UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES **9707/32**

Paper 3 **October/November 2013**

3 hours

Additional Materials: Answer Booklet/Paper

1769291305

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.

DC (CW/CGW) 63705/3
© UCLES 2013

Johnson Couriers and Logistics (JCL)

Des Johnson was only 12 years old when he took on his first job. A friend of his father asked him to use his bicycle to deliver a small parcel to the next town. One small job led to another and by the time Des was 18 years old he had his own van and had established a reputation in the region for fast delivery of parcels and documents. Fifteen years later JCL is now country X's largest parcel and document delivery service (courier service) and it has warehouses and delivery networks in 10 other countries.

Business growth limited by finance problems

During this rapid expansion JCL's fixed capital and working capital requirements increased substantially. Long term finance was sourced from a venture capital business which asked for a 25% equity stake in JCL in return. Shorter term finance remains a problem for JCL. Its reliance on an expensive overdraft gives the business flexibility but at a high rate of interest. Sales revenue in the year ending 31 October 2013 was $130m. Inventories are mainly in two forms:

- Fuel bought in bulk and kept in large underground tanks
- Stationery and boxes for customers using JCL's 'pack and deliver service'.

The average payment period to JCL's business suppliers has fallen over the last year by 5 days to 26 days.

Competitive rivalry in parcel delivery

The profitability of some courier companies has fallen in recent years. Des is aware of the changes occurring in this industry. He has always stressed the reliability of JCL's deliveries and the customer service it offers as being differentiating factors. However, even Des is worried about the following three recent developments.

- Cheaper parcel-tracking technology is enabling smaller firms to start up and enter the market for delivery services.
- Several of the world's largest van and truck manufacturers have merged in recent years. Discounts offered by these suppliers to the courier industry have been reduced.
- The world's largest online retailers are vertically integrating and establishing their own delivery services. This is reducing prices for parcel deliveries.

Sales forecasts

Des has always taken decisions about the growth of JCL based on his own understanding of the trends in the markets in which the business operates. This approach has, generally, worked very well for the business but mistakes have been made. For example, Des ordered 30 new vans and trucks in 2008 just before the global credit crunch and the cyclical downturn reduced the volume of international trade. Also, Des ended the temporary contracts of 30 warehouse employees just before the seasonal increase in parcel deliveries created by important festivals. This cut JCL's costs but also reduced its ability to cope with the increased demand.

A new market research executive, Jo, has recently joined JCL. Her information management abilities have been put to good use by the marketing department. She has produced the data in Appendix 2 and the graph in Appendix 3. She suggested to Des: 'I have drawn the extrapolated trend line. This moving average method of sales forecasting could help JCL avoid all future problems with operating capacity and staffing levels.'

© UCLES 2013

Industrial dispute in country X

JCL's Human Resources Director, Owen, supports the process of collective bargaining with trade union representatives about pay and working conditions. 365 of JCL's 500 drivers and warehouse employees are trade union members. 6 different trade unions have members within JCL. The latest negotiations between JCL and union representatives in country X have broken up without agreement. Owen wants the unions to agree to a productivity deal. This will involve drivers doing some warehouse work – such as preparing batches of parcels for next day delivery – after they have finished making deliveries. Owen claims that this increased productivity would allow JCL to increase wages by 3% this year. The union representatives are demanding an increase of 6% – the same as annual inflation – but with no productivity gains. 'We should not be asking drivers to do the work of warehouse workers as they are in different unions. Even with a 6% wage increase our workers in country X will still be earning less than JCL workers in country Y' said one union official. 'You cannot compare the two countries', replied Owen, 'country Y has higher GDP per head and lower unemployment than country X'.

New single central warehouse?

JCL's Operations Director, Jenny, suggested at a recent Board of Directors meeting that: 'We need to rationalise our warehouse operations in country X. Having one central warehouse for the whole country makes more sense than the five regional warehouses we own at present. These five sites could be sold. We could offer most of our existing employees jobs at the central warehouse if they were prepared to relocate.' Jenny was asked by the other directors to produce some comparative data for the next Board meeting to consider. (See Appendix 4). No decision has yet been taken.

