; it'll happen anyway. It's what we do on the pitch that matters and determines whether we are successful."

To what extent might the state of the economy impact upon the strategic decisions taken by SCL? [19]

3 The summer break for rugby is 14 weeks. Recommend whether SCL should rebuild the Harborough Road stand for the 2006-2007 season. [19]

4 Should SCL acquire Littleborough Ladies Association Football Club? Justify your view. [20]

Sporting Club Littleborough, SCL

Alistair Burnell is Managing Director, MD, of Sporting Club Littleborough (SCL), a private limited company located in the midlands. SCL's core business is rugby union, with squash, cycling and fitness being important complementary activities. Like most MDs, Alistair's typical working day is both long and dominated by meetings. Looking through his diary he saw that today would be no exception. By the end of the day he hoped that a number of key strategic decisions would have been taken which will secure the Club's future success. Appendix 1 shows SCL's Mission Statement, Objectives and Core Values.

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Rugby has dominated Alistair's entire life. In his younger days he played first class and international rugby with great team and personal success. When he retired from playing he spent a short time in journalism before returning to SCL, joining the coaching staff to establish a youth development programme. Today this has been replaced by The Colts, a scheme by which SCL develops Under 16 and Under 19 players, supporting them through their education. Always aware of his lack of formal management qualifications, he was pleasantly surprised when he was invited to become MD in 2002. He was told his charismatic approach to leadership more than compensated for certificates, especially in an industry where individual motivation is so important.

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A decision about rebuilding the club's Harborough Road stand was one that Alistair knew should not be delayed. Ideally a decision is needed today if there is to be any chance of the project being completed for the start of the 2006-2007 season. SCL owns two sites in Littleborough. The main site, situated in the city centre, is the rugby ground, Gunthorpe Park, see Table 1. The second site is The Vale.

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Table 1
Gunthorpe Park details

Stand	Capacity	Built	Notes
Harborough Rd	6,353	1920	Manageable health and safety risk; timber construction, high public liability insurance cost. Restricted views. Seating & terraces. No disabled access.
Canal End	4,494	1924	Manageable health and safety risk; timber construction, high public liability insurance cost. Seating & terraces. Limited disabled access.
Park	3,736	1956	Hospitality suite. Media facilities. Includes family seating area. Limited disabled access.
Webb Ellis Stand	5,250	1996	Seating only. Player and official changing. Administrative offices. Club shop. Disabled facilities.

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The local authority, which is very supportive of the Club given the positive impact it has on the town, has already indicated that planning permission will be granted. The estimated capital requirement is £7.5 m. SCL's project management consultants have provided a diagram showing how long the rebuilding work will take, see Fig. 1. Due to health and safety issues, the second phase of the rebuilding of the Harborough Road stand requires the closure of the entire ground. Once commissioned, the new stand will have an all seat capacity of 6,920. It is projected that average ticket income for Gunthorpe Park will rise to £225 per seat per annum. The new stand will incorporate a media centre to reflect the increased popularity of rugby. This will make SCL more attractive to TV companies as well as giving the potential to penetrate markets beyond Europe. Alistair is meeting Louise Harris, SCL's PR Officer, and Mikhail Tarabanov, Finance Director, at 11.00.

Two possible routes to securing the £7.5 m have been identified. The first is to float the company. The second route is via a combination of a supporters' bond and Directors' Loans, see Appendix 2. After discussion with SCL's bankers, Alistair believes that if the company is floated the probability of a successful bond issue increases from 60% to 75%, whilst the probability of the issue failing falls from 20% to 10%. An issue that raises just £2.0 m would be regarded as a failure, whilst £5.0 m would be seen as unacceptable. Alistair believes a public floatation could cost up to £0.5 m for prospectuses, legal fees and associated PR work.

The Club's training ground, The Vale, has a state-of-the-art gymnasium and fitness centre in addition to several practice pitches. It is on the outskirts of the city and has poor public transport links. All of SCL's non-rugby activities are located at The Vale. A few years ago a feasibility study of selling Gunthorpe Park, and relocating the entire Club into a purpose built 45,000 all seat multi-purpose stadium at The Vale, was conducted. Exploratory meetings between SCL and the local authority revealed opposition from the Council which is very keen to preserve SCL's presence in the city centre. Hints were made that, should SCL try to sell Gunthorpe Park, the local authority would not be very co-operative in re-zoning the land for alternative uses, and as such the site's value would be much lower than was needed to finance the move.

The prime motivation for the move to The Vale was to increase ticket revenues by expanding capacity. The proportion of sell out games at Gunthorpe Park has steadily risen in line with the Club's sporting success. In the last three years full attendance has grown from 64% to 72% of games. On average, during the season, 1.5 games a fortnight are played at Gunthorpe Park. Mikhail is concerned that ticket prices cannot continue to rise faster than both inflation and average earnings. In the last three years, average earnings in Littleborough have risen 8% and ticket prices have risen by 12%. Mikhail fears a recession could seriously jeopardise SCL's future because players' salaries, most of which are contractually fixed, represent one of the Club's biggest costs. His worry was compounded recently when in a meeting David Rees, Head Coach, said, "There is no point worrying about the state of the economy and what goes on outside the Club; it'll happen anyway. It's what we do on the pitch that matters and determines whether we are successful." Mikhail is staggered that commercial realities have yet to penetrate fully throughout what he views as an entertainment business.

