Cambridge International A Level

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BUSINESS **9609/33**

Paper 3 Case Study **May/June 2018**

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Rolling Wheels (RW)

Kadeem is a keen cyclist and he had the idea that selling bicycles might be profitable. Without a business plan, he set up RW five years ago in the capital city of country X. RW is now a private limited company and Kadeem owns 95% of the shares. RW sells bicycles, accessories, specialist clothing and replacement parts. Half of these products are imported. RW also offers bicycle repairs and servicing. RW is one of the largest independent bicycle businesses in the city and employs ten people. It offers customers a personal service and charges prices that are competitive compared to other specialist bicycle retailers. However, there are large general retailers that sell and repair bicycles at lower prices. These large retailers have over 80% of the bicycle supply and repair market in the city.

RW's major competitive advantage is that it is the only business of its type located very close to a university. The students and employees of the university are the main customer base and they value the convenience, reliability and personal attention.

Human resource management issues

Kadeem employs Asif as the store manager. Asif has noticed an increase in the number of complaints from customers in the last year. He is worried that this will lead to loss of reputation, falling sales and reduced customer loyalty. Asif raised the following concerns with Kadeem.

- RW has not increased employee pay for over a year.
- Customer service training is given in-store while employees are working.
- New employees are slow at servicing and repairs.
- The store seems busy but many visitors do not buy anything.
- Employees feel that they are working as individuals and are not part of a team.
- Kadeem has been very busy for three months drawing up future plans.
- Half the employees are thinking of leaving because they do not feel involved in the business.

Kadeem gave some serious thought to these concerns. As a result, he is considering introducing Management by Objectives (MBO) and ways to improve communication within the business.

Quality issues

The meeting between Kadeem and Asif highlighted customer complaints regarding quality. New bicycles arrive from manufacturers in several parts and are assembled in-store. The assembly of some bicycles has not been done well, with customers pointing out faults or returning bicycles for adjustment soon after purchase. Other complaints have also been made about the servicing and repair of bicycles. The workshop manager is responsible for this work. She checks some of the bicycles following assembly, service or repair. She then asks any available employee to correct the fault without investigating the cause of the problem. Kadeem knows that RW needs to improve quality, possibly by introducing Total Quality Management (TQM).

Order from the university

The university's human resources department has approached Kadeem with a possible order for 80 bicycles for use by employees and students. Kadeem can obtain these bicycles at the short notice required but is worried that the university has offered a price of only $260 per bicycle. He does not want to accept the order without carefully considering the costs and revenue. All 80 bicycles would have to be assembled and checked. He also knows that his current inventory takes up nearly all the space he has available. Table 1 shows information about RW's existing costs and revenue from selling bicycles. Kadeem has to decide whether to accept this order.

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Table 1: Financial data for the bicycle sales profit centre 2017–18

Sales volume	300 units
Average selling price per bicycle	$350
Direct costs	$60 000
Allocated indirect costs including marketing, utilities and premises	$30 000

The future: Expansion plans

Kadeem is excited about the future but also very worried. He knows that his business is profitable but that future success is not guaranteed. He has begun the process of deciding how to maintain RW's success. Kadeem is certain that RW has core competencies. With these in mind, he has set the following objectives:

- increase sales volumes by 10% per year for the next 3 years
- increase the proportion of revenue from non-university customers from 10% to 25% over the next 3 years
- maintain profitability ratios at their current level

Kadeem is considering two possible ways to expand the business.

Strategy A: Guided bicycle tours

The city council has invested heavily in attracting more tourists. Kadeem has an idea to offer guided bicycle tours of the city to tourists and business visitors. RW would be one of the first to offer this service. He would need to recruit qualified guides accredited by the city's new Tourist Authority. These guides would be employed on zero-hours contracts. RW would need extra bicycles and a part-time office worker to deal with the paperwork and communicate with the Tourist Authority. Additional marketing would be needed, including improving the website to enable a booking system to operate. Table 2 shows forecast net cash flows based on initial market research.

Table 2: Guided bicycle tours: Forecast of net cash flows ($000)

	Year 0	Year 1	Year 2	Year 3	Year 4
Revenue	0	25	40	50	60
Costs					
Guides	0	10	16	18	25
Marketing	10	10	12	14	14
Administration	0	4	4	5	5
Purchase of bicycles	3	0	2	3	3
Net cash flow	(13)	1	6	10	13
Discount factors at 6% per year	1	0.943	0.890	0.834	0.792

Strategy B: Takeover of DB *80*

Kadeem realizes that offering the guided bicycle tours will not be enough to achieve RW's new objectives, so he is considering an additional expansion plan. This involves the takeover of DB, an independent bicycle retailer in a different part of the city. RW might decide to continue using the existing employees to save recruitment costs. However, RW would still need to appoint its own managers to ensure that the new store operates in the same way and with the same culture *85* as RW's existing store. This will mean deciding what role the managers will play in the new store and how much power they will have to take decisions. Buying DB will be expensive. Kadeem has to be certain that the new store will be profitable.

Additional strategic factors

Kadeem is keen to make a decision soon about the takeover of DB as the owners want to sell *90* quickly. This means he might not have the time to prepare a detailed plan for integrating the DB store into the existing RW business. Kadeem is also worried about possible changes to market conditions and has discussed these with Asif. As a result of their discussions Asif has quickly produced some business, market and economic data (see Appendices 1 and 2).

Appendix 1: SWOT analysis for RW

Strengths	Weaknesses
• strong links with university • brand loyalty and excellent reputation • specialist service	• workforce performance issues • reliance on the university market • inadequate research and planning
Opportunities	**Threats**
• expanding into bicycle tours and takeover of DB • supplying other institutions (businesses or government agencies) • internet selling	• competitor internet sales • competitors target university market • more competitors entering the market • proposed legislation on minimum wage, pension provision and health & safety

Appendix 2: Economic data for country X

	2018	2019	2020
Rate of interest %	6	5	3
Exchange rate index: 2018 =100	100	95	92
Population growth (year on year) %	5	6	8
Unemployment %	7	6	5

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