THIS IS A LEGACY SPECIFICATION

OCR
RECOGNISING ACHIEVEMENT

ADVANCED GCE

BUSINESS STUDIES

2880

Business Strategy

Candidates answer on the Answer Booklet

OCR Supplied Materials:
- 16 page Answer Booklet

Other Materials Required:
- A calculator may be used

Monday 1 February 2010
Afternoon

Duration: 2 hours

INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- If you use extra sheets of paper, fasten these sheets to the Answer Booklet.

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 document consists of **12** pages. Any blank pages are indicated.

A calculator may be used for this paper

Answer **all** the questions.

1 Discuss the extent to which different stakeholders would regard C&K as a successful business. **[18]**

2 C&K's notional capacity of 0.9m units per day equates to 22m units per month.

Should C&K expand the size of its operation? Justify your answer. **[19]**

3 How might an increase in direct taxation affect the strategic direction of C&K? **[19]**

4 Waste is expensive and unethical.

Recommend a strategy C&K could adopt in order to address the issue of waste levels. **[20]**

Costello and King Ltd (C&K)

Following a takeover in 2007, Costello and King Ltd is now a wholly owned subsidiary of Wakerley plc, a quoted industrial holding company. Costello and King produces bags of mixed and variety salads which are supplied into the distribution chains of three national supermarkets under their own labels. By efficient production planning and logistics, agricultural products can be picked, processed and available for retail sale within four days. The shelf life of bagged salad depends upon the actual mix of ingredients but a figure of three days would be typical, with optimal consumption within another two days. The national market for pre-packed salads enjoyed double digit growth last year and is now worth over £300m at retail prices. Wakerley expects market growth to continue as more consumers recognise the cost and time benefits of purchasing a prepared product. Currently, over 10% of all UK households purchase pre-packed salads weekly. However, this overall figure disguises marked differences in consumption across the various socio-economic groups.

C&K's Commercial Manager is Steve Challoner. He is the only member of the senior management to have survived the takeover of C&K. Although Steve recognises many of the benefits of C&K being a subsidiary company he has found adjusting to a different organisational culture difficult. These difficulties have been exaggerated by significant changes to C&K employees' conditions of service and working practices. The immediate months after the takeover of C&K were characterised by uncertainty. Fortunately, these problems are now over such that Steve believes the firm is currently enjoying a period of stability. The London based holding company provides C&K with access to a quality of commercial expertise previously unavailable internally. This expertise encompasses detailed market analysis, (see Figure 1). Similarly, Wakerley provides human resource management advice as well as data for financial planning. This encompasses both financial accounting data (see Figure 2) and management accounting information (see Figure 3). As part of a larger organisation, C&K enjoys a degree of market power a similar sized independent business would not be able to exploit.

Costello & King's Nuneton factory has a notional daily capacity of approximately 0.9 m packages although it is possible to increase output beyond this level for short periods of time. The factory's increase in UK sales continues to outstrip overall market growth. The firm employs about 300 full time staff, making it one of the largest employers in its locality. Full time staff can be supplemented by up to 80 temporary employees as and when the needs of the business dictate. The details of these temporary staff are held on a reserve employment list. At present this list is closed. Given the dull nature of the production tasks, Steve is pleasantly surprised that the firm has so little difficulty in attracting operative staff. In contrast, the increase in the labour turnover ratio since the takeover is not a surprise to him. Last quarter, amongst operative staff it was nearly 13%. In the financial year just ended (30/4/2009) the firm achieved the target Return on Capital Employed of 20% set by Wakerley. One of the targets for the current financial year is 15% growth in sales volume.

The process of packaging salad begins when raw materials are received from the firm's suppliers. The firm has two raw material stores. The main store, a chilled hygienic environment, typically contains enough perishables for two days' production. Stocks of non-perishables represent about 24 days' output and are subject to a four week lead time. The major non perishable item is packaging which is already printed with each customer's information and recommended retail price.

The various ingredients for a finished pack of salad are taken from the cold store for washing and preparation. This process is largely automated and hence employees do little more than supervise it. The cleaning section is noisy, cold and wet and generates a weekly water bill of £2,530. Cleaned product is then cold stored in stainless steel hoppers until required for packaging.

Once the precise batch requirements for a customer order are known, ingredient mix and total quantity, a computer controlled production line can be set up. Before the same production line can be run for a different batch, about 30 minutes of labour intensive cleaning with high pressure hoses and brooms is required. For hygiene reasons it is important to remove any residual production debris. Batches are assembled by discharging measured amounts of ingredients from the various hoppers into either plastic bags or trays. Last year bags outsold trays by a factor of two. If necessary, additional ingredients, e.g. cherry tomatoes, can be added manually to trays prior to their being heat sealed in an automatic packaging machine. As in the preparation area, assembly tasks are a mixture of monitoring machinery and routinised manual operations. Once sealed, both trays and bags are sent through to the despatch store where orders are assembled and palletised. The final stage is the loading of the pallets onto trucks for distribution. The production shift ends when the day's work is complete, either after cleaning all the machinery or the despatch of customer orders.

