General Certificate of Education
Advanced Level Examination
January 2012

Business Studies BUSS3

Unit 3 Strategies for Success

Thursday 26 January 2012 9.00 am to 10.45 am

For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Time allowed
- 1 hour 45 minutes

Instructions
- Use black ink or black ball-point pen.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is BUSS3.
- Answer **all** questions.
- Do all rough work in your answer book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Formulae for Financial Ratios

Financial ratio	Formula
Current ratio	current assets : current liabilities
Acid test ratio	liquid assets : current liabilities Where liquid assets are current assets – inventories (stock).
Return on capital employed % (ROCE)	$\frac{\text{operating profit}}{\text{total equity + non-current liabilities**}} \times 100$ ** Where this equals capital employed.
Asset turnover	$\frac{\text{revenue}}{\text{net assets}}$
Inventory (stock) turnover	$\frac{\text{cost of sales}}{\text{average inventories (stock) held}}$
Payables (Creditors) days **(Payables'* collection period)**	$\frac{\text{payables*}}{\text{cost of sales}} \times 365$ * Payables = creditors throughout this formula.
Receivables (Debtors) days **(Receivables'* collection period)**	$\frac{\text{receivables*}}{\text{revenue}} \times 365$ * Receivables = debtors throughout this formula.
Gearing	$\frac{\text{non-current liabilities}}{\text{total equity + non-current liabilities**}} \times 100$ ** Where this equals capital employed.
Dividend per share (in pence)	$\frac{\text{total dividends}}{\text{number of issued ordinary shares}}$
Dividend yield (%)	$\frac{\text{ordinary share dividend (in pence)}}{\text{current market price (in pence)}} \times 100$

Read the **case study** and answer **all** the questions that follow.

Scott Electronics plc

Scott Electronics plc is a manufacturer of communication devices such as mobile phones and pagers. Its head office is based in the UK but it manufactures its products in Taiwan. Established in 1974, it has developed a reputation for competitively priced, reliable, functional products.

The business has made steady but unspectacular profits. Originally owned and managed by the Scott family, it became a plc in 2005 in order to raise additional capital. The family still owns the majority of the shares but, after becoming a plc, the company has come under increased pressure from its external shareholders to improve its profitability and to increase the dividend paid. The Board of Directors, which is composed entirely of members of the Scott family, was persuaded by the external shareholders to recruit a new senior manager from outside of the business.

In 2011, David Perryman was appointed as the Head of New Product Development. Aged only 30, David had previously worked for British Telecom, where he had gained rapid promotion to the position of Senior Marketing Manager. David reports directly to the Board of Directors and has been set the objective of devising a project to increase the profitability of *Scott Electronics plc* and to provide a greater dividend to shareholders.

The new project

David considers that *Scott Electronics plc* needs to implement a strategy of innovation. Based upon his previous experience at British Telecom, David believes that there is a gap in the mobile phone market that could be exploited. Specifically, he intends to develop a smartphone for the 'baby boom generation' aged 45 to 65.

David commissioned primary market research to investigate the opinions of this target market. The main findings were:

- the most important factor in choosing a mobile phone was price, followed by design and brand name
- the features most commonly used were the camera and text messaging
- the target market was less interested in multi-functional, technologically sophisticated phones
- *Scott Electronics plc* was a brand that the target market knew and trusted.

An industry report of the UK mobile phone market revealed the following trends:

- the growing popularity of 'smartphones' such as the Blackberry and Apple iPhone
- mobile phone retailers were offering personal advice in order to persuade less technologically sophisticated consumers to buy smartphones
- revenue from voice and text messages is predicted to decline
- the growing popularity of smartphones offers opportunities for service providers to increase revenue from downloading music, video and software applications.

Based upon these findings, David proposed that *Scott Electronics plc* should develop a smartphone designed specifically for the 45 to 65 age group.

The smartphone would have the following features:

- an attractively designed handset with a simplified display
- a ‘user friendly’ operating system which would include free applications such as satellite navigation.

David has been approached by a leading supermarket to produce an ‘own brand’ smartphone. The company owns stores throughout the UK and is well known for the quality of its products and high levels of customer service. The supermarket is keen to extend its range of electrical products and believes an ‘own brand’ smartphone would be popular with its predominantly middle-aged and middle-class target market. In return for meeting its high standards of product quality and tight delivery schedules, the supermarket promised to support the smartphone with an extensive marketing campaign.

Organisationally, David argued that he should be in charge of a separate division for the smartphone operation. It would operate as a profit centre with targets set by the Board of Directors. Currently, *Scott Electronics plc* operates as a centralised organisational structure with all the decisions made by the family. Employees are viewed as a resource which need to be used efficiently. The majority of employees are on temporary contracts and a significant proportion of their pay is linked to bonuses for meeting sales or production targets.

David believes that a different approach should be adopted for the smartphone operation. Staff should be paid above the industry average and given permanent contracts and generous holidays. “We intend to produce a high quality product and in order to achieve this we need to attract employees of the highest calibre,” he stated.

