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ADVANCED GCE**

**F297/CS**

**BUSINESS STUDIES**

**Strategic Management**

**PRE-RELEASE CASE STUDY**

**To be opened on receipt**

**JANUARY 2011**

**SUITABLE FOR VISUALLY IMPAIRED CANDIDATES**

**INSTRUCTIONS TO TEACHERS**

- This case study **MUST** be opened and given to candidates on receipt.

**INFORMATION FOR CANDIDATES**

- This case study may **NOT** be taken into the examination room.

## **Aardvark Design and Printing Technologies Ltd (ADaPT).**

**In 1990 Hamish Watson found himself needing to return to Hinckley in order to be close to his ailing parents. A Fine Art graduate, Hamish had worked for a variety of graphic design businesses, gradually adding commercial acumen to his creative abilities. After several years working for others, his return to the Midlands provided the impetus for starting his own design business. With financial backing from a mixture of family and friends, in 1991 Aardvark Design came into being. Within a short period of time it became clear that customers wanted a “one stop” service – from design through to realisation. In essence, designers take the client’s brief, work it into a top class visual solution which can then be printed in-house to create the final product. Combining design and print represented a rational strategic move and as a result it was also decided to change the business’ legal identity. Consequently, in late 1993, Aardvark Design and Printing Technologies Ltd (ADaPT) was incorporated as a private limited company. Items produced by ADaPT range from calendars, flyers, technical instruction manuals, tourist information booklets and, more recently, to books. If asked to say what his objectives are Hamish would be likely to say “To run a good business, a place where people enjoy coming every day, and making enough profit to keep everyone happy.”**

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**Even though Managing Director, Hamish spends most of his days either working in the design studio or meeting customers. Since 2009 the day-to-day administration and non-design management of ADaPT has been delegated to David Wilkinson, the Administrative Manager. This division of labour allows Hamish to concentrate on what he loves to**

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do, rather than being concerned with the minutiae of running the business. Administration is something which Hamish finds unexciting and, if he were being honest, rather tedious. His view is that he can earn more for the business as a designer and the value he adds more than pays for someone else to do the administration. In addition to Hamish, there are four other designers in the design studio (see Appendix 1). The designers' work is of two main types. The first is for new customers. These new commissions can frequently require creativity, being both bespoke and challenging. Such work, when completed to the customer's brief, can give the designer a real sense of achievement. The second type of work is an update of a previous order, typically changing prices or the layout on a customer's promotional material of the sort inserted into many local newspapers. Hamish describes this as a 'bread and butter' task because it tends to be rather routine.

Hamish believes that his business has a close knit, family culture. He is on first name terms with everyone, and insists that they, in turn, call him 'Hamish'. Although it irks Sam Russell, Sales and Marketing Director, Hamish likes to keep overt symbols of hierarchy to a minimum, believing that this will help to create an ethos of team-working and collective responsibility. Hence, for example, the car park has no designated parking spaces and no one has a company car. In fact, the only vehicle which ADaPT owns is a Citroen Berlingo van which is used to deliver orders and collect small supplies. All ADaPT staff are salaried, with a quarterly bonus (paid as a percentage of salary) if output targets are met. Staff work a 37 hour week, finishing at lunch time on a Friday, if the volume of work permits. Toward the end of a quarter it is not unusual for the production

**staff to work late on a Friday, and possibly Saturday morning, so as to achieve the bonus.**

**During the mid 1990s ADaPT grew steadily. However, in the last ten years sales growth has been far more pleasing. Much of the more recent sales growth has reflected the fortunes of Hinckley in particular, and the Midlands in general. Pursuing a deliberate policy of decentralisation, the UK government has moved a number of support departments away from London to, for example, Coventry. Leicester and Leicestershire have also benefited from considerable government spending in the tertiary sector, most notably health and education (see Table 1).**

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**For ADaPT these two streams of spending can combine when, for example, it is contracted to produce delegate packs for medical conferences at Leicester University. ADaPT's flexibility in being able to produce high quality, low volume work with relatively short lead times gives it a competitive advantage, particularly at a time when more and more printing work is being sourced from China.**

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**During the last weekly management meeting, amongst the plethora of papers Abigail Padley, Financial Controller, habitually produces, there was a breakdown of revenues by customer for the last ten years (see Table 2).**

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**Hamish was not too sure what the implications of this were, but he was aware that with a little flair and creativity he could have made the data visually appealing and, therefore, the meeting more fun! Similarly, although Hamish was careful not to show it, his heart sank a little when David produced his**

