General Certificate of Education
Advanced Level Examination
January 2010

Business Studies BUSS3

Unit 3 Strategies for Success

Monday 25 January 2010 1.30 pm to 3.15 pm

For this paper you must have:
- a 12-page answer book
- a calculator.

Time allowed
- 1 hour 45 minutes

Instructions
- Use black ink or black ball-point pen.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is BUSS3.
- Answer **all** questions.
- Do all rough work in your answer book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Formulae for Financial Ratios

Financial ratio	Formula
Current ratio	current assets : current liabilities
Acid test ratio	liquid assets : current liabilities where liquid assets are current assets – inventories (stock).
Return on capital employed % (ROCE)	$\frac{\text{operating profit}}{\text{total equity + non-current liabilities**}} \times 100$ ** Where this equals capital employed.
Asset turnover	$\frac{\text{revenue}}{\text{net assets}}$
Inventory (stock) turnover	$\frac{\text{cost of sales}}{\text{average inventories (stock) held}}$
Payables (Creditors) days (Payables'* collection period)	$\frac{\text{payables*}}{\text{cost of sales}} \times 365$ * payables = creditors throughout this formula.
Receivables (Debtors) days (Receivables'* collection period)	$\frac{\text{receivables*}}{\text{revenue}} \times 365$ * receivables = debtors throughout this formula.
Gearing	$\frac{\text{non-current liabilities}}{\text{total equity + non-current liabilities**}} \times 100$ ** Where this equals capital employed.
Dividend per share (in pence)	$\frac{\text{total dividends}}{\text{number of issued ordinary shares}}$
Dividend yield (%)	$\frac{\text{ordinary share dividend (in pence)}}{\text{current market price (in pence)}} \times 100$

Read the **case study** and answer **all** the questions that follow.

Out and About plc

The current position

Out and About plc is an established retailer of clothing and equipment for outdoor activities, such as camping and walking. It owns 100 high street stores and has a reputation for providing traditional, good quality merchandise. Its loyal customer base is predominantly middle-class and middle-aged or retired. However, in recent years its market share and profits have declined by 15% due to competition from new entrants to the market, such as the major supermarket chains and other retailers, for example Argos and JJB Sports.

Six months ago, a significant number of disgruntled shareholders sold their shares to Mike England who, as a result, is now the majority shareholder. Mike is also the owner of a successful chain of sportswear shops. His success is based upon selling leading brands at discount prices. Low prices are achieved through purchasing economies of scale and a ruthless approach to achieving high levels of efficiency. He considers his investment in *Out and About plc* to be a means of extending and diversifying his business empire. Mike is keen to achieve a rapid improvement in the profitability of *Out and About plc*.

The proposed plan

Mike has appointed a new Chief Executive, Lisa Coates, to devise a new strategy to revitalise *Out and About plc*. Her previous job had been Marketing Director of a leading fashion clothing retailer. Without consulting Mike, Lisa intends to re-position the business to focus on selling premium-priced, high-quality and fashionable merchandise. Market research has revealed that one of the fastest growing sectors of the outdoor activities market is that of 'extreme' sports, such as snowboarding and skateboarding. The target market would be 16 to 30 year olds interested in 'extreme' sports who would be prepared to pay high prices for fashionable and high-quality products.

Lisa's marketing plan has the objective of achieving a 25% share of the UK extreme sports market within the next three years. She considers that a marketing budget of £14 million will be needed.

The plan is to open 25 new out-of-town stores. These would have a different layout from the current high street stores. They would offer high-quality, fashionable, innovative clothing using the latest technical fabrics. Each store would operate as a separate profit centre. Staff would be expected to have product knowledge and offer high levels of customer service. The first store is planned for the Trafford Shopping Centre, near Manchester. Lisa intends eventually to convert all *Out and About plc*'s stores to this new format.

As well as selling leading brands such as Salomon, Quiksilver and O'Neill, *Out and About plc* will also sell a range of 'own label' clothing. In such a fast moving market, it is important that *Out and About plc* is able to bring out new products regularly. The company will work closely with the Research and Development department of one of its suppliers in order to develop a range of innovative, technically sophisticated products.

