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**AS GCE BUSINESS STUDIES**

**F292/01/CS** Business Functions

**PRE-RELEASE CASE STUDY**

**JUNE 2014**



**INSTRUCTIONS TO TEACHERS**

- This Case Study **must** be opened and given to candidates on receipt.

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- A clean copy of the Case Study will be given to you with the Question Paper.
- You **must not** take notes into the examination.
- The information contained within this Case Study is based upon one or more real businesses.
- This document consists of **12** pages. Any blank pages are indicated.

## All About the Baby Ltd (AAB)

All About the Baby Ltd (AAB) owns two companies which design, develop and sell high quality, stylish products for the nursery market, both in the UK and overseas. Its headquarters is in Plymouth, where products are designed and all administrative functions take place. The products, however, are produced by sub-contracted firms in the Far East. These products are then sold in 60 AAB branded retail stores, as well as being stocked by over 200 independent and national retailers, in the UK. AAB is still privately owned by husband and wife, Javier and Elizabeth Mogán, who are the only shareholders. This is unusual for a company with annual sales of over £140 million and with a significant international presence. 5

In the 2012–2013 financial year AAB’s turnover rose by over 7% on the previous year, although it made a pre-tax loss of £1.4 million compared to a pre-tax profit of over £5 million the previous year. This was mainly due to large increases in raw material costs, higher shipping charges and a fall in profit margins. However, in the latest company report, AAB is confident that ‘the business will return to profitability in the next 12 months’ and that ‘growth in the business will continue into the future’. 10

In a recent feature for a leading newspaper, Javier and Elizabeth were asked how the company had evolved over the 30 years it has been in existence. Javier told of his impressions of the UK nursery market when he first arrived from his native Spain. “Back in the 1980s all the baby products were quite boring and functional. But when it is your baby, you want the best and it’s a very strong emotional time in your life. Therefore, we wanted to introduce more fashion and emotion into the products which were available. We like to think that we changed the nursery industry. For example, the once boring pushchair is now a fashion accessory; it says who you are.” 15 20

Elizabeth went on to explain, “After the first 15 years of the business, when we were purely an importing and wholesale operation, we realised that our retail customers could no longer handle the growing range of products which we were importing. That’s when we took the then risky decision to become a retailer as well. We opened our first store in Exeter in 1999 and, in November this year, we are opening our 61st store in Northampton, the eighth new store in 12 months. Over the next year the plan is to open a new store in the UK every month. This is at a time when our main UK competitor has closed a quarter of its stores. We also now have a very strong online presence, where our full range of products can be bought, and we have just launched a Eurozone website.” 25

Javier and Elizabeth are still very much the driving force behind AAB: Javier as Chief Executive and Elizabeth as the director in charge of the 100-person design team. Along with the Managing Director (Product), Peter Thompson, they are currently carrying out the quarterly review of the AAB product portfolio. This consists of hundreds of different products, including maternity and baby clothes, pushchairs, car seats, nursery furniture and decorations, toys and feeding utensils. All of these products are exclusively designed by, and made for, AAB. Each quarterly review looks at a selection of products (so that every product is considered once a year) and examines their market share, market growth and all aspects of the marketing mix. The September meeting, for example, spent a lot of time focusing on the range of mattresses for standard-sized baby cots. 30 35

Peter began by presenting the data in **Table 1**. “As always, there is a bit of guesswork in terms of each product’s market share. We know how difficult it is to identify the competitors for each product, never mind their sales. However, a couple of our larger independent retail customers have helped us out with some ‘ballpark’ data. We have also assumed that market growth rates, for each product, are very similar to our own sales growth figures.” 40

**AAB's range of mattresses for standard-sized baby cots sold in the UK**

<b>Product</b>	<b>Retail price</b>	<b>Stage of product life cycle</b>	<b>Estimated market share (year ending August 2013)</b>	<b>AAB's sales volume growth (year ending August 2013)</b>
Basic foam mattress	£32	Saturation	Low and falling	-0.7%
Deluxe foam mattress	£54	Maturity	High and rising	0.6%
Sprung interior mattress	£80	Maturity	Low but rising	1.2%
Pocket sprung mattress	£160	Growth	High and rising	5.7%
The 'Ultimate' mattress	£240	Decline	Low and falling	-1.3%
The 'Supreme' mattress	£399	Introduction	Low	3.5%