One significant issue is determining daily output levels. The firm receives the day's orders from the central purchasing departments of its customers by 10.00 am. These orders have to be met within a guaranteed lead time of six hours. Steve has attempted to use a variety of methods of forecasting demand but has yet to find a method which is substantially better than the experientially based estimates made by Ian Young, C&K's Operations Manager. It is Ian's role to translate customer orders into the daily production schedule and so determine the usage of the factory. Both Steve and Ian, like all senior managerial staff, are eligible for a performance related bonus introduced by Wakerley. These quarterly bonuses depend upon the achievement of financial Key Performance Indicators, (KPIs). KPIs include asset utilisation, operating margin and waste costs. By using a complex formula all of the KPIs are combined into a single value which, if it exceeds the quarterly target set by Wakerley, triggers the bonus. The only other bonus paid by C&K is the pre-takeover attendance bonus for hourly paid operative staff. The operative staff employed on the production line are grouped into teams. Each team rotates around the various tasks in preparation and assembly on a daily basis. Breaks are taken when stoppages in the production plan allow. This minimises downtime and hygiene risk.

Last quarter no senior staff bonus was paid. This was in part owing to excessive maintenance expenditure. Two semi-automatic doors which separate the order assembly and the distribution areas were repeatedly damaged. The doors, which form an airlock, are required because the assembly area is a temperature controlled environment. If the doors remain open this is wasteful because it increases refrigeration costs as cold air is able to escape. Therefore, part of the forklift truck driver training is to use a pull cord which activates the opening mechanism for the doors. A photoelectric sensor detects the passage of the forklift and so automatically closes one door before opening the other paired door. The maintenance staff claims the nature of damage to the activation system could only arise from some deliberate action. The Head of Maintenance, Rob Wallace has told Ian that, by sticking pieces of metal under the doors, the drivers are jamming them open. By not having to wait for the doors to open and close the time taken to load an order is reduced. Ian knows jamming the doors would cause the hydraulic pressure in the mechanism to exceed tolerance, resulting in the type of damage seen. The Despatch Supervisor, Ameer Malik, strenuously denies Wallace's accusation. Rather the doors fail because, asserts Ameer, the Maintenance Department cannot be bothered to fix them properly. The only thing which Ameer and Rob agree upon is that the underlying cause is poor training and supervision. Ian is aware that unless the problem can be fixed, the KPIs for maintenance and electricity costs are likely to result in adverse variances. Ian is anxious that his section's performance does not lead to the non-payment of the bonus for next quarter.

The firm's customers have very strict quality specifications and it is not unknown for an entire order to be rejected. Any rejected orders are returned to C&K, at their own expense, for disposal. When this happens Steve ensures the order is subject to a thorough quality analysis. There are several reasons for quality problems. One is allowing substandard product to enter the process. Another has been ineffective sealing of bags and trays. This allows air to contact the product thus substantially reducing its shelf life, (Table 1). By removing the packaging on customer returns they can be mixed with other putrifiable waste generated in process. Last year waste amounted to approximately 2% of ingredient cost. Another cost to the firm is managing cleaning effluent. Through a series of filter and centrifuge sets the firm is able to recycle 60% of effluent. Adding another set at a capital cost of £150,000 would enable this figure to be improved to 75%. Steve is now required to submit all proposals requiring capital expenditure to Wakerley. Each is subject to scrutiny and approval using the parent company's own internal set of acceptance criteria. Wakerley has a policy of depreciating all fixed assets (other than land and buildings) to zero book value over four years.

A recent capital investment proposal, submitted by Steve to the holding company, involved a new product idea. Steve persuaded the other senior managers at C&K that there is an emerging market for pre-packed mixed salad as an individual snack food. Consequently he gave a presentation at the last meeting of the Board of Directors but was surprised at their lack of collective enthusiasm. The composition of the Board of Directors is such that it is now dominated by Wakerley appointees. This is a cause of frustration for Steve who often feels unsupported. He views the Board's attitude as patronising and now resents the fleeting excursions from their "..plush London offices". The new product would be sold in 500 ml trays. The intended target market would be individuals who wish to enjoy healthy eating yet do not have the time to mix their own salads nor feel the need to buy the existing larger volume products from supermarkets. Sealed within the tray would be a disposable fork and a small pot of dressing. The trays would be available via any outlet which sells pre-packed snacks and sandwiches. Some tentative costings suggest the variable costs could be 65% of a total cost of £1.40. This figure includes the buying in of the pots of dressing. Allowing for the channel intermediaries' margins the product should be price competitive.

