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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES **9707/32**

Paper 3 **October/November 2012**

CASE STUDY

3 hours

Additional Materials: Answer Booklet/Paper

1264398674

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.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A
Answer **all** questions.
Section B
Answer **one** question.
You are advised to spend 40 minutes on Section B.
The businesses described in this question paper are entirely fictitious.

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.

This document consists of **5** printed pages and **3** blank pages.

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Building Supplies Limited (BSL)

BSL is one of the largest suppliers of bricks, cement, sand, pipes and other materials needed by building firms in the country. It has 14 large warehouses located in industrial zones just outside of major cities. 92% of total sales (by value) are made to building firms. These are BSL's trade customers. 8% of total sales are to retail customers for repairing and decorating their own houses and apartments.

Employee participation

The senior managers of BSL encourage employee involvement in making tactical decisions and use two-way communication methods. Frequent team briefings and discussion groups are used within each warehouse. There is a Works Council to discuss issues of common employer/employee interest such as future investment plans. Some warehouse managers are positive about this participation. 'It helps to keep staff interested in what they are doing. They often suggest new products we can stock and we get better feedback from customers about our products and service through our sales staff' said one warehouse manager. Other managers are not so sure. 'The Works Council does not discuss pay and conditions. Some workers are only here for the money and often don't contribute to team briefings either. It's all a waste of time which could be spent cleaning the warehouses' was the opinion of another manager.

Delivery service proposal

All trade customers have to pick up and transport the materials they buy at BSL. 'Pile it high and sell it cheap' was the original logo of BSL. Low prices mean that the company cannot afford to deliver the materials and still make a profit. However, the market is becoming more competitive. BSL surveyed 25 of its trade customers and 80% stated that they would buy more materials from BSL if delivery was included in the selling prices. Five building firms that are not BSL customers were also surveyed and they stated that the only reason they did not purchase from BSL was because it did not offer delivery.

The Marketing Director argues that: 'We have to offer delivery and perhaps increase some of our prices to help cover the costs. Many builders are just too busy to stand in a queue and load their own supplies. If we ran a delivery service they could telephone or e-mail in their orders and we could deliver the same day. I have estimated the annual net cash flows from a delivery service based on buying second-hand vehicles with an expected life of 5 years.' See Appendix A.

Marketing to retail customers

'Sales staff tell us that retail customers do not enjoy shopping for building and decorating materials at BSL' the Marketing Director reported to the Board of Directors. 'They want a clean shop, helpful staff, attractive displays of a wide product range and informative advertising. BSL warehouses are not attractive places. They are designed to meet the needs of builders, carpenters and others in the building industry who know what products they want, purchase in high quantities and expect competitive prices. Trade customers do not care what the warehouses look like!'

A recent report in Customer Relationship Marketing magazine has identified two key factors retail customers want when shopping for building and decorating supplies:

- well-informed and helpful staff
- wide range of easy-to-use products.

The same report estimated two elasticity results for retail customers' demand:

- average price elasticity of demand for building and decorating products = –0.6
- advertising elasticity of demand for building and decorating products = 1.9

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The Marketing Director has studied the report. His conclusion is: 'If we want to achieve our target share of 15% of the retail market we need to allocate our marketing budget of $35 000 very carefully. We could either build more attractive shops within the warehouses or spend more on promotion of the existing products to retail customers.'

Information Technology (IT) system

Jean-Claude Raffaut, BSL's Chief Executive, claims proudly that he has never sent an e-mail! This preference for paper-based systems has recently been changing within BSL but not fast enough for the Operations Director, Anais Heron. 'There is so much potential for changing our processes and working practices by adopting information technology in all parts of our business' she argued recently at a Board meeting. 'I would like to propose we invest in a new IT system that links departments together. With this the accounting department could send out invoices and make payments electronically. Employee records could be transferred from paper documents. Marketing could be focused on the Internet. Ordering of supplies and inventory control would be aided by inventory control programs. We could cut jobs and encourage some administration staff to work from home.'