**Table 1**

"This is quite a mixed bag of data", began Javier. "I'm pleased to see the 'Supreme' mattress we launched last year has made a good start, there is certainly a lot of potential there. However, our previous top-priced mattress, the 'Ultimate', has lost a lot of market share. It's only been on the market for three years and it's already in the decline phase – and this is at a time when the overall market for baby cot mattresses has grown in value by about 3% in the last 12 months!" 45

"Well, I'm more concerned about the bottom end of the market," replied Elizabeth. "Some decisions need making there about the whole marketing mix of these products or maybe even about their long-term future." 50

Peter, however, really wanted the discussion to focus more on a new product AAB is developing, before they got too involved in the minutiae of altering the mix for the established products. He actually believed that very little needed changing in the marketing mix of the mattress products. After all, they were such a basic product that all parents needed to buy and he, personally, felt that the range offered by AAB was already excellent. However, the new mattress, currently nicknamed the 'HealthySleep' and due to be launched in February 2014, is potentially a ground-breaking product for AAB. 55

The 'HealthySleep' mattress is a joint partnership with a leading UK mattress firm. The mattress is designed to help babies enjoy healthy, cool and comfortable sleep. It achieves this by using a new patented fibre which provides: 60

- breathable fibres which are designed to stay cooler and so help healthy sleep
- a clean, safe and hypoallergenic material which contains no chemicals, odours or organic compounds
- environmentally friendly gains, as the fibre is made up of 50% recycled materials. 65

This mattress will be available in one size to begin with and will be sold exclusively in AAB's own stores. Peter really wants the meeting to give the product the final 'green light' and to agree a pricing and marketing strategy. Given the benefits of working with a large and efficient producer, with production facilities in the UK, Peter thinks that AAB can set the retail price somewhere between £250 and £300. 70

A significant change to the AAB brand in the last 15 years has been its overseas expansion. About 12% of AAB's sales come from abroad and there is a five year plan to increase this to over 20%.

In addition to AAB's UK retail stores and its retail stockists, AAB has over 30 franchise stores in Europe, the Middle East and Japan. There are also distribution partners in Russia, South Africa and China. This arrangement leads to AAB's products travelling thousands of miles between conception and birth. The products start as designs at the Plymouth head office. They are then produced by many sub-contractors in the Far East and these finished products are delivered to a central distribution depot a few miles from Gatwick Airport. Stock is then sorted and repackaged for delivery to AAB's own UK stores, as well as its UK stockists, international franchises and distribution partners. This is a huge logistical exercise and one in which AAB has recently invested heavily. This investment included the Gatwick depot which has only been open for six months. This is just one example of AAB's recent strategy to improve all aspects of its business, in terms of waste management and efficiency. 75 80

However, there continue to be problems with the distribution system which has led to some adverse national publicity during 2013 as some stores regularly ran out of stock of key items. This was particularly embarrassing for a company which usually carries well over £20 million worth of stock on its balance sheet. 85

One problem has come to the attention of Nick Fosten, AAB's Retail Stores (UK) Director: incomplete orders are being sent to many of the AAB outlets. In a conversation with Bruce Hayer, AAB's Logistics & IT Director, Nick said, "I've got at least half of my store managers complaining about receiving the new range of babygrows in only small and extra large sizes. That's no use to most customers and that is just one of many examples I could give you." 90

"All this new investment is taking some time to bed in", replied Bruce. "New systems and a new depot at the same time were never going to create the conditions for a seamless transition."

"That's all well and good," responded Nick, "but I seem to be living in a TV comedy sketch at the moment, as your staff just keep telling me that 'the computer says no!'" 95

"You have got to remember all the waste management and efficiency improvements which are taking place at the moment," answered Bruce. "The new systems have already reduced the turnaround time in the depot from four weeks to six days; we are now able to forward book space on cargo ships up to a year in advance; and we have reduced the number of cargo firms from 12 to six. However, we still use close to 100 different suppliers across the Far East and the number of outlets and distribution centres we supply around the world seems to grow by the day." 100