Effective stock management will also be crucial. A balance needs to be made between ensuring that there is sufficient availability of stock on the shelves whilst at the same time minimising stock holding costs. To achieve this, *Out and About plc* intends to implement lean production principles in its management of stock.

The new strategy will involve the closure of 50 underperforming high street stores. Although some staff may be redeployed to the new stores, redundancies will be inevitable. Lisa is concerned about how the proposed redundancies will affect staff morale and the possibility of industrial action. She has initiated discussions with employee groups on how to resolve these issues.

Out and About plc has traditionally favoured a 'soft' Human Resource Management (HRM) approach. All the staff are employed on permanent contracts and allocated shares based upon length of service. There is a well-established profit sharing scheme and employee groups are always consulted on major business decisions.

Lisa wishes to operate a 'hard' HRM approach. She intends to employ a more flexible workforce in order to match staffing levels with variations in customer demand. This will be achieved by more staff being employed on either part-time or temporary contracts. In order to ensure high levels of customer service, all staff will receive training on a regular basis. They will also receive bonuses if their store achieves its profit targets.

Lisa is convinced that her plan is the way forward for *Out and About plc*. She believes that it cannot compete on price with supermarket chains and that the company needs to develop a new image for the 21st century. However, she has to convince Mike and the Board of Directors, many of whom are concerned about the risks involved in entering this market.

STATISTICAL APPENDICES

Appendix A: Market research data

Figure 1: UK Extreme Sports Market

		Forecasts	
	2009 (m)	**2015 (m)**	**% growth**
Market size by volume	14.04	17.50	24.6
Market size by value	£950	£1100	15.7

Figure 2: Average amount spent per head on extreme sports clothing in the UK

2009 (base)	**2010 (forecast)**	**2015 (forecast)**
£500	£550	£625

Figure 3: Primary research findings

% of each age group that:	**Age Ranges**				
	Under 21	**21–30**	**31–40**	**41–55**	**Over 55**
are aware of *Out and About plc*	5	15	60	80	85
shop at *Out and About plc*	2	5	18	30	40
participate in 'extreme' sports	12	18	5	3	1

Appendix B: Out and About plc – Summarised Financial Accounts (Year ending 31 December 2009)

Balance Sheet	**£ m**
Non-current assets (fixed assets)	800
Current assets:	
Inventories (stock)	64
Receivables (debtors)	70
Cash	6
Total current assets	140
Current liabilities	(160)
Net current liabilities	(20)
Non-current liabilities (long-term loans)	(280)
Net assets	500
Share capital	480
Reserves and retained earnings	20
Total equity (shareholders funds)	500

Income Statement	**£ m**
Revenue (Turnover)	295
Cost of sales	137
Gross profit	158
Operating profit	16

Appendix C: Human resource data 2009

	Out and About plc	**Industry average**
Part-time staff as a proportion of total staff	15%	40%
Labour turnover of full-time staff	5%	18%
% of workforce that belongs to an employee group	75%	20%
Average number of days lost due to sickness per employee	20	10
Average age of staff	45	30

Turn over for Appendix D and Questions

Appendix D: Operations data

	2005	2009	2015 (forecast)
Number of suppliers	30	50	20
Average delivery time from suppliers	7 days	10 days	15 days
Supplier's Research and Development spending as a proportion of revenue	2%	5%	10%

Current level of sales generated per square metre per year in high street stores	£30 000
Forecast level of sales generated per square metre per year in out-of-town stores	£35 000

1 Analyse **two** potential benefits of *Out and About plc*'s current 'soft' Human Resource Management strategy. *(10 marks)*

2 What do you consider to be the most important influence on Lisa's marketing plan? Justify your view. *(18 marks)*

3 Lisa estimated that *Out and About plc* will need to raise £14 million for its new marketing budget.

Using **Appendix B**, and any other relevant data, assess *Out and About plc*'s current financial position and recommend how it should raise this capital. You are encouraged to use appropriate calculations to support your answer. *(18 marks)*

4 Using all the information available to you, complete the following tasks:

- analyse the case for *Out and About plc*'s proposed new plan
- analyse the case against *Out and About plc*'s proposed new plan
- make a justified recommendation on whether the proposed new plan should be adopted.

(34 marks)

END OF QUESTIONS

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There are no questions printed on this page

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