She was supported by the Human Resources Director. However he was more cautious. 'I agree with the operational benefits but the impact on staff recruitment and training will be huge. We will need to use Force Field analysis and other techniques to manage this change effectively and to get it accepted by staff. Many of our workers have been with us for many years and they do not like change.'

External growth strategy

Rapid growth in sales and market share are BSL's main objectives. Until now this has been achieved by organic growth. Now the financial problems of a major competitor (ADC) have given BSL the chance to make a takeover bid and achieve external growth. ADC's share price has fallen recently to a record low level. The Finance Director issued a warning to the Board when the accounts of ADC were being analysed. 'ADC has recently sold and leased back some non-current assets. It has increased the life expectancy of other assets to 20 years, changing the annual depreciation expense. Also, inflation is rising and the macro-economic environment does not look good for at least two years. I have outlined some of the key differences between BSL and ADC to help us decide whether to submit a takeover bid for ADC.' (See Appendix B).

Fire disaster

Last week, one of BSL's warehouses was destroyed by fire. The large quantities of wood, glue and other inflammable materials meant that the fire service was unable to put the fire out quickly. All inventory, customer records and buildings have been destroyed. Local residents have complained of breathing problems as a result of the fire. The building and inventory had been under-insured and the insurance company representative was surprised by the lack of fire resistant walls and doors in the building. There had been no automatic water sprinkler system to put out the flames. It is estimated that it will take 3 months to rebuild the warehouse. Regular customers could not be contacted to tell them of alternative warehouse locations as all records have been lost and, not being IT-based, there were no copies. Jean-Claude is annoyed with himself: 'I had intended to begin contingency planning for our warehouses but I was distracted by all of the strategic decisions that need to be taken.'

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Appendix A: Marketing Director's estimates of net cash flows from delivery service proposal

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
($750 000)	$200 000	$250 000	$350 000	$400 000	$400 000

Discount factors @10%

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
1	0.91	0.83	0.75	0.68	0.62

Appendix B: Comparison of key data for BSL and ADC

Summary accounting data as at 31 October 2012 ($000)	BSL	ADC
Capital employed	53000	32000
Non-current liabilities	15000	25000
Current assets	15600	5200
Inventories	9400	3000
Current liabilities	7600	6800
Net profit for year ending 31 October 2012	13000	1200
Other information:		
Acid test ratio	0.82	0.32
Gearing ratio	See question 4(a)	78%
Inventory turnover	3	6
Dividend yield (as at 31 October 2012)	7.5 %	1 %
Return on Capital Employed	24.5%	See question 4(a)
Market share	15%	4%
Market capitalisation (stock market value of all issued shares at 31 October 2012) ($000)	55000	8000
Style of leadership	Democratic	Autocratic
Labour turnover (12 months to 31 October 2012)	5%	23%
Number of warehouses	14	6
Legal status	Public limited company	Public limited company

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Section A

Answer **all** questions in this section.

1 Analyse the advantages for BSL of encouraging employee participation. [10]

2 **(a)** Refer to Appendix A. Calculate for the delivery service proposal the:

(i) Average rate of return (ARR) [3]

(ii) Net Present Value (NPV). [3]

(b) Discuss whether BSL should start a delivery service. Use your results from **(a)** and other information in your answer. [14]

3 Evaluate the key features of a marketing plan which BSL could use for increasing sales to the retail market. [14]

4 **(a)** Refer to Appendix B. Calculate the:

(i) Return on Capital Employed (ROCE) for ADC [3]

(ii) gearing ratio for BSL. [3]

(b) Assess the usefulness of ratio analysis of BSL's published accounts to any **two** of the company's stakeholder groups. Refer to Appendix B in your answer. [14]

5 Discuss the possible advantages and disadvantages to BSL of the proposed Information Technology (IT) system. [16]

Section B

Answer **one** question from this section.

6 Recommend whether BSL should make the strategic choice of taking over ADC. Justify your recommendation using data in Appendix B and other relevant information. [20]

7 Discuss the importance of contingency planning as part of a strategy BSL could adopt to achieve further success. [20]

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