Another feature of AAB which is quite complicated is its organisational structure. In fact, AAB is made up of three interlinked companies. All About the Baby Ltd is the non-trading parent company. All About the Baby (Product) Ltd employs over 350 people, including the designers, customer service and personnel, finance and administrative staff at AAB's headquarters. All About the Baby (Retail) Ltd employs over 1,100 people. These are mainly in its UK retail stores, as well as in its national and international marketing team and the distribution staff at Gatwick. In addition to the two owners, Javier and Elizabeth, there are ten other directors with wide-ranging responsibilities across the three companies (**see Appendices 1, 2 & 3**). Five of these ten directors are also family members. 105 110

Staying privately owned has allowed AAB to remain a family business. Gemma, Louise and Val are Javier and Elizabeth's daughters and have been part of the business from a very early age. They attended trade exhibitions as children and joined the company straight from university. Eventually, they will take over the ownership of the business. Its continued expansion and success has placed a strain on the organisational structures. A management consultant has been recently contracted to advise on the suitability of the current structures as part of a review of efficiency across the whole business. 115

The pace of growth at AAB has been controlled by Javier and Elizabeth and they have tried to ensure that it has not had a detrimental effect on the workings of the business. Because of this, 120

each stage of AAB's growth has been financed organically, without any external equity funding. Javier is of the opinion that keeping the growth at a steady pace has helped AAB to react quickly to external factors. "We've always seen opening stores as a very big step. We opened one, then a year later we opened another one, then after a couple of years we opened three or four more. As we made mistakes along the way, that's how we learnt."

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AAB's adaptability has given it a competitive advantage on the high street, emerging from the latest recession in a much stronger position than most of its competitors. Javier admits that things have been tough and margins continue to be affected by the rising costs of raw materials. The product ranges have been adjusted accordingly to recognise that most customers are still trying to keep their expenditure under control. AAB has accommodated this by producing more non-premium products but without reducing the high quality standards for which the brand is known.

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Staying a privately owned family business is a key factor for Javier and Elizabeth. There are no circumstances that they can imagine which would lead to this changing. However, even as a privately owned business, especially one as large as AAB, the financial accounting requirements are significant and costly. A full set of audited final accounts must be provided to Companies House. These are then available, for a small charge, for anyone to see. The latest set of accounts (see Figs. 1 & 2) has just been signed off by the auditors. Although the headline details about AAB's financial loss have become public knowledge already, Javier is hoping that the full details of the accounts will set the minds at rest of some of the firm's key stakeholders.

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#### AAB Consolidated Profit & Loss Account (year ended 30 August 2013)

	2013		2012	
	£000s	£000s	£000s	£000s
Turnover	141,588		131,935	
Cost of sales	<u>86,503</u>		<u>76,755</u>	
<b>Gross Profit</b>		<b>55,085</b>		<b>55,180</b>
Expenses	<u>55,804</u>		<u>49,035</u>	
<b>Operating Profit</b>		<b>-719</b>		<b>6,145</b>
Interest	<u>705</u>		<u>665</u>	
<b>Profit before tax</b>		<b>-1,424</b>		<b>5,480</b>

