UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES **9707/33**

Paper 3 **October/November 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, 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 **6** printed pages and **2** blank pages.

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S and I Bus Company (SIBCO)

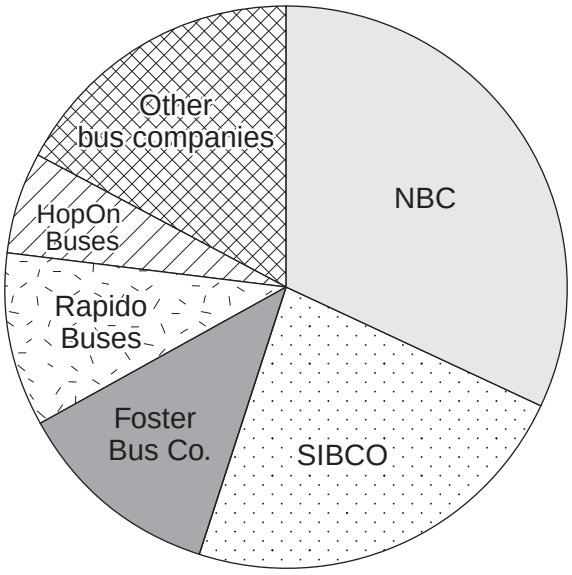
How it began

Starting with two small and very old minibuses, Sylvio and Indranee have built up SIBCO into one of the largest bus and coach businesses in their country. The business now owns a fleet of 125 minibuses which can hold 15 passengers each and 15 large coaches that can carry 50 passengers each. The joint owners are well known in the transport industry for their aggressive marketing decisions and no-nonsense approach to management. For example, every time a new business tries to start up in competition on one of SIBCO's bus routes, Sylvio reduces bus fares so low that the rival is forced to cut fares too. Often the rival is forced out of business. Also, Sylvio and Indranee gained most of the local Government contracts for transport of school children last year. However, the rumour is that they bribed a Government official who awards these contracts.

Takeover opportunity

Sylvio said at a recent weekly meeting with Indranee: 'When the Government privatised the loss-making National Bus Company (NBC) they put a five year restriction on other businesses taking it over or merging with it. This was to stop a monopoly from being created. Five years have now passed and I think we should consider a takeover bid for NBC. The management of NBC, freed from Government restrictions, have turned it into a profitable company. If we converted SIBCO into a public limited company we could finance the takeover with an issue of shares. Alternatively, we could offer some shares and some cash. In either case I think we would have to offer around $3 a share to encourage enough NBC shareholders to sell their shares to us. I have researched some relevant data that we ought to look at carefully before we decide on the takeover.'

Figure 1: Bus market share of 5 largest bus operators 2010



	NBC	SIBCO
Average annual profit (loss) 2000–2005	($21m)	$2m
Average annual profit (loss) 2006–2010	$5m	$4m
Number of issued shares	10m	6m
Gearing ratio (30/9/10)	55%	22%

Table 1: Finance and accounting data

Indranee agreed. 'Rapid expansion fits in with the clear original objectives we set for the business although this would be the first time we have attempted external growth. It would give us so much more control over the market and give opportunities for economies of scale. However, I have met some of the senior managers of NBC and I am not sure I could get on with them as they always believe in using a democratic leadership style. Combining our companies would also create a very large business to control and coordinate.'

Sylvio nodded agreement but he added: 'We would not have to keep their managers – sacking them would be one way of cutting the unit costs of the new, larger business.'

Indranee concluded the meeting by stating: 'Whether we go ahead with this takeover or not I am sure that we could still increase the short term profit margins from our existing operations. I have been considering some options:

Suggestion A: Reduce expenditure on promotion
Suggestion B: Reduce maintenance and servicing costs of the vehicles
Suggestion C: Increase prices on routes with no competition.'

Sales forecasts

The company has only recently started to use sales forecasting methods. Previously, Sylvio and Indranee had used their own experience and instincts to take important marketing and operations management decisions. For example, the capacity of the business had been expanded by purchasing new vehicles at a time of great economic expansion in the country. Similarly, Sylvio's decision to start offering tourist bus trips was made several months before a significant depreciation of the country's currency exchange rate. Both Sylvio and Indranee thought that a more scientific method of sales forecasting was now needed and the company accountant had produced the following table of past sales figures.

Year	Quarter	Sales Revenue $m	4-period moving average	Moving average trend	Seasonal variation
2007	1	10			
	2	12	11.75		
	3	15	12.25	12	3
	4	10	13.25	12.75	–2.75
2008	1	12	14	13.625	–1.625
	2	16	14.25	14.125	1.875
	3	18	14.5	14.375	3.675
	4	11	14.75	14.625	–3.625
2009	1	13	15	14.875	–1.875
	2	17	15.25	15.125	1.875
	3	19	15.5	15.375	3.675
	4	12	16.25	15.875	–3.875
2010	1	14	17	w	y
	2	20	17.75	x	z
	3	22			
	4	15			

Table 2: SIBCO – moving average analysis of past revenue data

Motivational problems

The company's Human Resources Director was worried about the performance of bus drivers within SIBCO. She had been able to collect human resource data from the Bus Transport Federation and she compared this with SIBCO data – see Table 3.

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	SIBCO	Average bus industry data
Annual labour turnover	200 drivers employed; 45 voluntarily left the company during the year	15%
Labour productivity – average annual distance covered by each driver	24 000 kilometres	28 000 kilometres
Average driver absences per 250 day working year	17 days	12 days = absenteeism rate of 4.8%
Pay rates for drivers	15% above National Minimum Wage and no profit sharing	10% above National Minimum Wage but profit sharing is common in other companies
Driver training	Basic bus driving course	Advanced proficiency bus driving course
Staff appraisal	When asked for by drivers	Annual appraisal and objective setting with each driver

Table 3: Comparing human resource data (2009)

Government rumours

A TV news report has suggested that the Government is about to 'get tough' on some private sector firms that exploit their market position. It is worried about rising inflation and rising unemployment. Despite these problems some companies are reporting record profits and this has led to public reaction against 'monopoly practices'. Government ministers are under pressure to introduce more controls over business activity.

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Section A

Answer **all** questions in this section.

1 Analyse **two** possible reasons why the National Bus Company (NBC) became more profitable after privatisation. [8]

2 **(a)** Using data in Table 3, calculate for SIBCO the following:

(i) labour turnover in 2009 [3]

(ii) absenteeism in 2009. [3]

(b) Assess how the company might overcome the problems indicated by your results to part **(a)** without increasing unit costs. [12]

3 Evaluate the possible implications of the **three** suggestions made by Indranee for increasing the profit margins from the company's existing operations (lines 38–40). [14]

4 **(a)** Refer to Table 2 and calculate the missing values w, x, y and z. Show your working. [8]

(b) Evaluate the usefulness of the sales forecasts obtained using this method for marketing and operations management decisions taken by Sylvio and Indranee. [16]

5 Do you think SIBCO should attempt to take over the National Bus Company (NBC)? Justify your answer using the data in Figure 1 and Table 1 and other information provided. [16]

Section B

Answer **one** question from this section.

6 Evaluate the extent to which Governments should try to control the operations of businesses such as SIBCO. [20]

7 To what extent will the future success of SIBCO be dependent on the management style and decision-making ability of Sylvio and Indranee? [20]

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