Strategic options

Des believes that JCL must adapt to changing market and economic conditions by taking strategic decisions to allow the company to develop and become more profitable in the long term. He has narrowed down the options to the following two alternative strategies.

Strategy A: Taking over ADC Air Couriers, a public limited company.

The market capitalisation of ADC is $32m. JCL currently has to pay air transport companies to carry parcels and documents to other countries that JCL delivers in. This is expensive. If JCL owned its own air transport operation, then this cost would be under the control of JCL. Des could appoint one of ADC's directors to join JCL's Board to provide technical operating advice.

Strategy B: Starting an online book and clothing operation.

JCL's transport and delivery infrastructure offers services to businesses such as online retailers. JCL could use existing resources to stock books and clothes which the company could advertise and sell directly to consumers through its own website. This would mean that JCL could earn the profit margin currently gained by some of its biggest customers – the online retailers. The JCL website would need extensive development to appeal directly to retail consumers shopping from their own homes.

Choosing between these two strategies is not going to be easy but Des is confident that one of these strategies will hold the answer to JCL's future development.

Appendix 1: JCL balance sheet extract as at 31 October 2013

		$m
Non-current assets:		
Property	87	
Vehicles	38	
Total non-current assets		125
Current assets:		
Inventories	6	
Trade receivables	37	
Cash	1	
Total current assets		44
Current Liabilities:		
Trade payables	12	
Bank overdraft	36	
Total current liabilities		48

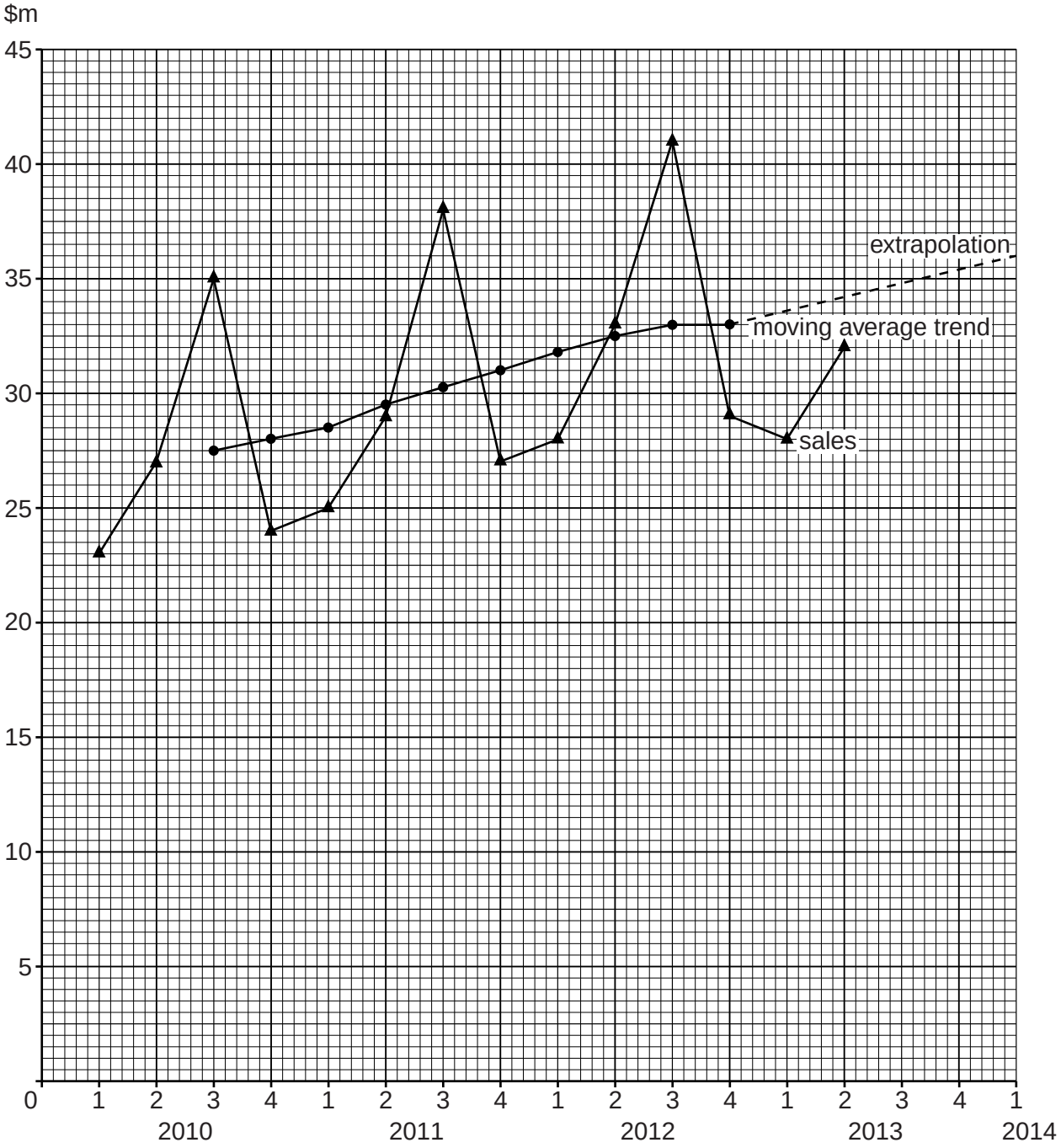
Appendix 2: Past JCL sales data analysed by new market research executive