Scheduled for 14.00, Alistair has a meeting with Seb Taylor, the agent of recently signed player, Hyun-Young Cho. Cho, nicknamed HY, is Korean. Since his arrival at the Club last year, SCL has managed to secure a lucrative three-year sponsorship deal with a Korean white goods manufacturer, Won World Electrics, WWE. The sponsorship contract is subject to an annual review and is worth a six-figure sum

each year. Alistair is aware from the coaching staff that, following the arrival of HY's first child, HY feels his commitment to SCL is too demanding. Consequently Alistair was unsurprised to receive a letter from Taylor saying he wants to discuss "the issue of HY's work-life balance... and how his duties might be re-arranged so he can spend more time with his young family". In common with all first team squad players, HY is required to attend training four mornings per week. In addition, players are required to spend time engaged in Club-based activities. These typically include coaching at local schools and clubs, PR and media events. Many of the latter take place in the evening. Irrespective of whether selected to play or not, the whole squad has to attend all competitive games so as to foster an *esprit-de-corps*. In an average week, during the 38 week season, a player could expect to be engaged in Club business for 50 hours. Taylor's proposal is that HY is committed to 25 hours, i.e. attend training and travel to those matches for which he has been selected to play. 95 100

Many of the international players in the squad are able to earn considerable fees through private media work and product endorsements. This income supplements a salary of anywhere from £24,000 to six-figure sums, depending on individual contracts. This lower figure is below that paid to many of SLC's office staff, but in excess of the salaries paid to ground and maintenance staff. Many such staff supplement their incomes by acting as Safety Stewards at match days provided they have passed the required training courses. Several perceive the working conditions enjoyed by the playing staff as being "cushy", and consequently can be obstructive of any changes to their own work arrangements unless supported with increased pay. 105 110

The most intriguing meeting of the day, scheduled for 15.00, is with Gabriella Romeo, Chair of Littleborough Ladies Association Football Club, (LLAFC). Alistair became aware of women's soccer when his granddaughter started playing at school. What started as a passing interest has now grown into a serious proposal: a takeover of LLAFC. Although women's soccer is still largely an amateur game, Gabriella is convinced that professionalism is inevitable. It is here, in the rise of professionalism, that Alistair can see clear parallels between rugby and women's soccer. As such, SCL's experience could well be used to gain advantage over other clubs if it were to acquire LLAFC before the next stage of development in women's soccer. Gabriella has told Alistair that she is confident she can persuade the other members of LLAFC's board, a company limited by guarantee, to agree to merge with SCL. Alistair's thinking is that the takeover could be achieved via a share swap, obviating the need to raise cash. LLAFC's only asset, its ground, was valued in 1998 at £100,000. 115 120 125

Women's soccer is one of the UK's fastest growing sports, with over 80,000 registered players in 2003, an increase of over 300% in five years. In the ten years between 1989 and 1999, the number of women's clubs registered with the Football Association (FA) rose from 263 to over 1,000. Much of this growth is attributed to introducing girls to soccer at primary school, whilst increasing numbers of secondary schools run teams. In addition, many senior Premiership and Nationwide league clubs have affiliated women's sides playing in a highly competitive national league supported by the FA. Likewise, there are women's teams at international level. The media attention given to the women's World Cup, which in 2003 was held in California, surprised many outside of the game. Participation rates in the US are particularly high, with over 7.2 m registered players in 1998. The forthcoming 2005 UEFA championship, hosted by the FA, is likely to gain extensive, non-specialist, media coverage. This is likely to further boost participation rates and spectator numbers. In Italy, crowds of more than 10,000 at women's games are regularly reported in *Gazzetta Dello' Sport*, a specialist sports newspaper. 130 135 140

Alistair is aware that not everyone at SCL is in favour of his proposed takeover of LLAFC. Some board members, and several staff, think that SCL should focus its scarce resources on rugby. For example, the Head Groundsman has told Alistair “..the differing needs of the two games will make pitch preparation nigh on impossible.” David Rees is similarly opposed, and believes that many of SCL’s core supporters would hold the same view. In contrast, Louise Harris is very supportive, arguing that it would generate considerable interest in the Club. Mikhail Tarabanov agrees, citing better use of Gunthorpe Park that, even in the full season, typically records asset utilisation of barely 10%. The possibility of tapping into a new market for Club merchandise is a further positive.

