UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES **9707/33**

Paper 3 **May/June 2013**

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, 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.
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.

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Cloud Catering (CC)

Jim Cloud trained as a chef but hated the unsocial hours. He set up Cloud Catering in country Y 15 years ago. It is a private limited company. It produces high quality processed food products using organic ingredients. It manufactures pies, ready meals, biscuits and desserts. The original recipes used by CC make its products distinctive which, combined with quality branding and an excellent reputation, give CC a high degree of differentiation over competitors. 70% of CC's output is sold through specialist food shops. The other 30% is sold through supermarkets. The value of CC's revenue in 2012 was $35 m.

Market conditions are changing

The level of competitive rivalry in the market that CC operates in is increasing. Recent technological improvements in food processing equipment have allowed smaller catering firms to produce high quality products at low cost. The market share of the five largest supermarket chains in country Y has increased by 10% to 65% over the last five years. The demand for organic food supplies has increased greatly in the last decade and farmers have been able to raise prices.

CC's marketing strategy

Jim aims to make CC one of the most profitable businesses in its market sector. CC's marketing objective is to increase market share each year to the '20% of the population with the highest incomes'. Cost plus pricing is used when fixing contracts with specialist food shops. CC will only supply supermarket chains that agree to display CC products in the best positions within each shop. CC's website does not yet allow customers to give orders online. Jim never sells at a discount, always preferring to throw away goods that are approaching the date by which they must be sold rather than reduce prices. Over half of the promotion budget of $250 000 is spent on advertisements in expensive magazines.

Factory relocation

CC need to relocate. The lease on the existing factory expires in 9 weeks from now and the owner is asking for a 50% rent increase. Jim wants to purchase a factory 40 kilometres away from the present location. The legal contract is taking much longer to arrange than planned. There is a real risk that conversion of the factory and the relocation by CC will not be completed before it has to leave the existing site. 'We ought to buy another short term lease at the existing site, whatever the cost' said Jim to his fellow directors. 'If production is stopped for more than one week then our customers will quickly switch to other suppliers. We will soon have to tell the workers about this relocation and I am sure that only about 40% of them will want to stay with us in the new location.' The Operations Director was much more positive: 'Now the legal contract is almost ready I am convinced that we have enough time to buy the factory and complete the relocation in the time available. The network analysis I will use to aid planning will help to ensure completion on time.' (See Appendix 1.)

Trade unions – one or many?

Jim has always resisted collective bargaining with union representatives to make agreements on pay and work conditions. However, his approach of discussing pay and conditions with each worker takes him a long time. There are 180 employees of whom 95% are trade union members. In the existing factory there are members of several different trade unions. Each type of employee skill is represented by a different union. This has caused communication problems and disputes between the unions. Jim is keen to encourage the same trade unions to represent workers at the new factory. He said that: 'This allows us to 'divide and rule' the workers. The unions rarely reach agreement on anything and the chances of effective industrial action are small.'

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In contrast, the Human Resources Director believes that the relocation offers CC the chance to reform industrial relations. 'We have been offered a 'single-union, no-strike deal' by the General Workers Union (GWU). It is asking for the exclusive right to represent all workers in the new factory in return for agreeing never to take strike action. The GWU also wants greater involvement in key decisions such as whether CC should buy automated equipment for the new factory. I think this single-union deal will be best for CC.'

Expansion to country X – market development

Jim is very pessimistic about the economic forecasts for country Y. He is thinking of selling CC products to a supermarket company in country X. For social and legal reasons there would have to be some changes to recipes and packaging. If the initial launch of CC's products in country X is successful then the company could invest in an additional promotion campaign. A management consultant in country X has been asked to report on the likely chances of success or failure of CC selling its products there. The consultant produced the decision tree shown in Appendix 3.

Takeover proposal

The Retail Delights (RD) chain of 20 shops is for sale. The shops sell a range of expensive groceries and fresh food products. The existing owners of this family business wish to retire and hope to sell it for cash. Jim met the owner whilst playing golf and he almost committed CC to buying RD without detailed analysis of its performance or how it would fit into CC's corporate plan. Fortunately, he only agreed to make a decision in two weeks from now. RD's owners gave Jim 'first refusal' on the business purchase at a price of around $6m. Jim contacted CC's accountant and asked her to produce a report on RD's business compared to CC's recent performance. Jim told the accountant: 'I am sure we can quickly make some major cost savings within RD, for example by replacing over-paid senior managers and cutting back on employee benefits which CC workers do not have'. Some of the accounting and other quantitative data in the accountant's report are given in Appendix 4.

