

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced GCE

BUSINESS STUDIES

2879

Business Thematic Enquiry

Wednesday

29 JUNE 2005

Morning

1 hour 30 minutes

Additional materials:
8 page Answer Booklet

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Complete both tasks.
- Write your answers on the separate answer booklet provided.
- If you need extra sheets of paper, fasten these sheets securely to the answer booklet.
- Read the tasks carefully and make sure you know what you have to do before starting your report.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each task.
- The total number of marks for this paper is 90.
- You will be awarded marks for the quality of your written communication.

This question paper consists of 4 printed pages.

Specialist Sports Ltd

Specialist Sports Limited (SSL) was incorporated in 1995. The share capital is owned as follows:

	%	
Paul Crawford (Chairman):	32	
Joanna Crawford (Paul's wife and Managing Director):	20	5
Six other family members each:	8	

The company produces custom made sports equipment for professionals and the top end of the amateur sporting market. For many years the main product has been surfboards.

In April 2005 when the Directors were considering trading results for the financial year ending 31 March 2005, it became clear that there were two problems which must be solved. Joanna was worried by the drop in net profit. It was agreed that the only way to reverse the trend would be to develop and market a new product. Joanna agreed to research this. 10

Paul was most concerned by increasing costs arising from growing personnel problems. He agreed to investigate the reasons for this trend and find a solution. Both Directors agreed to report back to a meeting of the Board in June. 15

The Personnel Problem

The company has never employed specialist personnel management. Until three years ago this had not appeared to be a problem. In the last three years the staff has doubled to 50. Absenteeism is the worst problem, but lateness and labour turnover have also increased significantly. Dealing with these matters has increased personnel costs and production costs. This has contributed to the reduction in net profit. 20

Paul was not surprised to find other evidence of a drop in morale among the staff. A major cause of this was growing uncertainty about the survival of the firm and about their jobs. Paul realised that this could lead to poor quality work and failure to deliver on time. 25

Paul's proposal for the Directors is that a Personnel Manager be appointed with the costs shown in **Table 1**.

Table 1: Forecast Costs for Proposed Personnel Manager Appointment

	£
Manager	30,000
Budget	<u>80,000</u>
	£ 110,000

The Marketing Problem

There is no real scope for further growth in the segments of the market the firm is in and, therefore, the future lies with the development of a new product. This will require research and then product development. 30

The company currently trades in segments of the market which use specialist retailers with an established reputation. To support its own reputation and promote its products the business also sells to individual sporting personalities pricing the products at cost. Joanna knows that additional full price sales are gained because products of the firm are seen to be used successfully in sporting competitions. 35

After completing her research Joanna intends to propose that the new product should be skateboards. She has found that a sufficient market opportunity exists and that it can be targeted. It will also minimise investment because skateboards can be produced using largely the same technology and skills as are necessary for surfboards. Machinery costing £300,000 will be necessary and Joanna estimates this will have a working life of five years. 40

The development will require movement into the mass market and distribution will be through outlets which have not previously been used by SSL. This will mean developing a product for the middle of the market. Wholesalers will be used. The pricing strategy will be based on high sales volume at a low mark up. 45

Potentially this market is large but highly competitive. Joanna has produced forecast costings and sales as shown in **Table 2**. Joanna has calculated that the skateboards should be marketed at a retail price of £60 and that this will mean a price to wholesalers of £35. 50

Table 2: Forecast First Year Returns From Skateboard Project

	£	£
Revenue		
25,000 boards @ £35		875,000
Production Costs		
Materials	200,000	
Labour	100,000	
Other Direct Costs	<u>175,000</u>	475,000
Marketing Costs		
Direct Costs	20,000	
Promotion and Launch	<u>15,000</u>	35,000

The June Board Meeting

The problem of staffing and staff retention threatens existing business and will have to be solved if the skateboard venture is to proceed. Some Directors, conscious of their own stake in the business, argue that personnel functions can be perfectly well performed by the line managers within the business. They argue that expenditure of £110,000 each year is not justified. 55

Paul and Joanna argue that the costs of unrest and demotivation in the business are at least as great as £110,000 and are likely to rise. Their view is that the business will not survive unless the skateboard venture is pursued. They accept that the forecast is ambitious but argue that it is not unrealistic. In their view the risks of any new venture would be too high if the personnel problem remains unsolved. 60

Required:

Write a report for the Board of SSL advising it whether the new venture should be undertaken. In writing your report you should use the evidence given in the case. You should also use any evidence you have gathered from a study of the problems and strategies associated with risk and reward. The title of your report must be:

'In the present circumstances what strategy should the Board pursue?'

Complete both the tasks below

Task 1

Write a plan for your report in which you make clear: [10]

- (i) the problem as you see it and the need to solve it;
- (ii) the context in which this problem must be solved;
- (iii) your objectives in your approach to the problem;
- (iv) any assumptions you make and the reasons for them.

You are advised to spend not more than 15 minutes on this task .

Task 2

Write your report. [80]

In it you must satisfy the criteria on which the assessment is based.

You should ensure that you:

- (i) provide terms of reference for the report;
- (ii) select appropriate evidence for this task. You should use evidence both from the case and from business theory and from work you have done in preparation;
- (iii) present and analyse the evidence logically and in line with the objectives you set and the assumptions you made in the plan;
- (iv) consider the situation and arrive at a supported recommendation.