Year	Quarter	Sales $m	Trend (centred moving average) $m	Seasonal variation $m
2010	1	23		
	2	27		
	3	35	27.5	7.5
	4	24	28	– 4
2011	1	25	28.625	– 3.625
	2	29	29.375	– 0.375
	3	38	30.125	7.875
	4	27	31	– 4
2012	1	28	31.875	– 3.875
	2	33	32.5	**x**
	3	41	32.75	8.25
	4	29	32.625	**y**
2013	1	28		
	2	32		

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Average seasonal variation $m	– 3.75	0.0625	**z**	– 3.875

© UCLES 2013

Appendix 3: Graph of JCL's sales data produced by Jo, the new market research executive



Appendix 4: Comparative data for existing JCL warehouses in country X and single central warehouse proposed by Operations Director

	Five existing warehouses	Single central warehouse
Estimated capital value $m	45 (in total)	38
Number of staff required	23 (per warehouse)	85
Average distance from warehouse(s) of JCL deliveries in country X (kilometres)	13	28
Distance from motorway road network (kilometres)	36 (average)	12
Distance from capital city – where most of JCL's customers are based (kilometres)	6 (nearest warehouse) 130 (most distant warehouse)	22
Estimated break-even number of deliveries based on annual warehouse overheads	3m per warehouse (average)	13m
Floor space	2000 square metres (in total)	3000 square metres

© UCLES 2013

Section A

Answer **all** questions.

1 Analyse the likely impact on JCL of increased competitive rivalry. [10]

2 **(a)** Refer to the data in Appendix 1 and lines 14–15. Calculate:

(i) days' sales in trade receivables (debtor days) [3]

(ii) acid test ratio. [3]

(b) Assess how JCL could manage its working capital more effectively. [10]

3 Discuss how JCL could effectively solve the dispute with the trade unions in country X. [16]

4 **(a)** Refer to the data in Appendix 2. Calculate the following missing values:

(i) x [1]

(ii) y [1]

(iii) z [2]

(b) Refer to the data in Appendix 2 and Jo's extrapolated trend line on the graph in Appendix 3. Forecast JCL's actual sales level in:

(i) 2013 Quarter 4 [3]

(ii) 2014 Quarter 1. [3]

(c) Evaluate the extent to which Des should only rely on this moving average method of sales forecasting when making decisions about operating capacity and staffing levels. [12]

5 Using the data in Appendix 4 and other relevant information, recommend whether JCL should open the new single central warehouse. Justify your answer. [16]

Section B

Answer **one** question from this section.

6 Evaluate the strategic factors that Des should consider when making the choice between strategy A and strategy B. [20]

7 Discuss the usefulness of PEST analysis and SWOT analysis to the directors of JCL as they plan future strategies. [20]

© UCLES 2013

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.

© UCLES 2013