

**ADVANCED SUBSIDIARY GCE
BUSINESS STUDIES**

2871

Businesses, Their Objectives and Environment

WEDNESDAY 9 JANUARY 2008

Morning

Time: 1 hour

Additional materials (enclosed): Answer Booklet (8 page)

Additional materials (required):
Calculators may be used



INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Write your answers in the Answer Booklet.
- 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.
- Answer **all** the questions.

INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **45**.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

This document consists of **6** printed pages and **2** blank pages.

Answer **all** questions.

- 1 “We all have some responsibility for the current situation ... as a board of directors.” (lines 83–84)
Outline **two** functions of a board of directors. [4]
- 2 Discuss how the closure of two of the stores (lines 14–15) might affect STL's stakeholders. [14]
- 3 State **two** differences between a tactical and a strategic objective. [2]
- 4 “Our strategic and tactical objectives have been too vague for too long ...” (line 82). Analyse how STL could **use** a SWOT analysis to improve the setting of its objectives. [9]
- 5 Assume that Paul is able to convince Stefan and Helen to diversify into outdoor sportswear. Evaluate the influences that will determine whether STL is successful in the outdoor sportswear market. [14]

Scooter's Toys Ltd (STL)

Paul Partridge is contemplating the future of Scooter's Toys Ltd. He had read somewhere that within three generations 80% of all family businesses failed. It certainly looked as if his family's business might go that way. Paul thought family businesses were especially difficult to run; they seemed to have a unique set of problems. He often wished that he was not the Chairman of STL.

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STL was established almost 50 years ago by his grandfather, Nicholas. Nicholas had, apparently, been very active; always dashing from one place to another. His catchphrase had been, "I've got to scoot" and this gave rise to the nickname 'Scooter' which later became the name of his shops.

The company had prospered in the 1960's especially through selling bicycles and toys. It had run into financial problems in the late 1970's when the traditional toys that it sold became less and less popular. The rise of specialist cycle shops, as well as nationally known stores selling bicycles, had hit STL hard. The arrival of computers and electronic games had worsened the situation.

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The company's current position is highly unsatisfactory. Although it has five toy shops across the South West of England, Paul feels that two should be closed immediately as they have barely broken even over the last decade. His father, who had been the Chairman before him, had kept the shops open out of loyalty to the staff, many of whom are now in their late 50s and have been with STL for over 20 years. The two shops are attractively situated and would generate some much needed finance if sold.

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Like many small private companies, most of the shareholders of STL are also on the board of directors. Paul owns 20% of the share capital of STL as do both his brother, Stefan, and their sister, Helen. The two other shareholders are Paul's aunt, Camilla, and an old friend of his grandfather named Gary Wilbraham who now lives in Australia. These two people had helped his grandfather establish the business. Camilla owns 25% of the share capital and, although she is now 77 years old, tries to attend every board meeting. She has a very belligerent nature when she does not get her own way. Gary, who owns the remaining 15% of the shares, is also in his 70s. He takes no active role in STL and is content simply to receive a dividend. Paul has not even spoken to him for 18 months.

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Paul had never wanted to have the main responsibility for running the business. Stefan had always made it clear, from when he was a teenager, that he intended to become a sports journalist. Helen, although slightly more interested in business matters, had never had any enthusiasm at all for actual management and works for an estate agent. Thus it was that eight years ago, when his father died, important changes had to be made to the management of STL.

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Paul, who was then aged 24, had just gained a Master's Degree in Economics. He had been about to start a career in banking. He was encouraged by the other shareholders to assume two important roles: the management of the Broughton shop which, as the largest branch, also doubles as STL's Head Office, and the Chairmanship of the company.

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Many times since he had asked himself how on earth he had actually been persuaded to do this. He now realised that the 'support' from the other shareholders had come from the fact that none of them had any intention of running the business at all.