Table 1

Summary quality report,
October 2009

Date	Customer	Customer Reason	Quality Analyst's Comment
5/10	A – site 43	Brown leaves	Inspected okay – contains Lollo Rossa
5/10	A – site 12	Foreign object contamination	Snails
5/10	C – site 16	Brown leaves	Agreed – Spanish Radicchio
19/10	A – site 43	Brown leaves	Inspected okay – contains Lollo Rossa
21/10	B – site 09	Ruptured packaging	Two ruptured bags in the order
26/10	A – site 43	Brown leaves	Inspected okay – contains Lollo Rossa
28/10	B – site 09	Ruptured packaging	No discernible damage
30/10	A – site 31	Foreign object contamination	Snails
30/10	A – site 54	Foreign object contamination	Small amount of soil/grit
30/10	C – site 16	Ruptured packaging	Five damaged trays

Fig. 1

Salad Market Growth

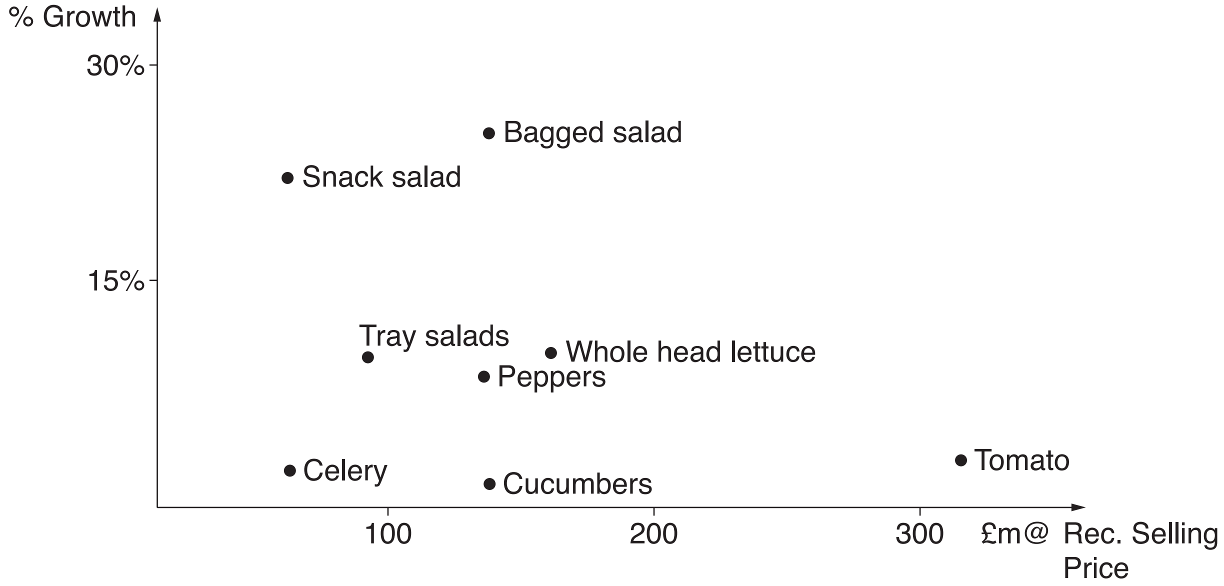

Fig. 2

Balance Sheet
C&K Ltd, as at 30/4/2009

Land			1,500
Buildings			5,000
Net, plant and equipment			12,000
			18,500
Stock			
	Ingredients	2,019	
	Packaging	287	
Debtors		29,699	
Cash		595	32,600
Trade creditors		18,411	
Dividend		1,815	20,226
Net Current Assets			12,374
Creditors falling due after one year			8,500
Net Assets			22,374
Financed by			
Share capital			20,000
Reserves			2,374
			22,374

Turn over for Fig. 3

Fig. 3
Operating Summary 2008–2009

	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Year
Volume, m units	18.196	22.254	19.551	18.195	20.753	21.051	22.696	25.252	25.552	22.695	22.254	19.551	258
£000s													
Revenue	15,466.6	18,915.9	16,618.3	15,738.7	17,951.3	18,209.1	19,632.0	20,706.6	20,952.6	18,723.4	18,248.3	15,640.8	216,803.8
Ingredients	13,146.6	16,078.5	14,125.6	13,377.9	15,258.6	15,477.7	16,687.2	17,600.6	17,809.7	15,914.9	15,511.0	13,294.7	184,283.2
Packaging	618.7	756.6	664.7	629.5	718.1	764.8	785.3	849.0	838.1	748.9	729.9	625.6	8,729.3
Labour (inc. social security costs)	618.7	851.2	664.7	629.5	718.1	728.4	785.3	828.3	942.9	842.6	821.2	703.8	9,134.6
Distribution	309.3	378.3	332.4	236.1	359.0	364.2	373.0	414.1	419.1	355.7	383.2	344.1	4,268.6
Gross Profit	773.3	851.2	830.9	865.6	897.6	874.0	1,001.2	1,014.6	942.9	861.3	802.9	672.6	10,388.2
GPM	5.0%	4.5%	5.0%	5.5%	5.0%	4.8%	5.1%	4.9%	4.5%	4.6%	4.4%	4.3%	4.8%
Indirect labour	70	70	70	70	70	70	70	70	70	70	74	74	848.0
Overheads	385	385	385	385	385	385	385	385	385	385	400	400	4,650.0
Depreciation	55	55	55	55	55	55	55	55	55	55	55	55	660.0
PBIT	263.3	341.2	320.9	355.6	387.6	364.0	491.2	504.6	432.9	351.3	273.9	143.6	4,230.2
Net Margin	1.7%	1.8%	1.9%	2.3%	2.2%	2.0%	2.5%	2.4%	2.1%	1.9%	1.5%	0.9%	2.0%

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