UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES **9707/33**

Paper 3 **May/June 2010**

CASE STUDY

3 hours

Additional Materials: Answer Booklet/Paper

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, graph or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

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

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.

© UCLES 2010

Sam's Fashions (SF)

Time for action

'Sales volumes are up yet our profit margins and net profits are down. We must take action to increase profits or the shareholders could vote us off the Board'. The warning of the Chief Executive of Sam's Fashions, Manuel, was clear. At the last Annual General Meeting of this public limited company, many shareholders had been disappointed about the falling profits. They were worried about the proposal to reduce dividends and the impact this could have on the share price of the company. The decision to cut retail prices last year by 5% on average had helped sales volume in the short term – but with the result of reducing profit margins.

Manuel, the son of SF's founder, and the other directors knew that important strategic decisions needed to be taken. The business was experiencing difficult trading conditions as a result of a lengthy global recession and increased competition. In the past, the growth of SF's business had been based on the strategy of the founder Sam Little. His vision had been to 'manufacture and sell quality clothing at premium prices to high income professional women'. The high quality of the clothes was supported by the luxurious furniture and fittings in the shops and the well trained and experienced sales staff.

Strategies for recovery

Manuel put forward two marketing strategies at a recent Board of Directors meeting. These are called Options A and B.

Option A: E-commerce and telephone sales

- Close most of the shops which have very high overheads, and sell through e-commerce (Internet) and telephone ordering.
- These methods, directed at the same market segments as currently targeted, should increase sales and market share.
- Access to high income female consumers in other countries will increase. Lower overhead costs could allow slightly reduced prices to be charged without cutting the net profit margin.
- Staff for these e-commerce operations and telephone sales could be based abroad in very low wage countries. 'We must cut our major cost – labour. Making our shop workers redundant will save costs in the long term, and using the cheapest labour we can find abroad should keep shareholders happy', explained Manuel.

Human Resources issues for Option A

If Option A is chosen there will be completely different staffing requirements. Most shop staff will no longer be required. How many e-commerce and telephone staff will the company need? Surely the number of operators will need to vary during the year, with festivals likely to lead to much higher demand? The training of software engineers and computer operators will be very important to give a reliable service. Manuel is keen to move the whole e-commerce and telephone sales operation abroad, but the Marketing Director wondered about the possible impact on customer service that this might have.

Option B: Mass Marketing

- Use existing shops to enter the mass market with fewer styles and lower prices.
- New clothing designs will appeal to cost conscious adults.
- For the first time SF will design, produce and stock clothes for children and men as well as women.
- These clothes will be targeted at families who are on a tight budget due to the recession but who still want fashionable clothes.
- 'We could use our established brand name in advertising to sell to the mass market. We might be able to persuade consumers that our products are of the same high quality, even though we would actually be using much cheaper materials. The most important factor affecting the success of this strategy would be a high marketing budget though' explained Manuel.

© UCLES 2010

Operational Management issues for Option B

Option B will need the operations management department to change production and stock control methods. SF's three factories will need to change not just clothing styles but the speed of manufacture and the quality of clothes. Instead of making relatively few high quality items of each style, many thousands of identical items of a few styles will need to be made. Manuel told the Operations Director to consider lean production ideas to keep costs low.

'We need to turn new fashions and styles into clothes in the shops as quickly as possible. Stocks must be minimised but there should be good choice in the shops too. We need to minimise waste at all levels of production. Workers need to be made more responsible for quality. I suggest you look again at using the cheapest dyes and colourings for our materials even though they may pollute the local water supplies', suggested Manuel when explaining his ideas to the Operations Director.

Organisational changes

Manuel is also keen to cut costs at Head Office. The business has five levels of hierarchy and narrow spans of control. This structure reflected Sam's attitude towards leading people – control was more important than trust. Manuel, who took over from Sam just before the company converted to public limited status last year, wants change. He believes that managers and workers could be given more authority and encouraged to take some responsibility for making decisions. He wants to delayer the structure – perhaps by taking out two levels of management. Staff will need to retrain in two-way communication methods, establish effective teamwork and become multi-skilled. Manuel believes that there will be some redundancies and other workers will need to re-apply for newly created posts. His aim is to make the Head Office organisation 'leaner' and more cost effective.

Appendix A: Financial data on Sam's Fashions Financial Year ending 31st May

	2009	2010
Total dividends	$70m (paid)	$60.2m (proposed)
Dividend per share	$0.50 (paid)	$0.43 (proposed)
SF's share price at end of year	$5.00	$3.50
Net profit	$200m	$150m
Capital employed	$1000m	$990m
Retained profits	$45m	$15m

Appendix B: Forecasted probabilities and economic pay-offs (over 5 year period) from the marketing strategies

	Probabilities of success/failure	Forecasted economic pay-off
Option A Capital cost $5m	0.70 probability of success	$12m gain
	0.30 probability of failure	$2m loss
Option B Capital cost $3m	0.50 probability of success	$10m gain
	0.50 probability of failure	$1m loss

85

90

Section A

Answer **all** questions in this section.

1 **(a)** Using data in Appendix A, calculate for **both** financial years 2009 and 2010:

(i) The return on capital employed [3]

(ii) The dividend yield. [3]

(b) Would you advise Manuel to reduce the level of dividends more than has been proposed? Justify your answer. [10]

2 Assuming Option A is chosen, evaluate the importance of effective planning and management of human resources to the success of this option. [16]

3 Do you agree with Manuel that the most important factor affecting the success of Option B will be the size of the marketing budget? Justify your answer. [15]

4 Evaluate whether Manuel's lean production proposals are likely to increase operational efficiency without reducing customer service. [15]

5 **(a)** Draw a decision tree based on the data provided in Appendix B. [4]

(b) Calculate the expected monetary values of both Option A and Option B. [4]

(c) Which option would you recommend Manuel to choose? Use information in the case and your results from part **(b)** to support your recommendation. [10]

Section B

Answer **one** question in this section.

6 Evaluate the extent to which a business such as Sam's Fashions should operate ethically. [20]

7 Manuel is proposing significant organisational changes. Discuss how managers such as Manuel can minimise workforce resistance during a period of change. [20]

© UCLES 2010

BLANK PAGE

BLANK PAGE

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.