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**Rebuilding work schedule for the
Harborough Road Stand.**

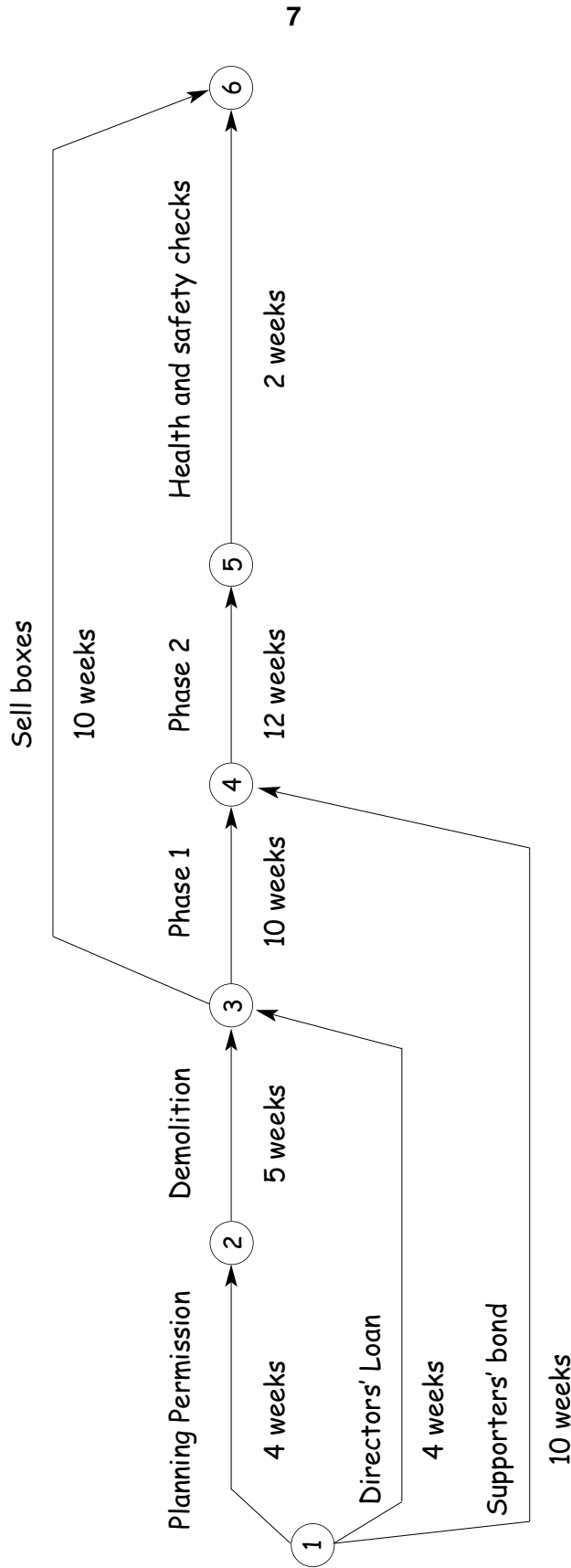


Fig. 1

Appendix 1

Mission Statement

SCL's mission is to sustain a successful sporting club, and in whatever sports we compete in, we do so with passion, flair and integrity so that each season a major honour is achieved, ensuring all stakeholders understand their role in achieving the SCL mission.

Objectives

In the 2005-06 season we will:

- win at least one major honour, whether league, domestic or European cup
- secure financial stability
- grow the value of the SCL brand

Core Values

As a leisure-based organisation we recognise we are in a competitive environment and that in order to succeed we must be customer focused, innovative and adaptive to change, regardless of the direction from which it comes.

We believe that our success is built upon people, whether customers, players or staff. To this end we must provide the highest standards of facilities at competitive prices, attract, retain and develop players to their full potential and provide staff with a stimulating environment in which to work.

Our success as a sporting club can only be assured through prudent, long-term financial management that allows for replacement or regeneration of facilities so providing a first class environment for the pursuit of enjoyable and successful sporting endeavour.

We are proud of our role as an inclusive key-stone of the community and recognise the importance that sport can play in building partnerships between different groups by offering a common focus, whether through playing or support.

Profit and Loss Account

		2004 £s	2007 £s
Income			
	Ticket sales	3,528,500	4,586,400
	Sponsorship & media	5,926,800	8,890,000
	Merchandising	724,370	833,000
	Conference & banqueting	878,124	1,000,000
	Other	50,056	52,500
		<u>11,107,850</u>	<u>15,361,900</u>
Expenditure			
	Players	4,321,950	6,270,000
	Ground staff	726,770	808,500
	Administration	4,908,900	6,135,500
	Colts	195,000	450,000
	Other	650,841	848,000
		<u>10,803,461</u>	<u>14,512,000</u>
Operating profit		<u>304,389</u>	<u>849,900</u>
	Contingency	200,000	–
	Interest	9,468	468,500
Profit before tax		<u>94,921</u>	<u>381,400</u>

NB. 2004 Unaudited
 2007 Projected assuming stand is
 financed through bond issue
 and Directors' loans.

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