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monthly production key performance indicators (KPI's) (see Table 3).	105
David was pleased that the latest monthly figures again showed a rise in output, but he was concerned that ADaPT was close to maximum capacity. Before anyone had a chance to digest this, Sam chipped in with a complaint about overdue orders and the level of customer returns. "I bust a gut to gain and retain customers. I'm fed up that Tom (Robinson, Printing Foreman) seems unable to get things right at his end. If we can't deliver on time, then customers will go elsewhere. Although these KPI's indicate that overdue orders seem to be falling, waste as a percentage of capacity is still rising." David mused that "it would be useful if somebody could attempt to predict how these figures might change in the future."	110 115 120
Seemingly not wanting to be outdone, Abigail piped up with, "That's all well and good, but customers who don't pay us on time are no good to us", whereupon she handed out a list of ADaPT's aged debtors (see Table 4) and an un-audited balance sheet (see Appendix 2).	125
Aware that his concentration had slipped, Hamish heard Abigail continue berating Sam for accepting any, and all, business without first discussing it with her. "I told you last month that Morcott Motor Factors (MMF) is on stop, but yet you've accepted their spring catalogue order. It's crazy! What meagre profit we make on this contract could well be eaten up by the bank charges caused by our additional borrowing. They're using us as a source of finance; we're printers, not a bank! No wonder we're an underperforming business". Both Sam and Abigail	130 135

looked at Hamish. He thought they expected him to wave a magic wand and make everything right.

Before Hamish could respond, David said, “But MMF 140  
is one of our longest established customers. Surely,  
loyalty counts?”

Hamish was worried by rumours he had heard  
that MMF is close to collapse and anything which  
jeopardises MMF’s income could tip it over the brink. 145  
“If we don’t produce their spring catalogue then that  
may be the end of them. If the liquidators are called  
in we’d be very lucky to get much cash back, whereas  
if we can help them trade through this rough patch,  
then they’ll survive. We know they’ll pay, we just 150  
need to offer them a bit of slack. If we’re seen to have  
caused MMF’s failure, then our hard won reputation  
will count for nothing.”

Clearly this argument resonated with Sam who added,  
“If we let MMF down we’ll be cast as the bad guys. I’d 155  
bet several existing customers would jump for fear  
that they’d be next.”

Worried that more ‘heat than light’ was being  
generated, Hamish tried to call the MMF issue closed.  
However, before he could do so, Abigail produced yet 160  
another piece of paper saying, “Look at these figures;  
they’re from a credit agency”. Knowing he was not  
great with finance and so reluctant to read them  
immediately, Hamish said that had been a “useful  
airing of views”, and what was now needed was an 165  
analysis of ADaPT’s exposure to MMF. In particular,  
he wanted to know what might be the consequences  
for ADaPT if MMF were to go into liquidation. With  
uncharacteristic firmness and, without allowing any  
further discussion, Hamish called the issue closed 170

so that they could discuss progress in the ‘on demand’ book printing market.

Improvements in technology have had a significant impact on ADaPT. This has been in both aspects of the business: design and print. On Abigail’s advice the computers in the Design Studio are also leased on a three year contract. Similarly, many of the printing machines are leased. However, ADaPT has recently purchased a printing machine which has a very short set-up time, and considerable flexibility. This gives it the capability of producing high quality, hardbound books, in small numbers. So far ADaPT has used this to produce niche undergraduate text books. Another market is what Hamish calls ‘vanity’ publishing. This market is typically a local author who wants to see their work published, but who has been unable to persuade any major publishing house to take it on. Even at low volumes, ADaPT is able to offer competitive pricing and yet achieve higher profit margins than on most of its other work. Sam has, on several occasions, pointed out how much work they require from his department and has implied to David that the vanity is as much Hamish’s as anyone else’s.

It was at times like these, when his colleagues seemed more concerned at sniping at each other rather than getting on, that Hamish felt the lure of the Design Studio. Regrettably, that normal haven of peace had been sullied by a recent argument between David and one of the designers, Aysha Al-Khaja. Hamish had been away from ADaPT at the time visiting a potential new customer. During his absence David had told Aysha to work on a job for MMF, designing its ‘Spring Parts Catalogue’. The brief from MMF was to use ‘girlie’ pictures akin to ‘Page 3’. On seeing some of the images being suggested

**Aysha had refused, saying they are both demeaning to women and offensive to her religious beliefs. David had robustly countered along the lines of managers manage and designers do. Further, if she wasn't prepared to do as she was instructed, he would treat the matter using ADaPT's disciplinary procedures. It took Hamish quite some time to calm both parties down, and even now there remains an undercurrent of hostility between them.**

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