

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

BUSINESS STUDIES

9707/03

Paper 3 Case Study

May/June 2004

Additional Materials: Answer Booklet/Paper

1 hour 45 minutes

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

The businesses described in this question paper are entirely fictitious.

This document consists of **3** printed pages and **1** blank page.



Decision time at Topaz

Topaz Toys Ltd. is a medium-sized toy manufacturing business. It started by making expensive, hand crafted wooden games and toys aimed at children under 8 years old. In recent years, the company has also entered other market segments. Currently, two of the best selling product lines are “Robot Warrior”, which sells well to 8-12 year-old boys, and “Gita Doll” which is popular with girls of the same age. Although they are made from plastic, these toys are not cheap. One of the reasons for their sales success is the imaginative promotion campaigns used by the company. 5

The sales of these two products have not been high enough to satisfy everyone. Some shareholders are concerned about the lack of clear business objectives. Topaz’ total sales have grown at a slow rate in recent years – below that of the whole market. The directors have, secretly, been discussing three strategy options to deal with this problem. 10

Strategy A is to accept a huge order from Adams, one of the country’s largest toy retailers, for 5000 “Robot Warrior” toys per month. These would be packaged and sold using the Adams brand name and the toy would be called the “Adams Attacker”. **Appendix A** contains details of the costs involved in meeting this order. Full workforce co-operation will be essential for this option to be successful. Adams are insisting on a financial penalty if the toys are not delivered on time. 15

Strategy B is to export “Robot Warrior” and “Gita Doll” into several other countries. This would probably be done by using wholesalers in those countries. New packaging, distribution charges and different consumer protection laws would all add to costs. 20

Strategy C is a longer term plan. It would involve establishing a Research and Development division to create interactive computer games. These games would feature “Robot Warrior” and “Gita Doll”. Specialist computer programmers would have to be recruited. The games would be produced by low cost suppliers in other countries. Topaz’ Marketing Director believes that these new games would appeal to older consumers – perhaps up to the age of 18. He has worked closely with the Finance Director to estimate future cash flows from this strategy. These are shown in **Appendix B**. 25

Falling market share is not the only problem that the directors have to deal with. The Human Resources Director, Joe Sharma, is concerned about the rising staff turnover. Local unemployment is falling and it is becoming more difficult to fill staff vacancies. Joe has interviewed some workers who have decided to leave Topaz. He was surprised to discover that higher wages in other businesses was not the major reason for them leaving. This answer from one worker was typical: 30

“At Topaz we never have the chance to express our opinions. New production targets and new products are introduced without any consultation. Also, many of the staff want to join a Trade Union but Topaz’ managers will not recognise unions within its factory. They expect our co-operation – but what is in it for us?” 35

This comment made Joe think. Should he encourage the other directors to accept Trade Union recognition? How could he involve the workforce more? Would a system of Management by Objectives solve this problem? Would it lead to clearer objectives for the whole company? Joe knew that if he could not get the workers on his side none of the strategy options had a chance of success. 40

Appendix A**Contract for Adams – cost and price details**

Direct labour cost per unit	\$4
Direct material cost per unit	\$2
Allocated fixed overheads per unit	\$3
Additional cost of special packaging and delivery to Adams per unit	\$1
Price to Adams per unit	\$8

Appendix B**Estimated net cash flows (\$000) from computer games**

Year 0	(400)
End of Year 1	200
End of Year 2	300
End of Year 3	300

10% Discount factors

End of Year 1	0.91
End of Year 2	0.83
End of Year 3	0.75

- (a) Discuss the advantages and disadvantages for Topaz of its staff joining a Trade Union. [10]
- (b) (i) Using **Appendix A**, calculate the contribution per toy that Topaz would receive from the Adams order. [4]
- (ii) Using all of the evidence, recommend to the directors of Topaz whether the Adams order should be accepted. [10]
- (c) Assume that the directors decide to export “Robot Warrior” and “Gita Doll” to your country.
- (i) Outline **two** problems that Topaz might experience. [4]
- (ii) Suggest and evaluate a strategy for marketing these toys in your own country. [12]
- (d) (i) Outline **two** problems of forecasting cash flows for Strategy C. [4]
- (ii) Using **Appendix B** and the discount factors provided, calculate the Net Present Value of Strategy C. [4]
- (iii) Explain whether your result to (ii) might influence the directors to choose Strategy C. [4]
- (e) Do you think that Topaz should introduce Management by Objectives? Justify your answer. [8]

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