At first Paul had enjoyed the challenge. There had been a time about six years ago when he thought that the introduction of electronic games into STL might improve the fortunes of the company. He had succeeded at the Broughton shop in building up quite a large new group of customers by selling these games. However, the idea had failed in the other four shops where the managers had proved much less enthusiastic and competent. They wanted to continue to sell what they had always sold.

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Recently, Paul has been thinking a lot about the future of STL. He feels that the lack of managerial skills in the company is only one of its difficulties. The demographics in the region have changed considerably over the past decade and there are many other problems as well. Paul feels that STL is always one step behind its competitors.

Paul feels that the company is now in crisis and is annoyed that he appears to have all the responsibility but none of the power he needs to sort out its difficulties. He decided that at the next monthly board meeting there would be some radical changes. He circulated the meeting's agenda to the others. The first item on it is diversification. Paul is very keen on outdoor sports and is a member of a climbing club. He knows that among his club's members there is a huge demand for outdoor clothing and that these products often command high prices. He is determined that his knowledge of this market will form the basis for STL's new direction. The second item on the agenda is the closure of the two shops he has identified. Paul was secretly pleased to hear from Camilla that she would not be able to attend.

Once he had presented her apologies, Paul began the meeting.

"We can't compete with the big players in the toy market any more," he said. "All that stuff we used to say about 'competing by offering a personal service' is over. People want low prices. Our staff may be more knowledgeable and customer friendly but it makes no difference if our products are outdated and expensive. We need a change of direction linked to clearer objectives. I propose that we diversify. So ..."

"I agree," broke in Helen. "And I've got an idea which will transform our business. Vases!" she said enthusiastically. "Dried flowers! Locally made crafts and jewellery! Things like that. They may not be natural bedfellows with toys but there are shops that sell both – we'll get two types of customer if we do it." Then she added pointedly, "I know this has Aunt Camilla's support because I've spoken to her. She thinks it's a good idea."

"No Helen, the way forward is in outdoor sportswear," said Paul. "There's a huge market especially in clothes for activities such as skiing, climbing and camping. There's also a big rental market for ski and snowboard clothing, particularly among school children. We could set up deals with local schools to supply their gear; most of them run ski trips abroad every year. Have a look at this. It's a bit rough and ready but it's a start." He then presented the data shown in Fig. 1.

If we keep 3 shops open the number of secondary schools within a 12 mile radius of them is	29
Number of these schools running ski trips last year	22
<u>Source: Phone calls made to schools</u>	
Growth in number of skiers in UK over the past 5 years	13%
Approximate number of skiers and snowboarders in the UK	900,000
Approximate number of people in climbing/mountaineering clubs in UK	23,000
Growth in number of those camping in the UK	3% pa for last 4 years
<u>Source: Internet</u>	

Fig. 1

“Is this it?” asked Helen scornfully looking at the figures. “That’s what you want to use to set the new objectives that will transform the company?” 75

“At least I’ve done a bit of market research into my idea,” said Paul indignantly.

“I’d hardly call a few figures ‘research’,” she replied.

“At least Paul’s done more than you,’ said Stefan. “You’ve done nothing other than go behind our backs to Aunt Camilla.” 80

“This is getting us nowhere,” said Paul. “Let’s acknowledge what the problems are. The company is drifting. Our strategic and tactical objectives have been too vague for too long and our planning has been virtually non-existent. We all have some responsibility for the current situation. We need to think about what our functions are as a board of directors. I think radical change is needed. What do you suggest Stefan?” 85

“Radical change?” repeated Stefan. “OK let’s be really radical. I say we liquidate the whole company, not just two shops. STL is going nowhere. Grandad established it as a family business, a business for the benefit of the family. Well it’s served its purpose. It’s worth much more now than in his day. But running it is just an albatross for us all. Let’s close it down and take what’s legally ours.” 90

“That’s not going to happen,” said Paul. “Neither is the arts and crafts stuff you’re on about Helen. At least I agree with Stefan on one thing; you’ve brought nothing today to support your proposal. Look, let’s all calm down shall we? I’m going to convince you that diversifying into the outdoor sportswear market is the way forward.”

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