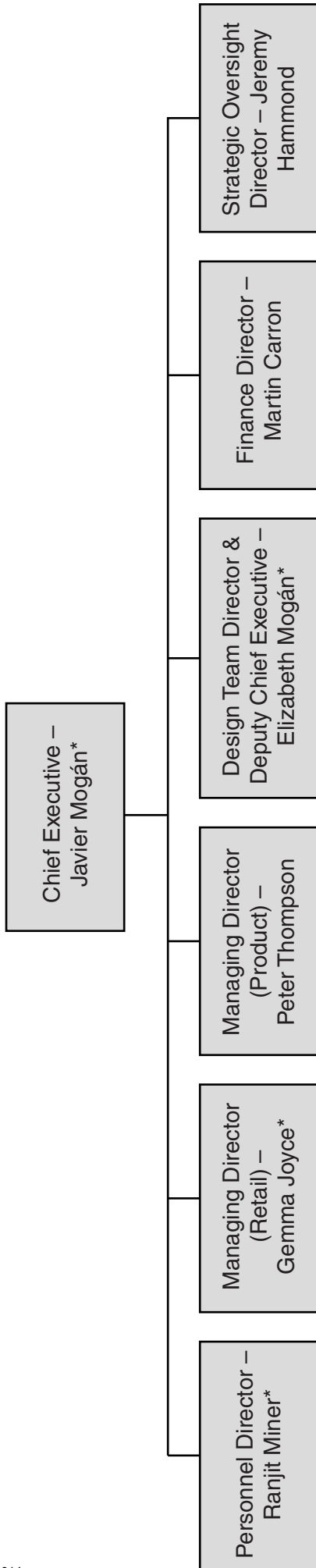
Fig. 1

## AAB Consolidated Balance Sheet (as at 30 August 2013)

	2013		2012	
	£000s	£000s	£000s	£000s
<b>Fixed Assets</b>				
Intangible assets	4,252		4,470	
Tangible assets	<u>40,147</u>		<u>40,890</u>	
<b>Total Fixed Assets</b>		44,399		45,360
<b>Current Assets</b>				
Stock	28,151		23,452	
Debtors	9,750		8,063	
Cash	<u>3,866</u>		<u>3,078</u>	
<b>Total Current Assets</b>		41,767		34,593
<b>Creditors due within 12 months</b>		<u>31,556</u>		<u>28,881</u>
<b>Net Current Assets</b>		10,211		5,712
<b>Creditors due after 12 months</b>		<u>24,399</u>		<u>19,875</u>
<b>Net Assets Employed</b>		<u>30,211</u>		<u>31,197</u>

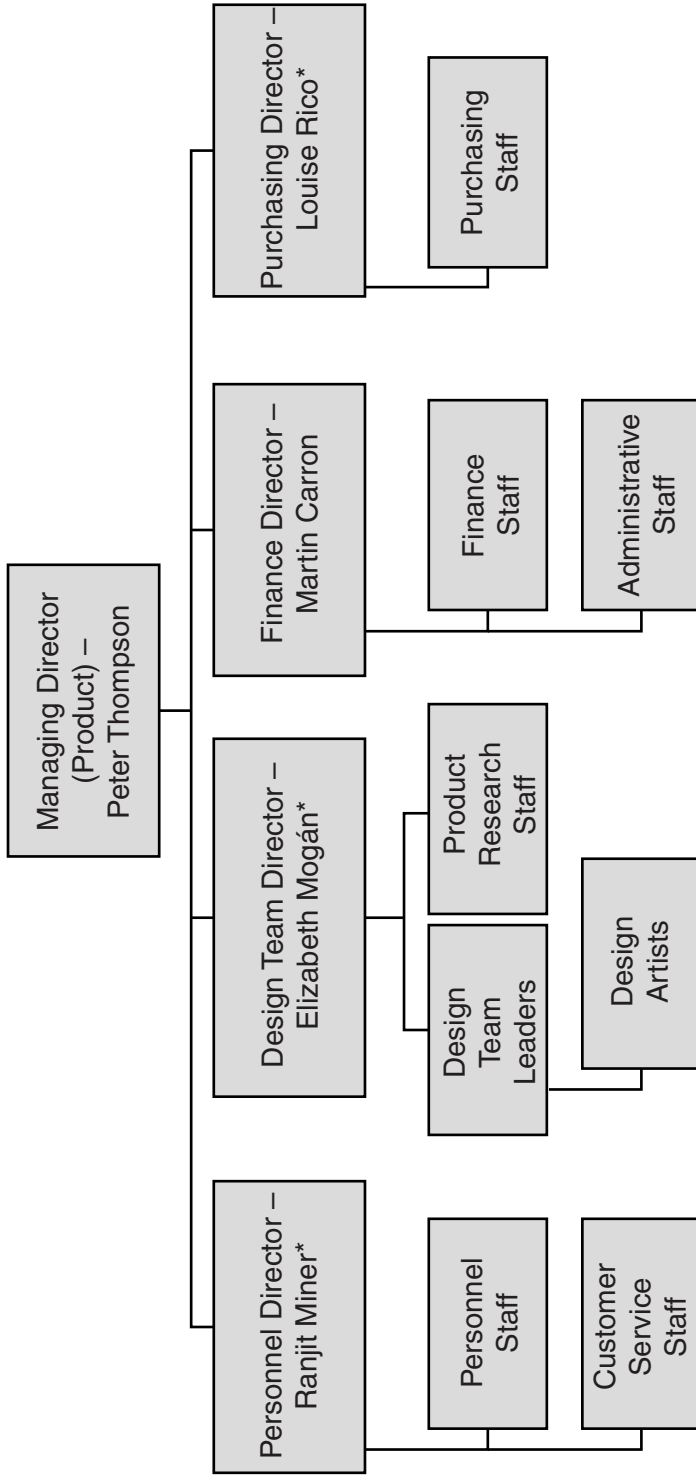
Fig. 2

Appendix 1 – AAB Ltd's organisational structure (the parent company)