The smartphone division’s research and development centre would be UK based, located in a science park next to a prestigious university. The smartphones would be manufactured in the company’s existing factory in Taiwan. David intends to recruit graduates who would be trained to manage the research department. Key to the success of the operation would be significant investment in research and development. Previously, *Scott Electronics plc* had placed little emphasis on innovation, preferring to make cheaper versions of its competitors’ products. In 2011, the company raised £2 million from the sale and leaseback of its head office. David argued for a significant proportion of the £2 million to be allocated for the research and development budget as he believes that innovation is vital if the company is to survive in the smartphone market.

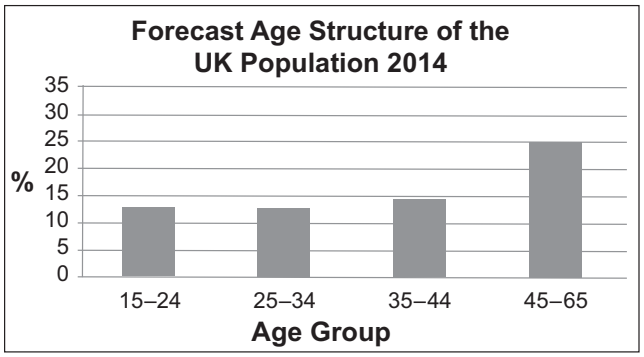
The next step

Next week, David has to persuade the Board of Directors to accept the joint venture with the supermarket. He is convinced that this strategy is the best way to improve the profitability of the business and to provide greater dividends to its shareholders. However, he recognises that this is a radical new direction for the business.

STATISTICAL APPENDICES

Appendix A: Marketing data

Figure 1: Forecast trends in the age structure of the UK population 2014 – 2019



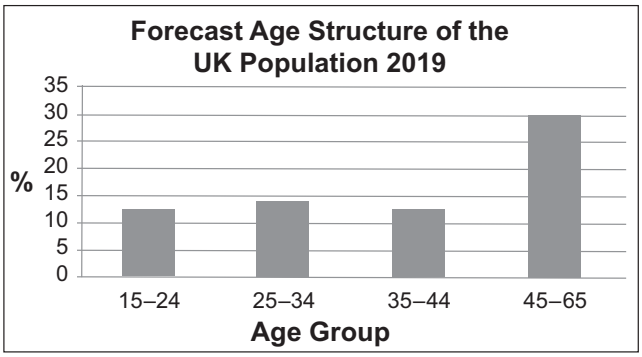


Figure 2: Market value of the UK smartphone market 2010 – 2014

Year	Market Value (£b)	Index
2010	5.92	100
2011	6.04	102
2012 (forecast)	6.40	108
2013 (forecast)	6.88	116
2014 (forecast)	7.36	124

Source: Industry report UK smartphone market

Appendix B: Financial data

Figure 3: Extracts from Scott Electronics plc's annual accounts

	2010	2011
Number of issued ordinary shares	5m	5m
Total dividends	£1m	£2m
Current assets	£5.5m	£6m
Current liabilities	£3.4m	£3m
Non-current liabilities	£15m	£17m
Reserves	£3m	£4m
One-off item	£0m	£2m
Operating profit	£8m	£10m
Market share price	£1.50	£2.00

2011 industry average dividend yield 25%

Turn over for further Appendices and Questions

Turn over ▶

Figure 4: Forecast data for the smartphone proposal

Initial cost	£10m
Forecast sales per annum	30 000 units
Fixed costs per annum	£1m
Selling price per phone to supermarket	£100
Variable cost per phone	£50

Data provided by David Perryman

Appendix C: Operations data 2011

	Scott Electronics plc	Industry average
Revenue spent on research and development	1%	10%
Average number of new products launched per year	5	15
Capacity utilisation	90%	85%
Index of real unit cost	92	100
Defective products	10%	5%
Index of labour productivity	105	100
Maximum capacity of Taiwanese factory per year	500 000 units	

Appendix D: Human resource data 2011

	Scott Electronics plc	Industry average
Annual training budget per employee	£500	£1000
Staff on temporary contracts	75%	25%
Staff pay linked to bonuses for meeting targets	40%	20%
Labour turnover	10%	6%
Number of kaizen groups	2	10
Average span of control	5	8

Question 1

0 1 Analyse the possible issues that *Scott Electronics plc* would have to consider if it is to implement a strategy of innovation. *(10 marks)*

Question 2

0 2 With reference to the data in **Appendix B**, **Figure 3**, do you think the shareholders of *Scott Electronics plc* will be pleased with the company's financial performance in 2011? You are encouraged to use calculations to support your answer. *(16 marks)*

Question 3

0 3 To what extent do you think that *Scott Electronics plc*'s current human resource strategy is effective? Justify your view. *(18 marks)*

Question 4

0 4 Using all the information available to you, complete the following tasks:

- analyse the arguments **for** accepting the smartphone proposal
- analyse the arguments **against** accepting the smartphone proposal
- make a justified recommendation on whether the smartphone proposal should be adopted.

You are encouraged to use numerical evidence to support your answer.

(36 marks)

END OF QUESTIONS

There are no questions printed on this page