Appendix 1: Data used by Operations Director to construct a network diagram (CPA)

Activity	Preceding activities	Expected Duration (weeks)	Description
A	–	3	Complete legal contract
B	–	1	Obtain estimate for factory conversion
C	A, B	2	Recruit replacement staff (for those not relocating)
D	A, B	3	Conversion of factory
E	C	2	Train new staff
F	D	1	Transfer CC computers to new site
G	D	2	Fit new automated equipment
H	E, F, G	1	Test production systems

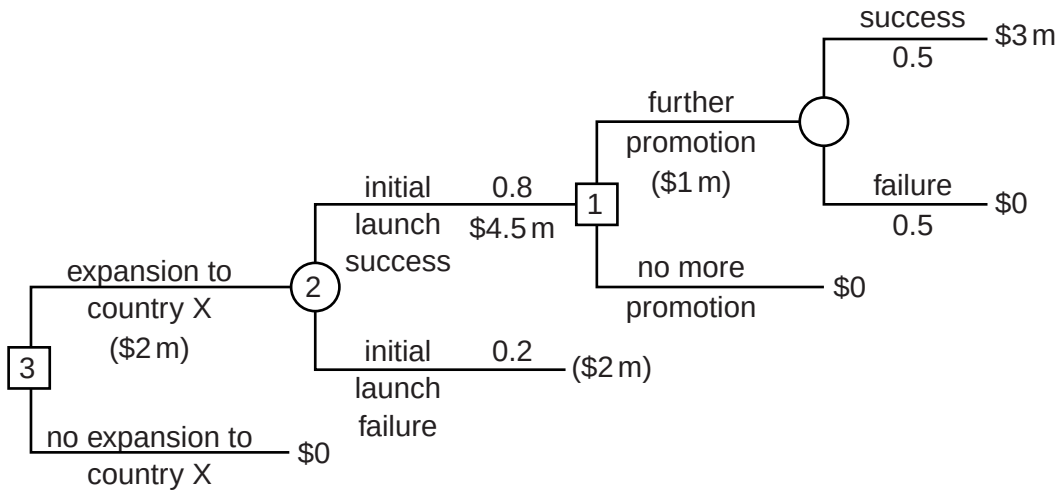
Appendix 2: Average forecasts of 10 leading economists – country Y *85*

	2014	2015	2016
Economic growth (% change in real Gross Domestic Product)	2	–1.5	–1.0
Inflation (%)	4	6	5
Unemployment (%)	9	11	12
Exchange rate index (Jan. 2012 = 100)*	105	95	90
House price index (Jan. 2012 = 100)	112	106	103
Top rate of income tax %	40	44	44

90

* Value of country's currency exchange rate against several other currencies.

Appendix 3: Decision tree produced by management consultant – expansion into country X *95*



Appendix 4: Accounting and other quantitative data – comparison between Cloud Catering (CC) and Retail Delights (RD) (2012)

	CC	RD
Return on Capital Employed	20%	12%
Gross profit margin	22%	25%
Net profit margin	10%	7%
Acid test ratio	0.8	1.4
Days' sales in trade receivables	23	42
Capital employed	$17.25m	$10m
Gearing ratio	31%	52%

100

105

Section A

1 Analyse the likely impact on CC of increased competitive rivalry (line 9). [10]

2 **(a)** **(i)** Draw a network diagram using the information in Appendix 1. [6]

(ii) Calculate the earliest start times (ESTs) and latest finish times (LFTs) of all of the activities. [5]

(iii) State the duration of the critical path. [1]

(b) Do you agree with the Operations Director that the relocation will be completed on time? Justify your answer using your results from **2(a)** and other information. [10]

3 Discuss the extent to which CC should change its marketing strategy within country Y. Refer to the data in Appendix 2 and other information in your answer. [16]

4 **(a)** Refer to Appendix 3. Calculate the expected monetary values at:

(i) node 1 [2]

(ii) node 2 [3]

(iii) node 3. [1]

(b) Recommend to CC whether to expand by selling products within country X. Refer to your results from **4(a)** and other information in your answer. [10]

5 Recommend to CC's management whether to accept the 'single union, no-strike deal' offered by the General Workers Union in the new factory (line 48). Justify your answer. [16]

Section B

6 Assess the usefulness and limitations of the data in Appendix 4 to CC's management when making the strategic decision to take over RD. [20]

7 Evaluate the importance of effective management of change to CC's future success. [20]

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