\* Family members

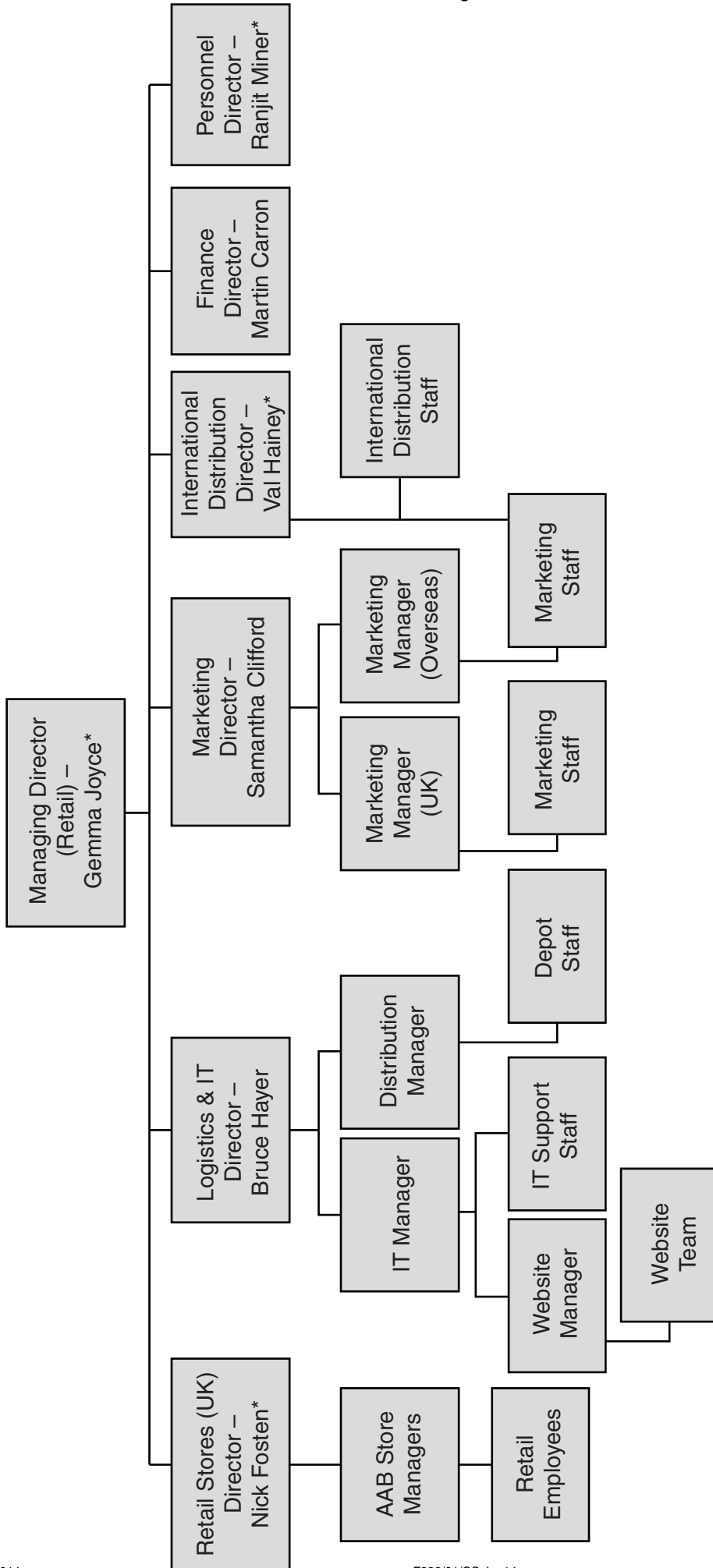
**Appendix 2 – AAB (Product) Ltd's organisational structure**



\* Family members



**Appendix 3 – AAB (Retail) Ltd's organisational structure**



\* Family members





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